

PREM 19/1772

Confidential Filing

The Royner Scrutiny

Promotion of efficiency & waste

The Scrutiny Programme

Government

Machinery

Folders attached: (1) Value for Money Report by Efficiency Unit April 1986 Volume II

Pt 1 : May 1979

Pt 20 : Dec 1985

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
		16.5.86					
11/12/85		19.5.86					
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PT 20
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Confidential Filing

The Royner Scrutiny

Promotion of efficiency & waste

The Scrutiny Programme

Government

Ministry

Folders attached: (Volume for Money Report by Efficiency Unit April 1986 Volume II)

At 1 : May 1979

At 20 : Dec 1985

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PART 20 ends:-

NLW to PRIVATE SECS 30/5

PART 21 begins:-

SS/EMP to SS/NIO 4/6

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 HANSARD, 22 May 1986, columns 542 to 556: Business (Deregulation)

Cmnd. 9794 – BUILDING BUSINESSES NOT BARRIERS.
Presented to Parliament by the Secretary of State for
Employment by Command of Her Majesty May 1986.
Published by HMSO. ISBN 0 10 197940 1

Signed

J. Gray

Date

19/9/2014

PREM Records Team



JA
A

10 DOWNING STREET

From the Principal Private Secretary

30 May 1986

Dear Private Secretary,

VALUE FOR MONEY TARGETS

Last autumn the Prime Minister asked Sir Robin Ibbs to examine the way departments were using targets to get better value for money. His report, which is attached, is based on a study by the Efficiency Unit of 24 major targets in 21 departments.

The Prime Minister endorses the conclusions of Sir Robin Ibbs' report. She considers that the evidence of this study confirms the importance for departments of targets in encouraging staff to improve efficiency. They are an important way of achieving savings and getting better value for the taxpayer's money.

The Prime Minister welcomes the commitment of Permanent Secretaries to the use of value for money targets. The study demonstrates that some encouraging progress has been made, but that further effort is needed. She hopes that departments will build on this progress in establishing more challenging targets. In suitable cases, ploughing back some of the savings resulting from exceptional improvements should be a valuable added incentive to individual managers to identify and secure such savings. Efficiency improvements of all kinds must continue to make an important contribution towards containing public expenditure and giving effect to the Government's spending priorities.

The Prime Minister is looking therefore to Ministers and officials to support and act upon the recommendations made in Sir Robin Ibbs' report.

I am copying this letter and the report to those on the attached list.

Yours sincerely
Nigel Wicks

N.L. WICKS

The Private Secretary

EC

Members of the Cabinet

Law Officers' Department

Lord Advocate's Department

Financial Secretary, H.M. Treasury

Economic Secretary, H.M. Treasury

Minister of State, H.M. Treasury

Minister for Overseas Development

Minister of Housing, Department of the
Environment

CONFIDENTIAL

THE USE OF VALUE FOR MONEY TARGETS 1985-86

Report to the Prime Minister by Sir Robin Ibbs

The public rightly expects government progressively to improve the quality of services the State provides such as health and education. But if this is to be done at a cost the country can afford, steadily improving results must be achieved from the resources already agreed. It is wrong to expect new money for every improvement. And in the absence of profit as a spur and measure of success, specific targets for better performance from available resources are an important key to getting continuous improvement. That is why I said in 1984 that Ministers could accelerate progress if they set explicit targets for improving the relationship of results to costs in public programmes.

2. Last Autumn you asked the Efficiency Unit to examine the progress made by Departments in using value for money targets - their origins, their importance, how ambitious they are and how those responsible have set about delivering them (Mr Addison's minute of 5 September).

3. By improving value for money I mean doing things to an acceptable standard with less expense or achieving more within agreed costs. By targeting I mean aiming at something better than people would achieve left to their own devices.

4. The results so far of the enquiries by the Efficiency Unit are clear-cut and quite encouraging. Target-setting is still in its early days but for 24 targets examined in some depth (the most important out of over 100 offered by Departments):

- (i) Most were genuinely about value for money.
- (ii) Most of them were genuine targets, not just forecasts of what was likely to happen anyway.
- (iii) Three-quarters of them formed part of a programme for progressive improvement - important evidence of increasingly systematic attention to value for money.

However,

- (iv) Most are about bureaucracy, few concern programmes.
- (v) About half of the targets seemed to me to be insufficiently ambitious.
- (vi) More emphasis is needed on results and 'service to the customer', rather than simply cost: When resources are authorised they should be associated with planned outputs and targets should seek to improve the ratio between the two.

5. In total the 24 targets represent potential improvements worth at least £1,000 million - though, as is only to be expected, not all will be achieved and the figure is an amalgam of cash improvements and resources switched within a programme which cannot be taken simply as money that could be returned to the taxpayer. The Efficiency Unit has explored the history and effectiveness of the targets by interviewing Permanent Secretaries and other levels of management involved in developing and delivering them. The Unit has received full co-operation from all concerned and Permanent Secretaries have taken an active personal interest in the topic. Three things stand out from these enquiries:

(1) Top-down management

6. Permanent Secretaries spoke of their determination to use targets ambitiously. They described targets as useful to Ministers and to themselves in defining strategy and creating additional room for manoeuvre within it, by getting better performance from available resources. But not all of them yet see the widespread use of targets as strategically important. I do.

7. I also believe that fundamental improvement depends on Ministers' willingness - with suitable caveats and devices for self-protection - to use targets to get at better value from programmes.

8. It is the job of top management to set priorities and to be selective. Having chosen a target they must maintain interest and support those who have to deliver it. Two good examples of this approach are:

- (i) In the Customs and Excise the Management Board defines the Department's priorities, sets key results to underpin them, and publishes these results in a "Management Plan".

- (ii) The Chief of Defence Procurement decided that one of his top priorities was to increase competition (an intermediate step towards improving value for money in defence equipment procurement) and so set that as a prime quantified target.

There are others. It must also be said that the setting of good targets is far from easy. It needs extensive preparation and understanding of the activities in question. Quantification where possible is always helpful but must not lead to important potential qualitative improvements being ignored. Too brash an approach can risk distorting performance because one or two aspects are singled out without regard to balance with others. But in general there is scope for increasing the leadership which is given at the top through clear targets.

(2) The need to stimulate ambitious targets

9. When most people are asked to produce a target there is a natural tendency to put forward the forecast of what should be attainable without undue difficulty if everyone tries hard. There is a hard slog in getting even this far and much of the effort in MINIS systems so far has been to achieve just that. But such a forecast should be the start of a discussion in which top management challenges middle management to do better and middle management agrees to a target that is more extending and ambitious. (In all this the final target must not be impossible; an unrealistically ambitious target that destroys commitment does more harm than good.)

10. I am not convinced that this process is sufficiently widespread. The recent report by the Head of the Government Accountancy Service on departmental budgetary practices makes a similar point about the lack of challenge in some instances in the procedures by which administrative budgets are sought and authorised.

11. This approach goes beyond activities within a Department. Several good targets in the sample had been set for organisations which were at arm's length from the Department concerned: for example, the targets set as part of the corporate planning cycle for the DOE's sponsored bodies, or the electricity supply industry's target for reducing costs. An arm's length relationship is conducive to good target setting, because it necessitates a genuine dialogue about objectives in relation to resources which is clear, formal and rooted in an understanding of respective roles and capabilities. In some instances, for example education, a wide range of authorities over whom there is little or no control has to be motivated if targets are to be delivered and this calls for skilful leadership.

(3) Encouraging people to try harder

12. There is excessive caution in government. Part of the fear is that the assumptions and caveats on which the target was based will be forgotten in the heat of political debate. Part is a natural apprehension in Ministers about the presentational and political implications of setting targets in policy areas. And part is a fear that failure to achieve an ambitious target will be seen as culpable and exposed to public denigration whatever the reasons. Unless these fears can be dispelled progress will be slow. There is a need to educate Parliament and the public that this sort of criticism is misplaced. It is right that budgets should be set on a basis that gives a high probability of achievement - even so this does not mean they should be soft. But targets are different; the practice ought to be to budget with care but to target more ambitiously. Internal and unpublished targets are often the only way forward if managers are to be set good challenges without hostages being given to later hostile criticism. What matters is that those who are in a position to deliver the targets know what it is they are expected to do.

13. There is also the vexed question of what will happen to savings that are made. In ICI it is widely accepted that, for the good of the company as a whole, an operating unit may at times generate income for other units to use (for investment etc) and that at other times it will itself be a beneficiary. The comparable attitude of give and take seems much weaker between departments in government, even though the Government has overall collective objectives.

14. Given this starting point, if managers in government are to be encouraged to go for more difficult targets, it is important to motivate them to do so. Public expenditure control remains one of the Government's top priorities. Without damaging this, it should be possible in suitable instances to reassure managers that if they improve value for money the 'centre' - be it their own Finance Division or the Treasury - will not automatically pocket all of the proceeds. At the least people need an idea of how the benefit arising from the improvements they generate will be used.

15. There can be no presumption that the benefit should all be ploughed back into an improved service by the unit that makes the saving. But it may be possible to agree a ploughing-back or sharing of efficiency savings in some areas which will be fair to the taxpayer as well as to the beneficiary of the service without hazarding the public expenditure totals. The NHS's cost improvement programmes, which have been highly successful, could serve as a model.

16. Of course ideally Ministers should sanction every decision about the reallocation of resources collectively in the Public Expenditure Survey. But except for very large switching of resources this is hardly practical.

However it may increase motivation towards better value for money if there is de facto some 'ring-fencing' of expenditure and savings below the level of programme totals. I believe there is increasing understanding of this in the Treasury and some other Departments, and it needs to be encouraged.

RECOMMENDATIONS

- (1) It is up to Departments to make the running on target-setting. This is not a candidate for another central management initiative. Permanent Secretaries will need the support of their Ministers as they work out how to integrate the widespread use of targets to improve value for money into their top management systems (paras 6-8).
- (2) If targets are going to contribute fully to value for money they will have to extend to programmes and Ministers' priorities for those programmes (para 7).
- (3) Ministers and top management in Departments should use the process of agreeing the annual value for money targets to challenge middle management to be more ambitious (para. 9).
- (4) Departments should continue to use scrutinies (assisted as appropriate by the Efficiency Unit) in support of value for money targets in their major areas of business (para 9):
 - to clarify objectives,
 - to identify output measures,
 - to indicate the potential for value for money improvement, and
 - to define the steps that should be taken to achieve it.
- (5) I should continue to focus on value for money targets when discussing efficiency improvement with your colleagues. These targets should also provide the main focus for your value for money seminars with Ministers (para 9).
- (6) Departments responsible for expenditure managed by bodies which are independent of central government should develop appropriate types of dialogue to secure the commitment of those bodies to the principles in this report (paragraph 11).
- (7) Unpublished internal targets should be encouraged where the risk of hostile criticism makes published targets undesirable (para 12).

- (8) However there needs to be wider understanding that the new management approach will involve the setting of targets which may not be achieved at the first go. Ministers should take suitable opportunities to explain this so as to forestall misplaced criticism in Parliament and elsewhere. It would be particularly effective if the Chancellor of the Exchequer and the Chief Secretary to the Treasury could take the lead, explaining that this does not endanger public expenditure control (para. 12).
- (9) Where it would encourage their managers to go for more difficult targets, Departments should consider giving them extra incentives by agreeing to plough back part of the benefit. The same idea should be extended in appropriate instances to the relationship between Departments and the Treasury, following the example of the NHS cost improvement programme (para. 15).

ROBIN IBBS

16 April 1986

PRIME MINISTER

CR.

PL type up letter for
Nigel's sig. MEA 30/5

At your meeting with Sir Robin Ibbs on 13 May, you endorsed his report on value for money targets. He agreed to draw up a draft Private Secretary letter, which would be agreed with the Chief Secretary, for me to use in sending the report to Departments.

The agreed draft has now been submitted, and is attached.

Content with the draft, and that I should now circulate the report (also attached)?

y
les not

MEA

Mark Addison

29 May 1986

DG2BCP

SRL2:MA27/5

Mr Addison

VALUE FOR MONEY TARGETS

Following our meeting with the Prime Minister on 13 May I am enclosing a draft private secretary letter to go to Ministers in charge of Departments covering the main Value for Money Targets report. It has been agreed by the Chief Secretary and Sir Robin Ibbs.

Kate Jenkins

KATE JENKINS
28 May 1986

*check with Ewan on details
of value report.*



SECRETARY OF STATE
FOR
NORTHERN IRELAND

NORTHERN IRELAND OFFICE
WHITEHALL
LONDON SW1A 2AZ

✓ CBG

The Rt Hon Lord Young of Graffham
Secretary of State for Employment
Department of Employment
Caxton House
Tothill Street
LONDON
SW1

MBPM

27 May 1986

Dear Secretary of State,

WHITE PAPER ON DEREGULATION

At Map, part 18

Thank you for copying to me the draft White Paper on Deregulation. As you know from Rhodes Boyson's letter of 9 July 1985, Northern Ireland was not included in the original exercise. Following publication of the 1985 White Paper, however, it was agreed that we would parallel the work undertaken in GB, whilst taking account of any distinctive local circumstances.

It was clear from the start that the parity basis of so many of our regulations implied that the bulk of the deregulation measures proposed in Great Britain would have a direct read across to the position here. Our first step, therefore, was to look at the work already completed, or in hand, in Great Britain. This examination identified some 60 items in respect of which deregulatory action has either been taken or is being considered by NI Departments in line with the developments in GB. This figure does not include regulations which have a UK wide application.

Throughout the exercise the Department of Finance and Personnel, which is the lead department in co-ordinating the exercise, has maintained close contact with the Enterprise and Deregulation Unit to ensure that relevant papers (including earlier drafts of the White Paper) are circulating to NI departments for assessment and appropriate action. A detailed report which lists progress on the implementation of the initiative locally has recently been completed and will be copied to the Unit for Information. I can therefore assure you that the general momentum and direction of the initiative is being maintained in NI.



I am copying this to the Prime Minister and to Sir Robert
Armstrong.

Yours Sincerely
Manda Johnston

for

TK
(approved by the
Secretary of State
and signed in his absence
in Northern Ireland)

GOVT. MACH. Rayner: Pt 20



SUBJECT CC OPS
MASTER

file

MJZBYS
(DSG)



10 DOWNING STREET

cc HMT
CO
Efficiency
cut

THE PRIME MINISTER

Personal Minute

No. M/13

FINANCIAL SECRETARY

I know that you share my belief in the importance of securing value from the expenditure of the taxpayers' money. Ministers in charge of Departments have a crucial role in giving a lead to civil service managers to seek out and implement improvements in value. I am writing to you now, as you take on responsibility for the Inland Revenue, to stress the importance I attach to this aspect of your work.

The key to this, I believe, is to have a very clear idea of the improvements you intend to make in your term of office, and to make sure that the Department has clear targets to achieve these improvements.

I think it would be helpful for you and the Chairman to discuss with Sir Robin Ibbs the programme you have in mind.

I am sending a copy of this minute to the Chancellor of the Exchequer, Sir Robert Armstrong and Sir Robin Ibbs.

Nancy and Dalton

27 May 1986

OA

SUBJECT CC OPS
MASTER

File

DSG
(M521349)

cc CO
EFF Unit



10 DOWNING STREET

THE PRIME MINISTER

Personal Minute

No. M/12

SECRETARY OF STATE FOR TRANSPORT

I know that you share my belief in the importance of securing value from the expenditure of the taxpayers' money.

Ministers in charge of Departments have a crucial role in giving a lead to civil service managers to seek out and implement improvements in value. I am writing to you now, as you take on your new responsibilities, to stress the importance I attach to this aspect of your work.

The key to this, I believe, is to have a very clear idea of the improvements you intend to make in your term of office, and to make sure that your Department has clear targets to achieve these improvements.

I think it would be helpful for you and your Permanent Secretary to discuss with Sir Robin Ibbs the programme you have in mind.

I am sending a copy of this minute to Sir Robert Armstrong and Sir Robin Ibbs.

Margaret Thatcher

27 May 1986

GA

SUBJECT cc OPS
MASTER

File

DSG



(MS 284(2))

cc CO
EFF Unit

10 DOWNING STREET

THE PRIME MINISTER

Personal Minute

No. M/11

SECRETARY OF STATE FOR THE ENVIRONMENT

In your previous Department you demonstrated your commitment to achieving improvements in the value we get from the taxpayers' money. You have seen quite clearly how giving a lead from the top creates a spur to civil service managers to seek out and implement opportunities to increase value.

Your new responsibilities give you the opportunity to build on your own success and on the pioneering work already done in this area in the Department of the Environment. Your predecessor and the Permanent Secretary gave me a presentation earlier this year on value for money in the Department of the Environment. I was impressed by the progress they had made. I look to you now to take that work even further forward.

The key to this, I believe, is to have a very clear idea of the improvements you intend to make in your term of office, and to make sure that your Department has clear targets to achieve these improvements.

I think it would be helpful for you and your Permanent Secretary to discuss with Sir Robin Ibbs the programme you have in mind.

I am sending a copy of this minute to Sir Robert Armstrong and Sir Robin Ibbs.

Theresa May

27 May 1986

PRIME MINISTER

I attach four personal minutes for your signature following the reshuffle. Three go to the Secretaries of State, and the fourth to the Financial Secretary, in view of his Inland Revenue responsibilities.

Mark Addison

MARK ADDISON

23 May 1986

SUBJECT CC OPS
MASTER

File

DSG
(M J 284P)



10 DOWNING STREET

CC CO
Efficiency
Unit
✓

THE PRIME MINISTER

Personal Minute

No. M/10

SECRETARY OF STATE FOR EDUCATION

When you gave a presentation earlier this year on value for money in the Department of the Environment, you showed me just how much you were determined to ensure that the taxpayer got the best value from public spending and the steps you and your Permanent Secretary were taking to secure progressive improvements. This showed clearly how a lead from the top provides a vital spur to civil service managers to seek out and implement those improvements.

Your new appointment gives you the opportunity to continue this vital search in a new area and to build on the achievements of your predecessor.

The key to this, I believe, is to have a very clear idea of the improvements you intend to make in your term of office, and to make sure that your Department has clear targets to achieve these improvements.

I think it would be helpful for you and your Permanent Secretary to discuss with Sir Robin Ibbs the programme you have in mind.

I am sending a copy of this minute to Sir Robert Armstrong and Sir Robin Ibbs.

Naigant Datter

27 May 1986

DA

010



1. Nigel. The
These look OK. If you agree
2. GR - to type as
personal minutes for the
PM.
MEB 22/5

MR ADDISON

NEW MINISTERS: VALUE FOR MONEY

I attach draft personal minutes which the Prime Minister could send to the new Secretaries of State for Education, Transport and Environment, and also to the Financial Secretary, who is Minister in charge of the Inland Revenue.

2. Sir Robin Ibbs has in fact in the last month had discussions with Ministers about targets in all four departments; and he has seen all four Ministers in their previous capacities. He believes it would nevertheless be worthwhile for him to see them again briefly in their new departments.

3. The keynote of the minutes is that the Ministers should be specific about the improvements they want to see in their term of office.

4. I attach for reference a copy of the minute the Prime Minister sent to new Secretaries of State last September. (Mr Baker is the only one of the present four to have received that minute.)

5. I am copying this minute and enclosures to Michael Stark.

KATE JENKINS
22 May 1986

AJ3/PM522



DRAFT PERSONAL MINUTE FROM THE PRIME MINISTER

SECRETARY OF STATE FOR EDUCATION

When you gave a presentation earlier this year on value for money in the DOE, you showed me just how much you were determined to ensure that the taxpayer got the best value from public spending and the steps you and your Permanent Secretary were taking to secure progressive improvements. This showed clearly how a lead from the top provides a vital spur to civil service managers to seek out and implement those improvements.

Your new appointment gives you the opportunity to continue this vital search in a new area and to build on the achievements of your predecessor.

The key to this, I believe, is to have a very clear idea of the improvements you intend to make in your term of office, and to make sure that your department has clear targets to achieve these improvements.

I think it would be helpful for you and your Permanent Secretary to discuss with Sir Robin Ibbs the programme you have in mind.

I am sending a copy of this minute to Sir Robert Armstrong and Sir Robin Ibbs.

May 1986

M. J. G. P.



DRAFT PERSONAL MINUTE

SECRETARY OF STATE FOR THE ENVIRONMENT

In your previous department you demonstrated your commitment to achieving improvements in the value we get from the taxpayers' money. You have seen quite clearly how giving a lead from the top creates a spur to civil service managers to seek out and implement opportunities to increase value.

Your new responsibilities give you the opportunity to build on your own success and on the pioneering work already done in this area in the DOE. Your predecessor and the Permanent Secretary gave me a presentation earlier this year on value for money in DOE. I was impressed by the progress they had made. I look to you now to take that work even further forward.

The key to this, I believe, is to have a very clear idea of the improvements you intend to make in your term of office, and to make sure that your department has clear targets to achieve these improvements.

I think it would be helpful for you and your Permanent Secretary to discuss with Sir Robin Ibbs the programme you have in mind.

I am sending a copy of this minute to Sir Robert Armstrong and Sir Robin Ibbs.

May 1986

M2040



DRAFT PERSONAL MINUTE

SECRETARY OF STATE FOR TRANSPORT

I know that you share my belief in the importance of securing value from the expenditure of the taxpayer's money. Ministers in charge of departments have a crucial role in giving a lead to civil service managers to seek out and implement improvements in value. I am writing to you now, as you take on your new responsibilities, to stress the importance I attach to this aspect of your work.

The key to this, I believe, is to have a very clear idea of the improvements you intend to make in your term of office, and to make sure that your department has clear targets to achieve these improvements.

I think it would be helpful for you and your Permanent Secretary to discuss with Sir Robin Ibbs the programme you have in mind.

I am sending a copy of this minute to Sir Robert Armstrong and Sir Robin Ibbs.

May 1986

MT 204K



DRAFT PERSONAL MINUTE

FINANCIAL SECRETARY

I know that you share my belief in the importance of securing value from the expenditure of the taxpayer's money. Ministers in charge of departments have a crucial role in giving a lead to civil service managers to seek out and implement improvements in value. I am writing to you now, as you take on responsibility for the Inland Revenue, to stress the importance I attach to this aspect of your work.

The key to this, I believe, is to have a very clear idea of the improvements you intend to make in your term of office, and to make sure that the department has clear targets to achieve these improvements.

I think it would be helpful for you and the Chairman to discuss with Sir Robin Ibbs the programme you have in mind.

I am sending a copy of this minute to the Chancellor of the Exchequer, Sir Robert Armstrong and Sir Robin Ibbs.

May 1986

MT284S



B

10 DOWNING STREET

THE PRIME MINISTER

Personal Minute

No. M8/85

SECRETARY OF STATE FOR THE ENVIRONMENT

I know that you share my belief that the best way of securing value from the expenditure of taxpayers' money is to establish throughout the Civil Service the motivation and commitment of expenditure managers. Ministers in charge of Departments have a crucial role here and I am writing to you now, as you take up your new appointment with its fresh responsibilities, to stress the importance I attach to this aspect of your new task.

To this end, I am sure it would be helpful if you and your Permanent Secretary were to discuss at an early stage, with Sir Robin Ibbs, the targets and standards of performance which your Department might adopt as part of its efforts to increase value for money.

I am copying this minute to Sir Robert Armstrong and Sir Robin Ibbs.

Margaret Thatcher

10 September 1985

DRAFT STATEMENT BY LORD YOUNG, SECRETARY OF STATE FOR ^{am - the} EMPLOYMENT TO HOUSE OF LORDS ON THURSDAY 22 MAY 1986

Lord Young's statement.
To be made at 11.30
Lords

and repeated at 3.30 in
the Commons. A recipe for
complaint!

My Lords, with the leave of the House, I should like to make a statement on government action to relieve the burden of unnecessary regulation. We are publishing today a White Paper "Building Business - Not Barriers" (Cmnd 9794). It contains a balanced series of new proposals for reducing the administrative and legislative burdens on business as well as a report on the progress made in furthering the proposals made in the last White Paper on this subject "Lifting the Burden" (Cmnd 9571).

The White Paper reflects our firm belief that only by removing barriers to business will enterprise flourish and the essential creation of wealth and jobs follow.

It presents a balanced programme which recognises that Government has a role in providing legal protection for workers, consumers and the general public, as well as protecting the environment and our quality of life. However, it also recognises that unnecessary regulations act as an inhibition to business growth and job creation.

The Government in this White Paper have maintained the need for this protection while still taking a series of significant steps forward in giving business the freedom to grow.

There are nearly 80 new proposals in "Building Businesses - Not Barriers".

Regulation

First of all, the work of the Enterprise and Deregulation Task Force, liaising with deregulation teams in Government Departments, will ensure that there is a proper analysis of the effects of proposed rules and regulations on businesses.

We will modernise the Use Classes Order, to allow a somewhat wider range of changes in the use of buildings or land to take place without planning permission. We will permit businesses with planning permission for two or more alternative uses to change between these without the need for further planning applications. But I stress that we do not propose to change the law on working from home.

We will be setting up a major review on VAT and small businesses, considering such issues as accounting for VAT on a cash basis rather than using invoices, and considering an instalment system for VAT payments.

We are introducing a more personal approach by civil servants in their dealings with business so that responsibility will be linked to individual named officials.

We will be reducing the duplication of visits by Government officials. PAYE and National Insurance Inspectors are now co-ordinating their visits to companies and we are introducing a pilot scheme to co-ordinate visits by Inland Revenue and Customs and Excise officials.

These are just a small sample of the efforts being made throughout every Government Department and agency to cut red tape and improve communications. Our proposals are carefully measured. None cross the fine dividing line between liberty and licence.

As well as concentrating on reducing domestic burdens the White Paper also reports on progress towards cutting the bureaucracy imposed by EEC regulations and directives. Following an initiative made by the Prime Minister, a task force has been established within the European Commission to scrutinise all future proposals that might affect business so that the costs of compliance can be minimised.

At the same time as publishing "Building Businesses - Not Barriers" the Department of Employment has launched a booklet 'Cutting Red Tape'. It summarises the contents of the White Paper in a popular and easy to digest way.

My Lords, there can be few more urgent tasks than to create the climate for growth of employment. The more people concentrate on running their businesses, free of unnecessary barriers, the better for jobs. And more jobs is indeed our aim. One I am sure, shared by all parts of your Lordships' House. This White Paper will help jobs without losing any necessary protections. I commend it to your Lordships' attention.

DOVT MACH

KAYNAK

PG 20



CONFIDENTIAL

cc BG

Qu

B1

TF



Caxton House Tothill Street London SW1 9NF

Telephone Direct Line 01-213.....6460.....

Switchboard 01-213 3000

David Norgrove Esq
 Private Secretary to the Prime Minister
 10 Downing Street
 LONDON
 SW1

21st May 1986

NMM

Dear David,

WHITE PAPER ON DEREGULATION - "BUILDING BUSINESSES ...NOT BARRIERS"

... Further to my letter of 19 May, I am enclosing a further draft copy of the statement which my Secretary of State and the Paymaster General propose to make to both Houses on the White Paper on Deregulation tomorrow. As you will see it has been substantially revised from the earlier version. I should be grateful to know if you have any comments on this latest version by 10.00 am tomorrow morning please.

Copies go to ^{now 9 am} ~~Private~~ Secretaries of members of E(A), MISC 121 and to Joan McNaughton (Lord President's Office), Alison Smith (Mr Biffen's Office), Rhodri Walters (Lord Chief Whip's Office), Murdo Maclean (Chief Whip's Office), Chief Press Secretary No 10 and Michael Stark (Sir Robert Armstrong's Office).

Yours sincerely

Stephen Ratcliffe

STEPHEN RATCLIFFE
 Private Secretary

CONFIDENTIAL

DRAFT STATEMENT BY LORD YOUNG, SECRETARY OF STATE FOR
EMPLOYMENT TO HOUSE OF LORDS ON THURSDAY 22 MAY 1986

My Lords, with the leave of the House, I should like to make a statement on government action to relieve the burden of unnecessary regulation. We are publishing today a White Paper "Building Business - Not Barriers" (Cmnd 9794). It contains a balanced series of new proposals for reducing the administrative and legislative burdens on business as well as a report on the progress made in furthering the proposals made in the last White Paper on this subject "Lifting the Burden" (Cmnd 9571).

The White Paper reflects our firm belief that only by removing barriers to business will enterprise flourish and the essential creation of wealth and jobs follow.

It presents a balanced programme which recognises that Government has a role in providing legal protection for workers, consumers and the general public, as well as protecting the environment and our quality of life. However, it also recognises that unnecessary regulations act as an inhibition to business growth and job creation.

The Government in this White Paper have maintained the need for this protection while still taking a series of significant steps forward in giving business the freedom to grow.

There are nearly 80 new proposals in "Building Businesses - Not Barriers".

First of all, the work of the Enterprise and Deregulation Task Force, liaising with deregulation teams in Government Departments, will ensure that there is a proper analysis of the effects of proposed rules and regulations on businesses.

We will modernise the Use Classes Order, to allow a somewhat wider range of changes in the use of buildings or land to take place without planning permission. We will permit businesses with planning permission for two or more alternative uses to change between these without the need for further planning applications. But I stress that we do not propose to change the law on working from home.

We will be setting up a major review on VAT and small businesses, considering such issues as accounting for VAT on a cash basis rather than using invoices, and considering an instalment system for VAT payments.

We are introducing a more personal approach by civil servants in their dealings with business so that responsibility will be linked to individual named officials.

We will be reducing the duplication of visits by Government officials. PAYE and National Insurance Inspectors are now co-ordinating their visits to companies and we are introducing a pilot scheme to co-ordinate visits by Inland Revenue and Customs and Excise officials.

These are just a small sample of the efforts being made throughout every Government Department and agency to cut red tape and improve communications. Our proposals are carefully measured. None cross the fine dividing line between liberty and licence.

As well as concentrating on reducing domestic burdens the White Paper also reports on progress towards cutting the bureaucracy imposed by EEC regulations and directives. Following an initiative made by the Prime Minister, a task force has been established within the European Commission to scrutinise all future proposals that might affect business so that the costs of compliance can be minimised.

At the same time as publishing "Building Businesses - Not Barriers" the Department of Employment has launched a booklet 'Cutting Red Tape'. It summarises the contents of the White Paper in a popular and easy to digest way.

My Lords, there can be few more urgent tasks than to create the climate for growth of employment. The more people concentrate on running their businesses, free of unnecessary barriers, the better for jobs. And more jobs is indeed our aim. One I am sure, shared by all parts of your Lordships' House. This White Paper will help jobs without losing any necessary protections. I commend it to your Lordships' attention.

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6460

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21 May 1986

David Norgrove Esq
Private Secretary to the Prime Minister
10 Downing Street
London SW1

Dear David

**WHITE PAPER ON DEREGULATION - "BUILDING BUSINESSES ...NOT
BARRIERS"**

My Secretary of State has asked me to circulate advance copies of this Whitepaper together with the accompanying leaflet.

Copies go to Private Secretaries of Cabinet Ministers and members of MISC 121.

*Yours sincerely
Stephen Ratcliffe*

Stephen Ratcliffe
Private Secretary

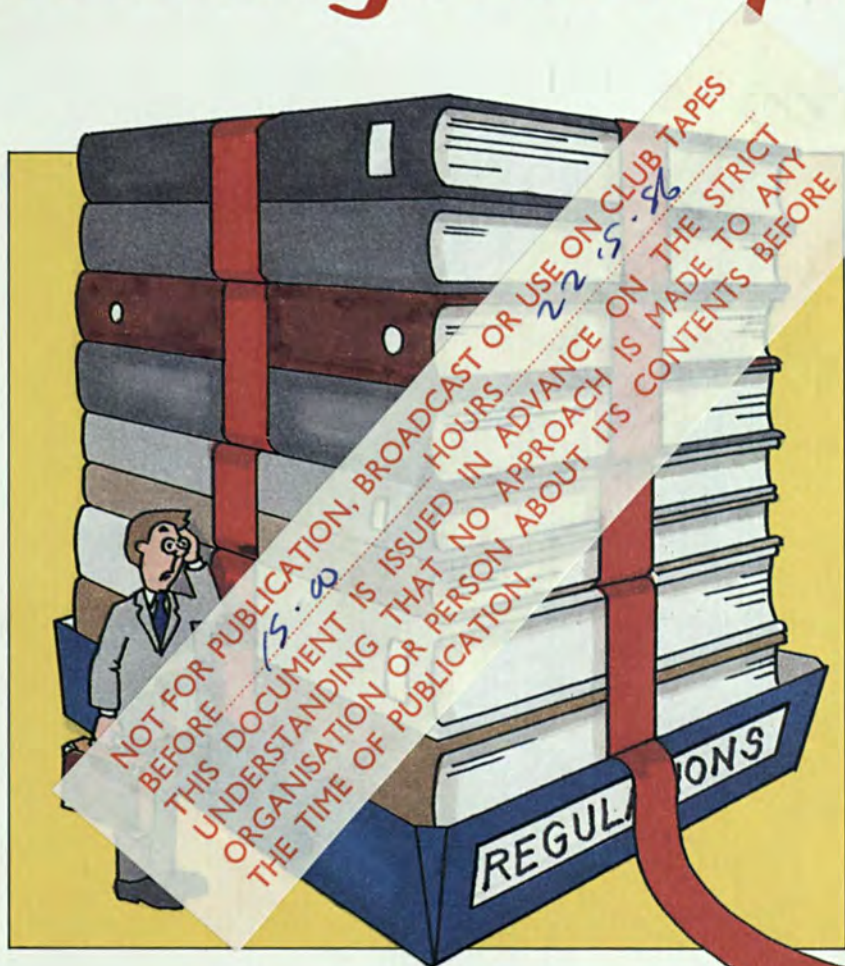
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FEDERAL BUREAU OF INVESTIGATION - DIVISION OF INVESTIGATION



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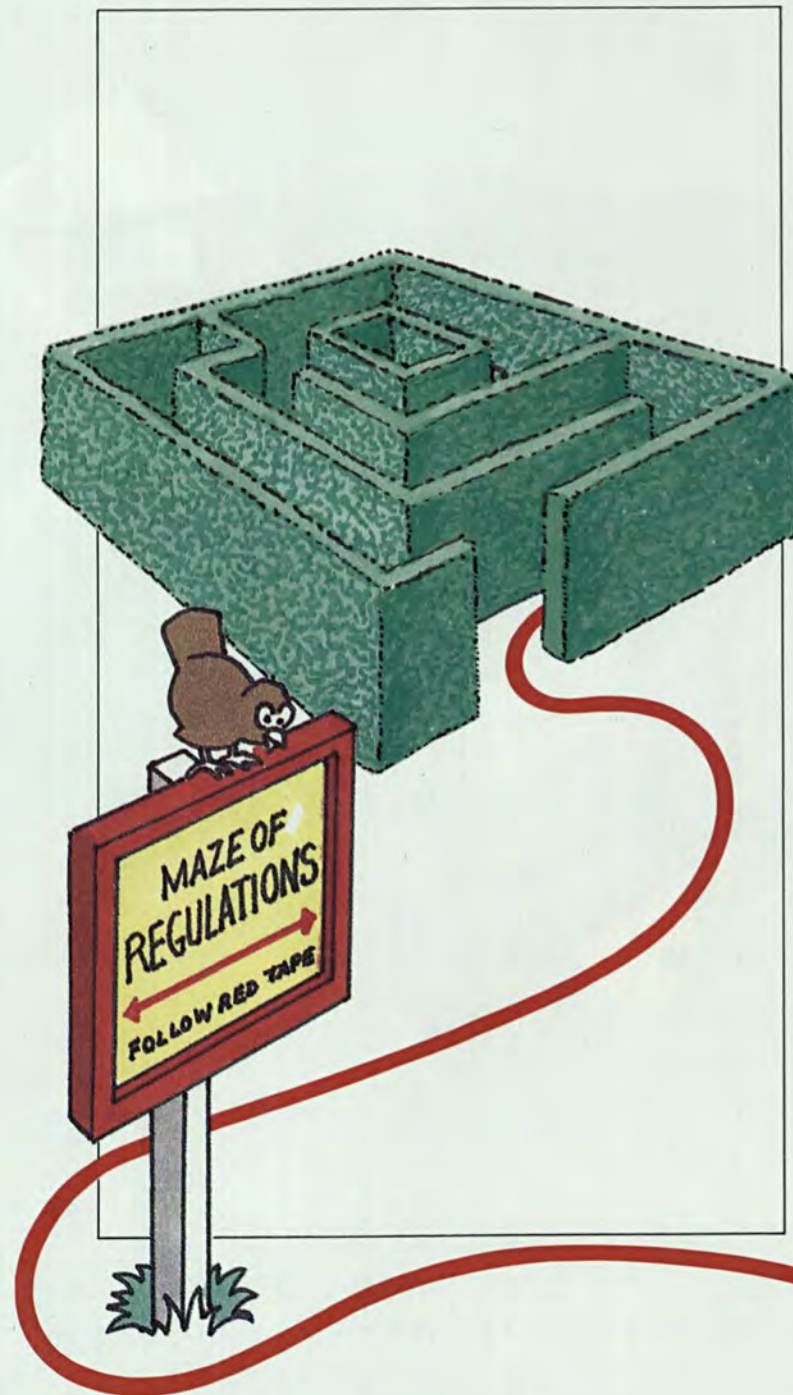
Cutting red tape



Government action to free
business and enterprise from
regulations and red tape.



**ACTION
FOR JOBS**



Cutting red tape

During the last decade Europe has seen the steady growth of unemployment as two million jobs have been lost and more people have entered the labour market. Yet some industrialised nations, the United States in particular, have seen a considerable growth in jobs with a substantial reduction in unemployment.

There can be few more urgent tasks for Europe than to create the climate for the growth of employment.

The secret of the American experience undoubtedly lies in a more entrepreneurial society. Individuals are far less restricted if they wish to work for themselves, to start a new business or to employ people. They enjoy a freedom from regulations unknown to most Europeans.

Every industrialised society needs regulations, covering many aspects of social and economic activity - designed to ensure safety, protect the environment and the consumer, bring in government revenue and so on. No one wants an entirely unregulated society. It is inevitable that business will be affected by regulations.

But the fewer unnecessary regulations the better. Building a successful business is a full-time job.

The Government believe that

- the energies of people in business have been diverted by rules and regulations which have become complicated, or obsolete - or both;
- the more people can concentrate their energies on running their enterprises efficiently, the better for jobs;
- the fewer the administrative burdens and complexities involved in employing people, the more will be employed.

The Government are tackling the problem of red tape which creates barriers to business. This leaflet outlines the Government's plan of action and summarises new proposals in the White Paper which has just been published. You can find full details in the White Paper itself or by contacting the Enterprise and Deregulation Unit (EDU) - the address is on page 9.*

* *Building Businesses...Not Barriers* (Cmnd 9794) Published by HMSO

SINCE 1979

Reducing burdens on business has been a theme of Government action since 1979. Unnecessary controls and regulations have been removed...

- the abolition of the National Insurance Surcharge
- the abolition of controls on foreign exchange
- the abolition of controls on hire purchase.

**ACTION
TAKEN**

The number of government forms and statistical enquiries sent to businesses has been reduced...

- over 2,000 different forms abolished
- statistical enquiries reduced by over a million

**ACTION
TAKEN**

Action taken to help business covers all Departments and affects many policies. Progress is often the result of fairly small changes over a wide range of issues.



PREMISES

Businesses wanting to construct or alter buildings face complexities and delays in getting approval. The Government have:

- reduced planning controls - allowing larger extensions to be made to factory and warehouse premises without the need for planning permission;
- set new targets for speeding up planning appeals - which will almost halve the average time taken to decide most written cases;
- simplified the building regulations - reducing statutory requirements and giving practical guidance;
- encouraged a wider range of uses for redundant agricultural buildings to help the rural economy with new opportunities for employment and enterprise.

**ACTION
TAKEN**

Further action will now:

- modernise the Use Classes Order to allow a wider range of changes of use of buildings or land to take place without planning permission;
- allow businesses to be given planning permission for two or more alternative uses, so they can change between these uses without the need for further planning applications;
- propose the removal of the power of local highway authorities in England and Wales to block applications for certain roadside developments.

TAX

Taxation poses particular problems for businesses. The rules are often complex and hard to understand - especially for new, small businesses. And people in business frequently have to provide a lot of information so that their tax liabilities can be assessed. Of course rules are needed to collect taxes fairly and in the most efficient way. But ways can be found to ease the problems.

VAT

People in business see the VAT system as a major problem. The Government have:

- improved the relief given for VAT payments on bad debts;
- reduced the amount of information which has to be kept on motoring costs;
- negotiated within the European Community to raise the VAT threshold.

The Government will now:

- set up a major review on VAT and small businesses considering such issues as - accounting for VAT on a cash basis rather than using invoices and considering an instalment system for VAT payments;
- monitor and review the new system of automatic VAT penalties.

Inland Revenue

Other taxes are being simplified in a number of ways.

- Employers have expressed concern about the procedures for reporting benefits in kind and expenses payments provided to their employees. Inland Revenue have given publicity to 'dispensations' which reduce the paperwork on benefits and expenses. The form P11D has been considerably shortened. The associated form P11DA has been abolished cutting out nearly a million forms sent to companies. Efforts to find further simplification will continue.
- Visits from government inspectors are time-consuming. We have sought to reduce duplication of such visits. PAYE and National Insurance Inspectors now co-ordinate their visits. A pilot scheme will show if visits to businesses can be reduced even more - by co-ordinating visits by Inland Revenue and Customs and Excise officials.
- Businesses, particularly new businesses, need clear help and guidance on tax. Much effort has been put into simplifying forms and improving the guidance and advice, given to businesses.

**ACTION
TAKEN**

EMPLOYEES

Too much employment legislation stops people being employed. If barriers to employment can be removed without downgrading necessary standards of health and safety and security this will benefit jobs. The Government have:

- introduced legislation to remove outdated restrictions on women's hours of work;
- introduced legislation to remove young people from the scope of Wages Councils;
- increased the length of time for which employees must have worked before they can claim unfair dismissal at an industrial tribunal.

The Government will now:

- restrict time off for industrial relations duties to those issues which the employer discusses with the union;
- raise the thresholds for part-time workers above which they will qualify for the main employment rights;
- consider whether ill-founded claims of unfair dismissal might be deterred by requiring a small fee (refundable if the claim is successful or if it is withdrawn before the date of the tribunal hearing is fixed) to be paid before tribunals hear cases.

**ACTION
TAKEN**



BUREAUCRACY

It is just as important for government to communicate well as it is to improve the procedures which businesses have to follow. Departments have already:

- produced a new 'Starter Pack' on PAYE and National Insurance;
- produced a 'Step by Step Guide' for small businesses on the planning system;
- increased business awareness in training of enforcement officers;
- made it easier to get access to Departments' information and advice;
- produced a guide on employment legislation for small business advisers.

**ACTION
TAKEN**

But the need to tackle this issue is a continuing one.

The Government will now:

- carry out sample trials of a model employment form and notice board kit for small businesses, highlighting the main employment regulations and improving communications;
- establish further business liaison points in Government Departments;
- ensure a more personal approach by civil servants so that responsibility for particular areas of work will be linked directly to individual named officials;
- increase direct consultation with business and ensure that new guidance material which is intended to help business is properly tested.



Red tape reviewed

The 80 or so proposals in the new White Paper 'Building Businesses... Not Barriers' are the result of reviews of existing regulations carried out by Government Departments. The Government have also set up new arrangements to examine regulations and legislation which Departments are proposing to introduce.

A small central task force, the Enterprise and Deregulation Unit, has been set up in the Department of Employment. It reports direct to the Secretary of State. This Unit has a small staff which is drawn from the private sector as well as a wide range of Government Departments.

It vets each new proposal and assesses the impact on business.

**ACTION
TAKEN**

- Each proposal is subject to a rigorous test based on 17 questions which are designed to establish a clear need for the proposed regulation - balancing the costs which might be imposed on business with the potential benefits to society.
- If this assessment gives rise to concern about the costs to business, the Department responsible will be asked to undertake a full-scale analysis of the costs and benefits of the proposed regulation.
- If necessary, the regulations are altered or amended to minimise the demands that they make on business.

EURO-TAPE

The burden of regulation is not a uniquely British problem. The European Community makes its fair share of regulations; in a Community of 12 countries, some regulation is essential. We could not enjoy the benefits of free trade and fair competition without them. But, following an initiative by the Prime Minister at the European Council last year, the implications for business of EC regulations will from now on be rigorously assessed.

- A task force has been set up within the European Commission, broadly similar to our own.
- Each new proposal put forward will now contain a full analysis of its costs to business so that these are minimised as far as possible.

Our aim

The Government remain committed to better regulation:

- the changes already achieved in a wide range of regulations show this commitment is being met;
- the changes proposed show that the Government's concern for better regulation remains undimmed;
- the arrangements to assess new regulations for their costs on business are in place and are now working.

Better regulation will continue to protect our society, help businesses to grow and produce more jobs.



Is your voice being heard?

If you have particular problems or suggestions about regulations, you can make your views heard.

You can contact your nearest Small Firms Centre to talk about a particular problem which affects your business. If you want to express a more general concern about regulations, write to the Enterprise and Deregulation Unit, Department of Employment, Caxton House, London SW1H 9NF.



Prepared for the Department of Employment by the Central Office of Information, 1986. Printed in the UK for HMSO.
Dd 8933707 DEMP J0102NJ.

BUILDING BUSINESSES...NOT BARRIERS

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cc BG ✓



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19 May 1986

David Norgrove Esq
Private Secretary to the Prime Minister
10 Downing Street
London SW1

NBM

Dear David,

WHITE PAPER ON DEREGULATION - "BUILDING BUSINESSES ...NOT BARRIERS"

Further to my letter of earlier today, it has been decided that publication of the Deregulation White Paper will be postponed until Thursday 22 May.

Copies go to Private Secretaries of members of E(A) and MISC 121.

Yours sincerely

Stephen Ratcliffe

Stephen Ratcliffe
Private Secretary

COURT MARCH

RAYNER

P 7 20



WHITING PAPER OR SIMILARITY - "HAWK" BRAND PAPER...
"HAWK" BRAND

WATERPROOF



Treasury Chambers. Parliament Street. SW1P 3AG

Stephen Ratcliffe Esq
Private Secretary to the
Secretary of State for Employment
Department of Employment
Caxton House
Tothill Street
LONDON SW1

NBRM

19 May 1986

Dear Stephen,

WHITE PAPER ON DEREGULATION - "BUILDING BUSINESSES...NOT BARRIERS"

Your letter of today's date to David Norgrove asked for comments on the draft statement relating to the White Paper and the associated Question and Answer brief.

Our comments are as follows:

Draft Statement

- (i) The word "many" at the beginning of the ninth paragraph overstates the scale of the problem. "Some" would be a preferable choice.

Income Tax Q and A

- (i) The word "enormously" in the first line of the first answer exaggerates matters somewhat and should be deleted.
- (ii) the word "Revenue" in the fourth line of the same answer preferably should be replaced by "Exchequer".

VAT Q and A

- (i) The sentence beginning "This would remove ..." in the first indented section in the second answer should be deleted as it anticipates what the outcome of the review will be.

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- (ii) the second section in the same answer again presumes that the review will reach a particular outcome. It should be amended to read "a cash basis with a view to lessening the impact of late payers and bad debts".
- (iii) in the third indented section "deregulation" should read "deregistration".

I am copying this letter to the Private Secretaries of members of E(A), MISC 121 and to Joan McNaughton (Lord President's Office), Alison Smith (Mr Biffen's Office), Rhodri Walters (Lords' Chief Whip's Office), Murdo Maclean (Chief Whip's Office), Chief Press Secretary No 10 and Michael Stark (Sir Robert Armstrong's Office).

Yours sincerely,

Nigel Williams

NIGEL WILLIAMS
Assistant Private
Secretary

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19th May 1986

David Norgrove Esq
Private Secretary to the Prime Minister
10 Downing Street
London SW1

- 1. ~~DP to see~~
- 2. CF

Please tell D/Emp no comments
from here, and thanks.

DBS
19/5

Dear David,

WHITE PAPER ON DEREGULATION - "BUILDING BUSINESSES ...NOT BARRIERS"

I am enclosing a draft copy of the statement which my Secretary of State and the Paymaster General propose to make to both Houses on the White Paper on Deregulation tomorrow, together with Question and Answer briefing. I should be grateful to know if you have any comments on this material by close of play tonight. I am sorry for the short notice but as you know we are working to an extremely tight timetable.

Copies go to Private Secretaries of members of E(A), MISC 121 and to Joan McNaughton (Lord President's Office), Alison Smith (Mr Biffen's Office), Rhodri Walters (Lords Chief Whip's Office), Murdo Maclean (Chief Whip's Office), Chief Press Secretary No 10 and Michael Stark (Sir Robert Armstrong's Office).

Yours sincerely

Stephen Ratcliffe

Stephen Ratcliffe
Private Secretary

Statement by Lord Young, Secretary of State for Employment, to House of Lords on Tuesday, 20 May 1986

My Lords, with the leave of the House, I should like to make a statement on government action to relieve the burden of unnecessary regulation.

My Lords, you need no one to convince you that the task of creating the conditions for the growth of new jobs is a continuing process. We have to ensure that the energies of those running businesses are fully concentrated on creating wealth, and jobs, and that they are not diverted by complicated and obsolete rules and regulations imposed by Government.

The Government are committed to a programme of removing unnecessary barriers in the way of those starting and developing business. Last year, we published the White Paper "Lifting the Burden". It outlined some eighty measures to reduce the burden on business of unnecessary regulations. It set up a new system to assess the impact on business of proposed regulations.

Today, we are publishing a White Paper "Building Businesses ... Not Barriers". We have implemented the proposals set out in "Lifting the Burden". The new arrangements to vet proposed regulations are in place and in full operation. We are making eighty or so further proposals covering a wide range of initiatives.

Our concern is to encourage business and tackle bureaucracy. A central theme of the White Paper is to improve communications between Government Departments and business. Our aim is to give people running businesses a clearer understanding of what is needed and to reduce cost of the many visits, enquiries and forms imposed on them by Government. The White Paper is taken up with the unglamorous but essential task of changing the relationship between government and business on the ground.

None of our proposals detract from essential protections.

Let me highlight for your Lordships some issues of particular importance on which we are taking action.

Businesses have sometimes been hampered by an unnecessarily slow and complex system of approvals for altering or constructing buildings. The changes foreshadowed will cut delays and reduce the number of planning applications without altering the care and concern which is devoted to protecting the environment.

Many find the rules of taxation hard to follow and recording requirements onerous. We seek to make the procedures on tax simpler to operate and easier to understand.

Some legislation has inhibited the job opportunities businesses can offer. We are seeking to remove regulations which damage the interests of the people they were intended to protect.

But, our aim is not a society without safeguards. Some regulation is needed to achieve desirable aims - for example safety, the protection of the environment, and the protection of the consumer. Our proposals do not detract from such aims. And in many cases, regulations do not need to be removed completely. But they do need to be improved and properly explained. The effect of our proposals is to tilt the balance towards enterprise.

For, my Lords.

- the more people concentrate on running their businesses, the better for jobs

- the fewer the administrative burdens involved in employing people, the more will be employed.

And more jobs is indeed our aim. One I am sure, shared by all parts of your Lordships' House. This White Paper will help jobs without losing any necessary protections. I commend it to your Lordships' attention.

NOTES FOR SUPPLEMENTARIES

Defensive briefing on:

	Flag
General approach	A
Employment	B
Health and Safety	C
Audit and Accounts	D
Income tax	E
VAT	F
Planning and the environment	G
Social security	H
Data protection	I
Shops and liquor licensing	J
Europe	K
Agriculture	L
Bureaucracy, licensing and forms	M

References to White Paper paragraphs are given in brackets.

General

Q. Aren't you exaggerating the importance of Government burdens?

A. No. Since the last White Paper "Lifting the Burden" we have continually been told that Government regulation is a major burden, particularly on small firms, in terms of both direct costs and of management time. It is true that for many firms the greatest worries are basic business problems like raising finance and finding markets. But this does not in any way lessen the significant drain on small firms' resources which Government burdens represent.

Q. Doesn't deregulation amount to a "Cowboys' Charter"?

A. Certainly not. We fully acknowledge that some degree of regulation will always be essential to protect the public interest. There is no intention of removing essential safeguards of this kind. The key is better regulation.

Q. How many jobs will deregulation create?

A. Removing obstacles to enterprise will improve job prospects. But it is impossible to estimate how many jobs the programme of deregulation set out in the White Paper will create.

Q. Will the White Paper lead to legislation?

A. Many of the individual measures set out in the White Paper will require legislation. Some is already under way - for example the Wages Bill and the Sex Discrimination Bill remove unreasonable constraints on flexible arrangements for pay and working hours.

EMPLOYMENT

Q. £25 tribunal fee - a charge for justice? (7.4)

A. Not at all. The fee would be refundable if case is settled or if claim is successful. Ill-founded claims take up a lot of employer's time while costing employee nothing. We want views on this proposal from all sides.

Q. Part-time thresholds and maternity leave - attack on women? (7.6, 7.10)

A. On the contrary it is largely women who lose part-time job opportunities because employers are so tied down with restrictions and obligations on part-time work that they hesitate to create such jobs.

Q. Limit paid time off for union officials - attack on unions? (7.9)

A. We support the proper activities of employees' representatives in dealing with their employer on relevant matters. But why should the employer pay for employees' union activities which have nothing to do with the business?

HEALTH AND SAFETY

Q. Government undermining health and safety? (7.12)

A. Government is firmly committed to maintaining necessary protection across the board. But circumstances change, and there may be better ways. I know the Health and Safety Commission always has these principles in mind.

AUDIT AND ACCOUNTS

Q. Why has statutory audit not been abolished? (8.4)

A. Firstly the consultation with business carried out by DTI (surprisingly) showed no strong balance of support for abolition. Only just over 200 replies were received and these showed a roughly equal division of opinions.

Secondly although I recognise that the statutory audit can impose a burden it also plays a role in policing corporate affairs. The Government is taking a very firm stance on stamping out fraud. Removing the small company audit requirement would be inconsistent with this policy and could have been misinterpreted as a green light to fraudsters.

Q. What improvements will Government introduce on company accounts?

A. 95% of companies will benefit from the relaxation in accounting requirements which we will announce soon. The new modified accounts relaxation will apply to both the accounts for shareholders and for Companies House - companies will only need to prepare one set of accounts.

INCOME TAX

Q. Why no real improvement in P11D system? (6.15)

A. The taxation of benefits is an enormously complex issue. We are continuing our efforts to find ways of reducing the administrative burden for business whilst safeguarding the position of the Revenue. It is a very difficult problem.

Q. What is Government doing to improve income tax service?

- A. - Further efforts are being made to simplify P11Ds
- Significant improvements made in the quality and presentation of Inland Revenue guidance booklets, forms, PAYE procedures.
- New computerised system has been introduced to speed up the issue of 'self employed' certificates in the building trade.
- New model rules for employee share schemes have been issued.

VAT

Q. Why not immediate review of VAT penalties in view of recent problem case? (6.5)

A. The VAT penalty provisions were introduced after wide consultations and are necessary to protect the interests of taxpayers in general. The Government will keep the position under review but it is too early to make any judgements at this stage. We will review in the light of experience. It is up to traders to make the Government aware of the problems they encounter with the new rules.

Q. What will the VAT review cover? (6.5)

A. There will be a full review of VAT in relation to small business - including consultation. In particular:

- assessment based on the annual accounts with monthly or quarterly payments on account. This would remove the quarterly burden of VAT returned.
- a cash basis which would overcome the problem of late payers and bad debts.

Commitment also to review:

- VAT registration and deregulation rules
- VAT in 'freezones'

PLANNING AND THE ENVIRONMENT

Q. Why are there no details of changes to the Use Classes Order? (5.6)

or What has become of the proposal to allow up to 5 people to work at home?

A. - The Property Advisory Group's proposals on the Use Classes Order were published last December for consultation.

- They attracted a lively response, especially on working from home.

- The government will press ahead with modernising the Order but without adopting all the PAG recommendations.

- Before doing so there will be further consultation on the government's response to all the proposals.

- It would not be possible to include full details of these in 'Building Businesses ... Not Barriers', a consultation paper will therefore be published early next month.

Q. Should the government be caring more about 'green' policies than about deregulation?

A. - This White Paper - and the previous one - make it clear that the government's concern is to protect and enhance the environment, to preserve the heritage and the green belt.

- It also states that there is always a presumption in favour of development, unless it would cause demonstrable harm.

- Many of the proposals in the White Paper are aimed at getting rid of planning controls where the developments concerned would do no harm to the environment.

SOCIAL SECURITY

- Q. Family Credit, SSP, Maternity Pay - increasing burdens? (7.23-7.33)
- A. Government's aim is a common approach to support for those in work, and the employer necessarily has a role to play. In all three benefits employer will recover money in same way - from tax and NI remittances. Procedures will be simple, and as you would expect, we consider it most important to consult business on the mechanics.

DATA PROTECTION

Q. Why has Government imposed this massive burden? (8.57)

A. We know there are difficulties in implementing the registration phase of this Act and the Data Protection Registrar is well aware of them. He is looking into ways of improving guidelines and applications of the Act.

SHOPS AND LIQUOR LICENSING

Q. Will Government try again on Sunday Trading?

A. You know the Shops Bill was defeated in Parliament. I personally supported the measure with my colleagues but, of course, business proved divided about the measure as well as other lobby groups and interests opposing it. I think, whether for or against full-scale deregulation of Sunday trading, we probably all agree there are considerable difficulties with the present situation. We will look carefully at alternative proposals put to us but have no new proposals to bring forward at present.

Q. What will Government do about outdated liquor licensing? (8.54)

A. As you will have heard, the Home Secretary announced yesterday the Government's support in principle for reform of liquor licensing laws. He will be working up a suitable package of reform which maintains adequate controls in the interests of the community. Legislation will be introduced when Parliamentary time is available.

EUROPE (Chapter 10)

Q. Little real progress towards better regulation in EC?

A. Good progress since the Prime Minister's European Council initiative just over a year ago. For example all new proposals for regulations by the Community must now be assessed for their implications for business. The more that effects on business and jobs move to the centre of the debate about new proposals the better.

Q. Do other member states of the EC share Government's views?

A. Greatest concern in Europe is the need to create jobs. General recognition of the role of removing unnecessary burdens on business in stimulating job creation. That is why agreement was reached at December European Council on the measures reflected in the White Paper.

Q. What about existing EC regulations?

A. The European Commission has asked a firm of legal consultants to undertake a study of the burdens imposed by existing Community legislation. This is a large, detailed task - but the study is already under way and its final report is due next January.

Q. But no real commitment to better regulation within the European Commission?

A. A task force has been set up within the Commission to work for better regulation and a more encouraging climate for small firms.

AGRICULTURE

Q. What is Government doing to relieve restriction on use of agricultural land etc? (8.43)

A. - Encouraging enterprise in rural areas is just as important as it is in industrial or inner city areas. We must look for ways of using resources flexibly and encouraging ^{rather} other than stifling enterprise. X
X

- The steps the Government have taken to help enable redundant agricultural buildings to be converted to other uses illustrates our commitment to the rural economy.

BUREAUCRACY, LICENSING AND FORMS

Q. What is Government doing to cut down forms etc? (4.10)

- A. - 2150 business forms abolished since 1979*
- In 1984/85:
- 650 abolished
 - another 1200 redesigned
- Total number of forms (not just business) abolished is much greater : 15700 since 1979*
- As stated in "Lifting the Burden", over a million fewer forms sent to business since 1979

Q. What about better communications with business?

- A. - New publications to help business with PAYE, National Insurance, planning etc
- More consultation with business interests - eg Advisory Panel
- More advice and information points for business
- Better training for civil servants who inspect/regulate.

* Figures strictly refer to three financial years 1982/83 to 1984/85 i.e. since publication of White Paper on Administrative Forms in Government (February 1982).

Q. Is Government looking at burden of licensing?

- A. - Review under way of 65 licensing requirements. Received 130 responses from business and other interests. Ideas put forward for change/repeal now being examined. May need to consult further on some aspects.
- Already some significant changes announced (W. Paper para 8.58) on Home Office licences (game dealing, cinemas, scrap metal dealing, pedlars, public billiards).

Q. Will local licensing requirements be reviewed?

- A. Yes, the EDU intend to launch a consultative exercise on local requirements shortly (eg on variations in national licence requirements). This will aim to assess their impact on business.

C/B9



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Switchboard 01-213 3000

N BPA.

The Rt Hon Nicholas Ridley
 Secretary of State for Transport
 2 Marsham Street
 London SW1

19th May 1986

Des. N. L.

WHITE PAPER ON DEREGULATION

Thank you for your letter of 14th ^{at trap} May about the white paper on deregulation 'Building Businesses ... Not Barriers' the final text of which you will now have seen.

I am most grateful for your Department's contribution to this and for your support and David Mitchell's on this exercise. I also appreciate the comments in your letter about cutting back the accounting and audit requirements for small companies. Unfortunately in the end, we were not able to go as far as you might have wished.

You expressed concern about the drafting of chapter 3 of the White Paper which concerns the arrangements for compliance cost assessment and arises from the 'concordat' that was agreed between us last autumn and is reproduced as Annex 3.

We had received some suggestions at official level about the details of this chapter and have been able to accommodate most of them. These adjusted the tone somewhat, but we do not want to dilute the agreements reached or create uncertainty by adjusting the language already adopted. Hence we have not been able to meet all your detailed points. In particular, your concern about 'significant' burdens is not new and has been taken into account in the very unbureaucratic arrangements with Departments which have been discussed at official level. The 'concordat' does provide for EDU not to see formal CCAs on regulations that have been shown to have only a 'minimal' impact on business.

CONFIDENTIAL



I hope that you will accept this reassurance that nothing in Chapter 3 as now amended is intended to override the concordat, and this itself sets out flexible arrangements to which we shall certainly adhere.

I am copying this letter to members of E(A), to Willie Whitelaw, Douglas Hurd, Norman Fowler, Michael Havers and Kenny Cameron and to Sir Robert Armstrong.

W. Hurd

CONFIDENTIAL

GOVT MACH *Rayner* PT20

cc/BG

CONFIDENTIAL *RF/SPM*



2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434
My ref:
Your ref:

16 May 1986

Mr David

DRAFT WHITE PAPER ON DEREGULATION

I have seen both the draft White Paper circulated with your recent minute to the Prime Minister and the draft leaflet enclosed with your letter of 13 May. I am content with the draft so long as the minor amendments provided directly to the Deregulation Unit by my officials are made.

I am copying this letter to the Prime Minister, to members of E(A) and to the Lord President the Foreign Secretary, the Home Secretary, the Secretary of State for Social Services, the Attorney General, the Lord Advocate and Sir Robert Armstrong.

Kenneth Baker

KENNETH BAKER

The Rt Hon The Lord Young of Graffham

GOVT MACH *Ragner* PT20





Foreign and Commonwealth Office

London SW1A 2AH

15 May 1986

Stephen Ratcliffe Esq
Private Secretary
to Lord Young of Graffham PC
Secretary of State
Department of Employment
Caxton House
Tothill Street
LONDON SW19NF

NSP 11

Dear Stephen,

DRAFT WHITE PAPER ON DEREGULATION

Your letter of 13 May to David Norgrove asked for comments by close of play today on the draft leaflet which will accompany the White Paper on deregulation.

The section entitled "Euro-Tape" usefully draws out the main points in Chapter 10 of the White Paper. We are a little concerned that critics of the Community might use the passage, as presently drafted, to show us to be at odds with the Commission, which we are not. I hope you will be able to accept the amendments in the attached draft.

I am copying this letter and enclosure to the Private Secretaries of Members of E(A) and of Misc 121.

yours ever

Anthony

Anthony Cary
Private Secretary to
Mrs Lynda Chalker

EURO TAPE

"The burden of regulation is not a uniquely British problem. The European Community makes its fair share of regulations. In a Community of twelve countries, some regulation is essential. We could not enjoy the benefits of free trade and fair competition without it. But following an initiative by the Prime Minister at the European Council last year, the implications for business of EC regulations will from now on be rigorously assessed.

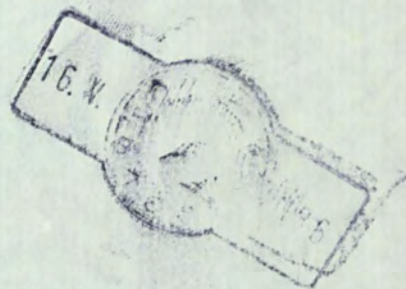
- A task force has been set up within the European Commission, broadly similar to our own.

- Each new proposal put forward will now contain a full analysis of its costs to business so that these are minimised as far as possible.

GOVT MACH

RAWNER

PT 20



ccbg



Treasury Chambers, Parliament Street, SW1P 3AG

Stephen Ratcliffe Esq
Private Secretary to the
Secretary of State for Employment
Department of Employment
Caxton House
Tothill Street
LONDON
SW1 9NF

NBN

15 May 1986

Dear Stephen,

DRAFT WHITE PAPER ON DEREGULATION

Your letter of 13 May ^{at Nap} asked for comments on the draft of the leaflet which will accompany the White Paper.

I understand that officials have been in touch to agree some minor amendments in the section relating to the Inland Revenue. These are as follows;

(i) the introductory sentence should be deleted and replaced with a new sentence reading:

"Other taxes are being simplified in a number of ways."

(ii) the first indented section, beginning "Businesses have to", should be deleted and replaced with the following:

"Employers have expressed concern about the procedures for reporting benefits in kind and expenses payments provided to their employees. The form P11D has been shortened considerably. The associated form P11DA has been abolished, cutting out a million forms sent to companies. Inland Revenue have given publicity to "dispensations" which reduce the paperwork on benefits and expenses. Efforts to find further simplifications will continue."

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(iii) the third indented section, beginning "Businesses find it....", should be deleted and the following should be inserted:

"Businesses, particularly new businesses, need clear help and guidance on tax matters. Much effort has been put into simplifying forms and improving the guidance and advice given to businesses."

Apart from these minor changes we have no further comments to offer.

I am copying this letter to the Private Secretaries of members of E(A) and MISC 121.

Yours sincerely,

Nigel Williams

NIGEL WILLIAMS
Assistant Private
Secretary

CONFIDENTIAL

GOVT. MACH. Rayner Pt. 20



CCBG



Caxton House Tothill Street London SW1 9NF

Telephone Direct Line 01-213 6460

Switchboard 01-213 3000

The Rt Hon John Moore MP
Financial Secretary
HM Treasury
Parliament Street
LONDON SW1P 3AG

NBP 7

15 May 1986

Re John,

DEREGULATION DRAFT WHITE PAPER

You sent a draft passage on "benefits in kind" for the White Paper on Deregulation. I am content with the draft passage which reflects the sort of changes which we have been seeking on "benefits in kind". I know that our officials will continue to work together to see whether the process of review and consultation can bring concrete improvements in the P11D system.

I am copying this letter to other members of E(A) and MISC 121.

*Car e,
Paid*

GOUT MACH
RAYNER

PT 20



cc BG ✓



Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

14 May 1986

John Turner Esq
Private Secretary to the
Secretary of State for Employment
Caxton House
Tothill Street
LONDON SW1

NBPN

Dear John

DEREGULATION WHITE PAPER

The Chancellor held a meeting this morning to discuss the outstanding unresolved issues for the White Paper. Your Secretary of State was present, with the Paymaster General; as was the Secretary of State for Trade and Industry, with Mr Howard; together with the Financial Secretary. Also present were Mr Wilson (head of the Government Accountancy Service), Mr Warry (No 10 Policy Unit) and Mr Brownlee (Deregulation Unit).

Accounting and Audit Requirements

It was agreed that the statutory audit requirement should remain for all companies, but to look at ways of reducing the administrative burden of the requirements on smaller companies. The White Paper should include a passage on these lines, and should go on to mention the discussions the Inland Revenue were already holding on disincorporation.

VAT Penalties

Ministers very briefly discussed the choice between options A, B and C for the form of words on VAT penalties. It was agreed that we should try for something between options B and C. Option B as it stood had the wrong flavour - it suggested that there was something wrong with the balanced package that had only been introduced after full consultation. All it should suggest is that of course the Government was willing to review the way the new rules worked out in practice.



Next Steps

Your Secretary of State undertook to circulate revised draft passages for the White Paper on both these subjects. The drafts should go to the Financial Secretary, Treasury and to Mr Howard, DTI. They would need to be cleared during the course of today.

I am copying this letter to David Norgrove (No 10) and to John Mogg (DTI).

Yours ever

Tony

A W KUCZYS
Private Secretary





CC BG
DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

01-212 3434

The Rt Hon Lord Young of Graffham
Secretary of State for Employment
Department of Employment
Caxton House
Tothill Street
LONDON SW1H 9NF

14 May 1986

Dear David

N Ben

DRAFT WHITE PAPER ON DEREGULATION

Thank you for sending me a copy of your letter of 8 May to the Prime Minister, and a copy of the draft second White Paper on deregulation. As the meeting of E(A) Committee scheduled for 13 May did not take place, you asked for comments in writing.

Subject to the minor editorial changes agreed by my officials with the EDU, I am content with the Transport references in Chapters 2 and 8, and Annex 1.

However, I do have some reservations about Chapter 3 and Annex 3, which unfortunately - as you know - were not reached by MISC 121.

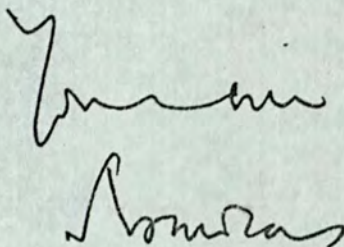
Whilst not wishing in any way to detract from the Concordat and the PCCA checklist, the Chapter as drafted does seem to give the misleading impression that this very detailed approach is necessary in every case - even when the burden to businesses would not be significant.

I also find the tone of Chapter 3 a little inappropriate to a White Paper, and rather at odds with the significant deregulatory measures already achieved by Departments.

For these reasons, I suggest that it would be helpful if the amendments, some of which I understand have already been put forward at official level, be made as shown in the attached Annex.

I understand that you, Nigel Lawson and Paul Channon are to discuss today the proposals on accounting and audit requirements for small companies. I do not think I need to attend the meeting, but I do have some interest in these proposals. I support Paul Channon's proposal to cut back accounting requirements and I also agree with him that, on balance, it is preferable to retain the statutory audit for small companies, as a deterrent to fraud.

I am copying this letter to members of E(A), to Willie Whitelaw, Douglas Hurd, Norman Fowler, Michael Havers and Kenny Cameron and to Sir Robert Armstrong.

A handwritten signature in dark ink, appearing to read 'Nicholas Ridley', with a large initial 'N' and 'R'.

NICHOLAS RIDLEY

DRAFT WHITE PAPER ON DEREGULATION
SUGGESTED AMENDMENTS TO CHAPTER 3

Paragraph 3.1, line 5:

Delete: 'administratively convenient for government'

Insert: 'popular with the public'

Paragraph 3.2, line 4:

Delete: 'pursuing'

Insert: 'promoting'

Paragraph 3.3, lines 1-2:

Delete: all from 'acts' to 'and' inclusive.

Paragraph 3.3, line 4:

Insert: 'the EDU' between 'who advise' and 'on the'.

Paragraph 3.4, line 3:

Insert: 'as a model for Departments' own working arrangements' between
'ministers' and 'appears at'.

Paragraph 3.4, lines 4-7

Delete: from 'This document' to 'but it' inclusive.

Insert: 'it'

Paragraph 3.4, lines 8-9

Delete: 'from' to 'minimise' to 'It' inclusive.

Insert: 'and'

Paragraph 3.4, line 10

Delete: 'felt it'

Insert: 'found it a'

Delete: 'to have'

Insert: 'guide'

Paragraph 3.4, line 11

Delete: from 'the arrangements' to 'some details' inclusive

Insert: to

Paragraph 3.4, lines 12-13

Delete: from 'and individual' to 'area of work' inclusive.

Paragraph 3.5, line 1

Delete: "requires"

Insert: "suggests"

Paragraph 3.6, lines 4-5

transpose "the EDU" and "Ministers"

Paragraph 3.7, line 9

Delete: "There are many"

Insert: "Departments have their own"

Paragraph 3.7, line 11

Delete: from "in" to "documents" inclusive.

Paragraph 3.7, line 13:

Delete: "Some"

Insert: "Where there are"

Insert: 'which' between 'regulations' and 'run'

Paragraph 3.7, line 14-16:

Delete: 'government'

Delete: from 'eg' to 'Here'

Paragraph 3.8, line 2:

Delete: 'government'

Paragraph 3.9, line 1:

Delete: 'government'

Paragraph 3.10, line 2:

Insert at end of line ", where there appear to be significant adverse effects on business, are"

Paragraph 3.11, line 7:

Delete: from 'where' to 'assessment' inclusive.

Insert: 'In some cases!'

Paragraph 3.14, line 9:

Delete: 'by Departmental deregulation Officers'



GOST MACHA

RAVNER

PT 20

CCBG



DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
Telephone (Direct dialling) 01-215 5422
GTN 215
(Switchboard) 01-215 7877

Secretary of State for Trade and Industry

CONFIDENTIAL

14 May 1986

The Rt Hon The Lord Young of Graffham
Secretary of State for Employment
Department of Employment
Caxton House
Tothill Street
LONDON
SW1H 9NF

NBP K

Dear Secretary of State,

DRAFT WHITE PAPER ON DEREGULATION

Your minute to the Prime Minister, ^{at 11.45} received here on 7 May, proposed clearing the deregulation White Paper (other than the accounting and audit issue) by correspondence. We have discussed VAT penalties separately.

I am content with the passages specifically relating to this Department's work, subject to some minor drafting amendments which our officials have discussed. However, I would have welcomed some recognition of sponsoring Departments' role in the deregulation process. As paragraph 2 of the Concordat recognises, responsibility for reducing burdens rests with regulatory Departments in consultation with Departments (such as ourselves and MAFF) which sponsor the business sectors concerned. It specifically provides for the sponsor Departments to have the opportunity to be involved in the process of vetting new regulatory proposals. The EDU's existence has certainly given new impetus to the work of keeping burdens on business to the minimum. I hope that you will feel able to recognise the contribution made by Departments and, by small amendments to the draft White Paper, dispel any impression that may be left that Departments have stood idly by. To meet this point I also hope that you will be ready to accept the (relatively) minor amendments I have suggested in the attached paper.

...

JF2BIO

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19 86
BOARD OF TRADE
BICENTENARY



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I am copying this letter to the Prime Minister, Sir Robert Armstrong, Kenneth Clarke, Sir Geoffrey Howe, Nigel Lawson, Douglas Hurd, Michael Jopling, Nicholas Ridley, Kenneth Baker and Norman Fowler.

Yours sincerely

John Pegg

PAUL CHANNON

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

Encl

JF2BIO



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PROPOSED AMENDMENTS:

Para 1.15 which could usefully be redrafted along the lines of "...Each Government Department has its own set of policy aims and objectives. While certain Departments have had responsibility for particular sectors of industry, on whose account they have taken an interest in the regulatory process, reducing burdens on business in general has never been the policy aim of any single Department ..." and

Para 3.11 which could be amended to read: "Discussion between the regulatory Department, the Department sponsoring the industries affected and the EDU on the basis of the preliminary assessment..."

On outstanding points of substance I would make the following comments:

Planning (para 5.2)

In paragraph 5.2 I suggest that "demonstrable" in line 7 be amended to "unacceptable" or "significant". The current wording tilts the balance too far against development - which should, in the enterprise culture we are seeking to promote, be an interest whose importance is acknowledged to be paramount.

Use Classes Order (para 5.7)

I am writing separately about this, and you will see that I am content with Kenneth Baker's proposed paragraph.

Health and Safety (paras 7.12 and 7.13)

This section appears to be largely based on the findings of the HSE/EDU study team - about which Peter Morrison wrote to you on 29 April. I am not entirely happy with the present drafting of paragraphs 7.12 - 7.13 - which appear unduly complacent in the light of DTI's survey of large firms last year, which identified health and safety legislation as the fourth most important 'burden'. My officials have offered yours an alternative form of words for the paragraphs in question; I hope this can now be resolved urgently.

Agricultural land (para 8.43)

Of the two options suggested for paragraph 8.43 I prefer the first. You will be aware that current policies on the protection of agricultural land can in some circumstances serve to impede the

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1986
BOARD OF TRADE
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creation of much-needed jobs - for example in light industry; I see no reason for us to be shy of indicating that we are considering the problem.

JF2BIO



CONFIDENTIAL

CC BY



QUEEN ANNE'S GATE LONDON SW1H 9AT

14 May 1986

NBN

Dear David,

DEREGULATION WHITE PAPER

Thank you for sending me a copy of your recent minute to the Prime Minister covering a draft of the second White Paper on Deregulation.

As you say, the draft has been discussed and substantially agreed by MISC 121. There are no outstanding matters of Home Office interest and I am generally content for the White Paper to be published on the lines of the draft.

Paragraph 8.54 and Annex 1 reflect my present position on liquor licensing hours, but H Committee has been asked to agree that I should make an announcement indicating that I am in favour of relaxation in principle. Our officials have agreed to keep in touch so that the next of the White Paper can, if necessary, be adjusted to take account of any announcement I may make before publication day.

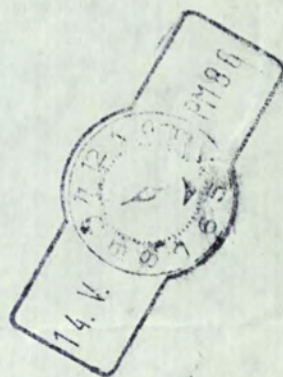
I am copying this letter to the Prime Minister, the Lord President of the Council, the Foreign Secretary, the Secretary of State for Social Services, the Attorney General and the Lord Advocate, members of E(A) and to Sir Robert Armstrong.

Yours,
Douglas

The Rt Hon The Lord Young of Graffham

CONFIDENTIAL

GOVT MACH : Rayner. Pt 20



✓ Maybe No Audit should be.
We await a postscript from
de Est. Unit. M6A145
Has the attached letter
been sent out!

Tom
14/5



10 DOWNING STREET

From the Private Secretary

TO MINISTERS IN CHARGE OF DEPARTMENTS

The Prime Minister has seen the attached report on the use of value for money targets by Departments, drawn up by Sir Robin Ibbs, and she has endorsed its broad conclusions. She welcomes the commitment of Permanent Secretaries to the use of value for money targets, and looks to all her Ministerial colleagues and their officials to support the report's general recommendations.

The Prime Minister believes that value for money targets, properly used, have a key role to play in generating the drive and determination to improve performance. She has also emphasised the paramount importance of efficiency savings in achieving the Government's aims for providing a better service to the public and for reducing taxation.

MARK ADDISON

The Private Secretary

SUBJECT
cc MASTER

file SLH
cc B. J. J. J. J.



10 DOWNING STREET

From the Private Secretary

MISS KATE JENKINS
EFFICIENCY UNIT
CABINET OFFICE

The Prime Minister held a meeting with Sir Robin Ibbs and you yesterday to discuss value for money targets. The first part of their discussion concerned other matters and is being recorded separately by Charles Powell.

Sir Robin said that the Efficiency Unit had made considerable progress with departments in encouraging them to make effective use of value for money targets. This year's results were a noticeable improvement on last year. Departments were beginning to understand what proper target setting involved: some departments in particular were showing they could meet those targets too. Sir Robin's report confirmed that there was still a long way to go, however. He proposed that the Prime Minister should endorse the conclusions of the report, and that it should be circulated to colleagues.

Sir Robin also reported that the Treasury were generally content with his report, though they had some concerns about recommendation 9, that some of the savings generated by departments as a result of meeting targets should be ploughed back into their programmes, to provide them with an incentive. Sir Robin said that it was important to remember that this was a way of generating savings which would otherwise be lost. The Treasury, on the other hand, recalled the over-riding importance of containing public expenditure, and of seeing that the taxpayer benefited from savings obtained.

At the conclusion of this part of the discussion, the Prime Minister agreed to endorse Sir Robin's report, and that it should be circulated to colleagues under a covering letter to be issued from her office. That letter would need to reflect the importance of departments securing increased efficiency and savings for the benefit of the taxpayer and others, and of the incentive effect which ploughing back some of the savings into departments could have. The draft would need to be cleared with the Treasury before being submitted to the Prime Minister for her approval.

A number of other points were covered in the discussion:

- (i) developing procedures for target-setting could only have an impact if the full commitment of Ministers in charge of departments and Permanent

SLH

Secretaries was obtained. After that commitment had been given, Sir Robin and his colleagues in the Unit needed to keep up pressure on departments to ensure they stuck by them. The Prime Minister agreed to continue her practice of writing personally to newly appointed Secretaries of State drawing attention to their responsibilities for ensuring their departments provided value for money;

- (ii) Sir Robin said that the idea of range pay for deputy secretaries and under secretaries had his full support. He thought it was vital for these senior grades to be told clearly what was expected of them, and for their performance to be assessed accordingly. That was the way to ensure those with potential performed better, as well as rewarding equitably those who had performed well. The Prime Minister said she appreciated the strength of Sir Robin's argument. She would have an opportunity to discuss with her colleagues when the discussions on the review body reports were completed;
- (iii) the Prime Minister and Sir Robin agreed that it was worth considering a new initiative in selected departments to encourage the adoption of a number of key targets to help improve their management and efficiency. The Department of Health and Social Security and the Ministry of Defence might be suitable candidates, initially. Sir Robin would discuss the proposal further with Sir Kenneth Stowe and Sir Clive Whitmore. He would then put a paper to the Prime Minister with proposals;
- (iv) finally it was agreed that the Prime Minister would continue her series of value for money seminars. A suitable candidate for the next one might be the Ministry of Defence, with particular emphasis on procurement; Sir Robin agreed to consider this further in the context of (iii) above and to report back to the Prime Minister with a firm recommendation.

I am copying this minute to Jill Rutter (Chief Secretary's Office), Michael Stark (Cabinet Office), Michael Kerin (Sir Kenneth Stowe's Office) and John Pitt Brooke (Sir Clive Whitmore's Office) .

Mark Addison

MARK ADDISON

14 May 1986

010 NJ/A44

CONFIDENTIAL

cc BG



Caxton House Tothill Street London SW1 9NF

Telephone Direct Line 01-213.....6460.....

Switchboard 01-213 3000

David Norgrove Esq
Private Secretary to the
Prime Minister
10 Downing Street
London SW1

pa now

Prime Minister 2

13th May 1986

Play came up at your bilateral,

Dear David,

DRS
13/5.

DRAFT WHITE PAPER ON DEREGULATION

My Secretary of State agreed that he would circulate to members of E(A) and MISC 121 the short leaflet which will accompany the White Paper on Deregulation.

... I attach the draft leaflet on which I should be grateful for comments by close of play on Thursday 15 May at the latest.

Copies go to Private Secretaries of members of E(A) and MISC 121.

Your sincerely
Stephen Ratcliffe

STEPHEN RATCLIFFE
Private Secretary

CUTTING RED TAPE

During the last decade Europe has seen the steady growth of unemployment and the loss of two million jobs. Yet this has not been the experience of all industrialised nations. Some, the United States in particular, have seen a considerable growth in jobs. They have also had a substantial reduction in unemployment. There can be few more urgent tasks for Europe than to create the climate for the growth of employment.

The secret of the American experience undoubtedly lies in a more ^{enterprising} entrepreneurial society. Individuals are far less restricted if they wish to work for themselves, to start a new business or to employ people. They enjoy a freedom from regulations unknown to most Europeans.

Every industrialised society needs regulations, covering most aspects of social and economic activity - designed to ensure safety, protect the environment, bring in government revenue and so on. No one wants an entirely unregulated society. It is inevitable that business will be affected by regulations.

But the fewer unnecessary regulations the better. Building a successful business is a full-time job.

The Government believe that

- . the energies of people in business have been diverted by rules and regulations which have become complicated, or obsolete - or both;
- . the more people can concentrate their energies on running their enterprises efficiently, the better for jobs;
- . the fewer the administrative burdens and complexities involved in employing people, the more will be employed.

The Government are tackling the problem of red tape which creates barriers to business. This leaflet outlines the Government's plan of action and summarises new proposals in the White Paper which has just been published. You can find full details in the White Paper itself* or by contacting the Enterprise and Deregulation Unit (EDU) - the address is on page

* Building Businesses... Not Barriers (Cmnd 9794)

SINCE 1979

Reducing burdens on business has been a theme of Government action since 1979. Unnecessary controls and regulations have been removed ...

action
taken * the abolition of the National Insurance Surcharge

action
taken * the abolition of controls on foreign exchange

action
taken * the abolition of controls on hire purchase

The number of government forms and statistical enquiries sent to businesses has been reduced ...

action
taken * over 15,700 different forms abolished

action
taken * statistical enquiries reduced by over a million

Action taken to help business covers all Departments and affects many policies. Progress is often the result of fairly small changes over a wide range of issues.

PREMISES

Complexities and delays in the planning system have been a major problem for businesses wanting to construct or alter buildings. The Government have:

- Action . reduced planning controls - allowing larger extensions to be
taken made to factory and warehouse premises without the need for
planning permission;
- Action . set new targets for speeding up planning appeals -
taken halving the time taken for most cases;
- Action . simplified the building regulations - reducing statutory
taken requirements and giving practical guidance.

Further action will now:

- . remove the need for planning permission when businesses wish to make certain changes in the use of a building - eg from light industry to offices or vice versa;
- . allow businesses to be given planning permission for two or more alternative uses, so they can change between these uses, without the need for further planning applications;
- . } remove the power of highway authorities to intervene in applications for certain roadside developments;
- . encourage a wider range of uses for redundant agricultural buildings to help provide employment in rural areas.

TAX

Taxation poses particular problems for businesses. The rules are often complex and hard to understand - especially for new, small businesses. And people in business frequently have to provide a lot of information so that their tax liabilities can be assessed. Of course rules are needed to collect taxes fairly and in the most efficient way. But ways can be found to ease the problems.

VAT

People in business consistently identify the VAT system as a major problem. The Government have:

- Action . improved the relief given for VAT payments on bad debts;
taken
- Action . reduced the amount of information which has to be kept on
taken motoring costs;
- Action . negotiated within the European Community to raise the VAT
taken threshold.

Management VAT - slow.
The Government will now:

- . set up a major review on VAT and small businesses considering such issues as - accounting for VAT on a cash basis rather than using invoices and considering an installment system for VAT payments;
- . monitor and review the new system of automatic VAT penalties

Inland Revenue

The complexities of other taxes are being tackled in a number of ways.

- . Businesses have to keep a lot of information for the Inland Revenue on benefits paid to staff and expenses which are claimed by employees. Inland Revenue have given publicity to

"dispensations" which reduce the paperwork on benefits and expenses. They are looking at the need for businesses to keep such detailed records. They have abolished the P11DA so cutting out a million forms sent to companies.

- . Visits from government inspectors are time-consuming. We have sought to reduce duplication of such visits. PAYE and National Insurance Inspectors now co-ordinate their visits. A pilot scheme will show if visits to businesses can be reduced even more - by co-ordinating visits by Inland Revenue and Customs and Excise officials.

- . Businesses find it hard to understand the complexities of the taxation system. Much effort has been put into simplifying forms and improving the guidance and advice.

EMPLOYEES

Too much employment legislation stops people being employed. If barriers to employment can be removed without downgrading standards of safety and security this will benefit jobs. The Government have:

Action . introduced legislation to remove outdated restrictions on
taken women's hours of work;

Action . introduced legislation to remove young people from the scope of
taken Wages Councils;

Action . increased the length of time for which employees must have
taken worked before they can claim unfair dismissal at an industrial tribunal.

The Government will now:

- . restrict time off for industrial relations duties to those issues which really concern the employee's firm;
- . raise the thresholds for part-time workers above which they will qualify for the main employment rights;
- . consider whether ill-founded claims of unfair dismissal might be deterred by requiring a small - (refundable if successful) - to be paid before tribunals hear cases.

BUREAUCRACY

It is just as important for government to communicate well as it is to improve the procedures which businesses have to follow. Departments have already:

Action . produced a new "Starter Pack" on PAYE and National Insurance;
taken

Action . produced a "Step by Step Guide" for small businesses on the
taken planning system;

Action . improved the training of enforcement officers;
taken

Action . made it easier to get access to Departments' information and
taken advice.

But the need to tackle this issue is a continuing one. The Government will now:

- . introduce a model employment form and notice board kit containing the main employment regulations;
- . establish further business liaison points in Government Departments;
- . ensure a more personal approach by civil servants so that responsibility for particular areas of work will be linked directly to individual named officials;
- . increase direct consultation with business and ensure that new guidance material which is intended to help business is properly tested.

RED TAPE REVIEWED

The 80 new proposals in "Building Businesses... Not Barriers" are the result of reviews of existing regulations carried out by Government Departments. The Government have also set up new arrangements to examine regulations and legislation proposed by Departments.

A small central task force, the Enterprise and Deregulation Unit, has been set up in the Department of Employment. It reports direct to the Secretary of State. This Unit has a small staff which is drawn from the private sector as well as a wide range of Government Departments.

It vets each new proposal and assesses the impact on business:

- . Each proposal is subject to a rigorous test based on 17 questions which are designed to establish a clear need for the proposed regulation - balancing the costs which might be imposed on business with the potential benefits to society;
- . If this assessment gives rise to concern about the costs to business, the Department responsible will be asked to undertake a full-scale analysis of the costs and benefits of the proposed regulation;
- . If necessary, the regulations are altered or amended to minimise the demands that they make on business.

EURO-TAPE

Of course over-regulation is not a uniquely British disease and the European Community seems to make its fair share of regulations. Now, following an initiative by the Prime Minister at the European Council last year, the implications for business of all new regulations proposed by the Community must be assessed.

- . A task force has been set up within the European Commission, broadly similar to our own.

- . Assessments of rules and regulations now take full account of the costs on business so that these are minimised as far as possible.

OUR AIM

The Government remain committed to better regulation:

- . the changes already achieved in a wide range of regulations show this commitment is being met;
- . the changes proposed show that the Government's concern for better regulation remains undimmed;
- . the arrangements to assess new regulations for their costs on business are in place and are now working.

Better regulation will continue to protect our society, help businesses to grow and produce more jobs.

IS YOUR VOICE BEING HEARD?

If you have particular problems or suggestions about regulations, you can make your views heard.

You can contact your nearest Small Firms Centre to talk about a particular problem which affects your business. If you want to express a general concern about regulations, write to the Enterprise and Deregulation Unit, Department of Employment, Caxton House, London SW1H 9NF.

Building Businesses ... Not Barriers



NBP 7

Treasury Chambers, Parliament Street, SW1P 3AG

Lord Young of Graffham
Secretary of State for Employment
Caxton House
Tothill Street
LONDON

13 May 1986

Dear David,

DEREGULATION: DRAFT WHITE PAPER

I have been in separate correspondence with Kenneth Clarke about the questions of reporting benefits in kind. In brief, what I have said is that there are limits to what more we can do in this area. It is therefore going to be important not to give commitments which will raise expectations which we cannot meet.

For the purpose of the White Paper I attach a passage which I gather our officials have discussed and which I think is very much in the spirit of what you were suggesting. But I am clear that we cannot go any further than this.

I am copying this letter to the other members of E(A) and MISC 121.

JOHN MOORE

DEREGULATION WHITE PAPER: BENEFITS IN KIND

- a lot has been done already to simplify the procedures for reporting (on form P11D) expenses payments and benefits in kind provided to employees by their employer. These efforts continue. The Government have now abolished the subsidiary form P11DA on which employers were required to list all directors and higher paid employees not in receipt of benefits or expenses (830,000 of these forms were sent out by the Inland Revenue each year). The P11DA has been replaced with a simple confirmation by the employer that all necessary forms P11D have been completed and returned. The Inland Revenue are also continuing consultations to see whether further improvements can be made to the form P11D itself. The aim is to improve the guidance given to employers and keep the information that is reported to the minimum necessary, thereby keeping the administrative burden on employers as small as possible.



PRIME MINISTER

MEETING WITH SIR ROBIN IBBS: VALUE FOR MONEY TARGETS

Sir Robin Ibbs would like to have a short discussion with you about value for money targets after you have covered Nimrod at tomorrow's meeting. I (and probably Nigel) will join the meeting at 1215 for the latter part of the discussion with Sir Robin.

Last autumn Sir Robin reported to you on the use to which Departments were putting value for money targets. You asked for a further report this year. Sir Robin has now provided this (Flag B with a covering minute from him at Flag A).

Sir Robin's note reports that value for money targets are making a useful contribution to the search for efficiency and performance within the Civil Service, though their use is still at an early stage, and more emphasis needs to be placed on results and outputs, rather than on costs. Sir Robin's detailed recommendations are on pages 5 and 6.

Sir Robin will no doubt wish to summarise for you the conclusions of his report. I think there will be three particular areas he might wish to cover.

- (a) Sir Robin recommends that Departments should consider giving extra incentives by agreeing to plough back some of the benefit gained from setting tough targets and meeting them (recommendation 9). The Treasury (Flag C) do not dissent from the view that this should be possible in some cases, but stress that the taxpayers' interest in seeing that Departments achieve savings from the setting of tough targets should not be overlooked. Sir Robin has responded to the Treasury points (at Flag D). There is clearly a difference of view between the Efficiency Unit and the Treasury, though not one that need cause any great difficulty. I suggest you tell Sir Robin that you agree about the importance of the right kind of

incentive, and that you think that it should be possible to meet both his and the Treasury's points by agreeing on suitable wording for a Private Secretary covering minute to the report when it is circulated. The wording would need to be agreed both with Sir Robin and the Treasury before being submitted to you.

- (b) Sir Robin remains anxious that Ministers in charge of Departments do not take their management functions seriously enough. I do not think this is for want of any support from you. Your contribution to the cause, by way of covering minutes, signed forewords and approved Private Secretary letters, is not in doubt. If anything, there is now a risk of debasing the currency by pushing out too much of this from No. 10. Your meeting with newly appointed Ministers and your value for money seminars represent another way forward, and I think you will wish to ask Sir Robin whether he has any bright ideas about fresh ways of getting Ministers to think in the right direction. You might also like to discuss the next suitable departmental candidates for value for money seminars.
- (c) Sir Robin will probably also want to tell you how his scrutiny programme is going, and about the contribution he thinks the Efficiency Unit is making in general terms.

You will remember that Kate Jenkins has recently taken over from Ian Beesley. She will be coming to the meeting too. You met her at the Efficiency Unit reception recently.

Mark Addison

Mark Addison

12 May 1986

DG2BAZ

CONFIDENTIAL



10 DOWNING STREET

From the Private Secretary

12 May 1986

Dear John,

DRAFT WHITE PAPER ON DEREGULATION

The Prime Minister was grateful for your Secretary of State's minute (undated), with which he circulated the draft White Paper on deregulation.

The Prime Minister welcomes the substantial work which has gone into this White Paper. She hopes that the outstanding issues described in Lord Young's minute can, so far as possible, be settled by correspondence. But if this proves not to be possible, she would be most grateful if the Chancellor of the Exchequer would agree to hold a meeting about them, in order if possible to stick to the timetable for publication before the Recess.

On one particular point, the Prime Minister has noted the discussion of European aspects of deregulation in paragraph 1.11 and Chapter 10. In this context the White Paper could say that the Government will be looking to follow up during the UK presidency the UK initiative to reduce the burden of regulations imposed by the Community and that we shall be working to ensure that this is put fully into effect.

I am copying this letter to Private Secretaries to Members of E(A) and to Joan MacNaughton (Lord President's Office), Tony Galsworthy (Foreign and Commonwealth Office), Stephen Boys Smith (Home Office), Tony Laurance (Department of Health and Social Security), Michael Saunders (Attorney General's Office), Iain Jack (Lord Advocate's Department), and Michael Stark (Cabinet Office).

Jan,
David.

DAVID NORGROVE

John Turner, Esq.,
Department of Employment.

CONFIDENTIAL

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M

10 DOWNING STREET

From the Private Secretary

SIR ROBERT ARMSTRONG

REPORT OF THE INTERDEPARTMENTAL COMMITTEE ON PROPERTY REPAYMENT SERVICES

The Prime Minister has seen your minute of 1 May. She has endorsed the interdepartmental committee's recommendations on the funding of major new works, and agreed that they should be implemented forthwith.

She has also noted that the committee has been unable to reach an agreement on maintenance, but that the various options will be further considered when these have been worked out in detail, by November.

I am sending copies of this minute to the Private Secretaries to Members of the Cabinet and to the Minister of State's office, Privy Council Office.

Mark Addison

MARK ADDISON

12 May 1986

M

PRIME MINISTER9 May 1986DRAFT WHITE PAPER ON DEREGULATION

David Young has inevitably found it difficult to persuade Departments to agree to radical (and even not so radical) deregulation measures, hence the paper, although reasonably well-written, is using length to conceal a lack of content. There will also be a shorter 'popular' version of the White Paper. It is worth glancing at the introductory Chapter 1, Chapter 2, which summarises the new proposals, and Annex 1 of the paper which reports on the implementation of the proposals in the first White Paper 'Lifting the Burden'.

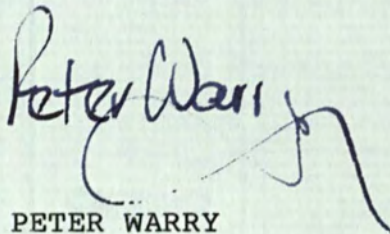
David Young has delivered a set of very useful initiatives on employment law but other Departments' efforts are anodyne: many in the 'considering, assessing, reviewing and consulting' mould. The outstanding issues in his covering note are all well worth gunning for, but he will not prevail against departmental objections without support.

Paragraph 1.11 mentions the European experience (also Chapter 10) but it could make more of your own EC initiative that started the ball rolling. Perhaps it could also say that progress on deregulation will be a high priority during our forthcoming presidency.

Publishing in full the new arrangements for monitoring deregulation (Chapter 3) adds significantly to the paper's length and will be of little interest outside Whitehall. But the bureaucrats are already trying to backslide on the arrangements. One official has gone so far as to complain that they should not be published because it names the departmental officials responsible for deregulation, who will, as a result, be lobbied by the business interests affected by regulations. This seems an excellent reason for insisting on publication of this section in full.

CONFIDENTIAL

We recommend that you should write generally supporting David Young on the outstanding issues and offering to include in the White Paper that deregulation will be a high priority during our EC presidency.

A handwritten signature in dark ink, appearing to read "Peter Warry". The signature is fluid and cursive, with a long, sweeping tail that extends to the right.

PETER WARRY

PRIME MINISTER

DRAFT WHITE PAPER ON DEREGULATION

This was due to be taken at E(A) on Tuesday. But that meeting has had to be postponed, so an attempt is being made to clear the draft by correspondence.

This is awkward, because there are still several quite important issues unsettled. I do not think it would be helpful for you to take a stand on the multiple choice questions set by Lord Young (no material is provided as a basis for you to take a decision).

Agree

(i) to welcome the substantial work which has gone into this White Paper;

(ii) to hope that the outstanding issues can so far as possible be settled by correspondence; but

(iii) invite the Chancellor to hold a meeting as necessary, in order if possible to stick to the timetable of publication before the Recess?

You will see that Peter Warry has suggested including in the White Paper a statement that deregulation will be a high priority during our EC Presidency. Charles points out that the initiative on this is already under way and that it is now primarily for the Commission to take forward. You could suggest that the White Paper could undertake to follow up the initiative during our Presidency and to work to ensure that it is put fully into effect.

Content with this also?

pp. (David Norgrove)
9 May 1986



FROM: CHIEF SECRETARY

DATE: 8 May 1986

PRIME MINISTER

DEVELOPMENT OF THE PROPERTY REPAYMENT SYSTEM

I have seen Sir Robert Armstrong's minute of 1 May about the further development of the PRS.

2 I strongly support the proposal in the Committee's report that PES responsibility for certain kinds of new works should be transferred to departments from 1 April 1987. The present arrangement, under which accommodation projects for one department compete with projects for other departments, is unsatisfactory. The proposed change will be a useful step in implementing the recommendation in Sir Robin Ibbs' report on capital expenditure projects that departments for whom work is being done should "own" the project. The shift in responsibility will need to be reflected in the Public Expenditure Survey. An early decision will, therefore, be needed if the changeover is to be effective from 1 April 1987.

3 I am copying this to members of the Cabinet and Sir Robert Armstrong.

JOHN MacGREGOR

Govt mach. - Royner Pt 20



COMPTON
CORPORATION
WASHINGTON
D. C.



CONFIDENTIAL

EBG
[not enclosure]

010
 Second White Paper on
 Deregulation is in folder
 attached to GOVT MACH:
 Rayner: Part 20



B/F for E(A)
 on 13/5.

PRIME MINISTER

DRAFT WHITE PAPER ON DEREGULATION

I attach the draft of the second White Paper on deregulation. It has been discussed in some detail and substantially agreed by the Ministerial Group on Deregulation (MISC 121) under my chairmanship. I am grateful for colleagues' help in producing such a useful document.

2. Not unexpectedly, there are a few points of substance still to be settled which may need to be discussed at the meeting of E(A) Committee scheduled for 13 May. Where appropriate, these outstanding issues are indicated by alternative forms of words given in square brackets. In each case my own preference is for the "A" options. The issues are as follows:

Statutory Audit (para 8.4)

There will be separate papers prepared on this issue by the Secretary of State for Trade and Industry and the Paymaster General and myself. If colleagues consider that no relaxation in statutory audit requirements is possible, we shall need to provide a brief explanation for dropping the proposal after it found considerable support on consultation.

CONFIDENTIAL



Use Classes Order (para 5.7)

I know that the Secretary of State for the Environment has been considering this matter, and that he is discussing the issues with his Departmental colleagues. There is a difficult balancing act to be carried off so it is not surprising that he has yet to take a final view, hence the variety of choices for para 5.7. He will be consulting us shortly and I hope that the issues will be resolved by 13 May.

VAT penalties (para 6.5)

VAT, including the new automatic penalties, is seen (with some justification) as a major burden on business. I am anxious that the White Paper should promise a wideranging review of all aspects of VAT, and that it should involve other Departments with a keen interest.

Form P11D (para 6.15)

I should like a firm commitment to reviewing this form with a view to reducing record-keeping by businesses.

Agricultural land (para 8.43)

The issue here is whether we can say something positive about giving guidance to local authorities on the priority given to the protection of agricultural land, in addition to buildings. I see the two as being part of the same strategy.

CONFIDENTIAL



I would hope that we might be able to clear up in correspondence some of the outstanding issues mentioned above before the 13 May meeting.

EC IMPLICATIONS

3. The Paymaster General has invited the Law Officers to consider the impact of the proposals in the draft on our European commitments. This is particularly relevant in relation to proposals on employment legislation. I have included (para 7.10) a proposal to relax further the definition of "part-time" workers for the purpose of exemption of employers from certain employment protection obligations. While the Law Officers have advised that existing thresholds may already be indirectly discriminatory, and that increasing them may compound the error, I am unwilling to accept such a constraint on the Government's freedom, and should welcome your views on the matter.

PUBLICATION

4. You agreed that we should aim for publication of the White paper shortly before the Whitsun recess, on 21 May. I would like to publish at the same time a short, attractive summary of the White Paper. If you agree, I propose that I should clear the draft of this summary by circulation to MISC 121.

CONFIDENTIAL

CONFIDENTIAL



IMPLEMENTATION

5. At some stage we ought, perhaps, to consider what we might do to deal with the variety of fairly small but still significant items of deregulation currently awaiting legislative opportunities. There is a small queue forming.

6. I am copying this minute and the draft White Paper to members of E(A), and to the Lord President of the Council, the Foreign Secretary, the Home Secretary, the Secretary of State for Social Services, the Attorney General, and the Lord Advocate and Sir Robert Armstrong.

A handwritten signature in dark ink, appearing to be "D Y".

D Y

May 1986

CONFIDENTIAL

1. MR. WICKS

2. PRIME MINISTER

This is a useful reform to increase accountability in an area notorious for lack of it. NB (X) over. N.L.W. 8.5.

REPORT OF THE INTERDEPARTMENTAL COMMITTEE ON PROPERTY REPAYMENT SERVICES

You recently endorsed the main Report of the Committee on PRS, to give departments an increased responsibility for their own works. Most departments will now take on direct responsibility for works up to £5,000 (under the "standard option").

The Committee has now produced a second Report on the outstanding issue of funding major new works (over £150,000). Sir Robert Armstrong's covering minute is at Flag A. A summary of the Report at Flag B, and the Report itself (which you do not need to read) at Flag C.

The gist of the Report is that departments should have a more direct responsibility for funding on major projects and that this should be achieved by attribution for now (ie requiring clients to find PES cover in their programmes, while PSA incurs the expenditure on its vote) with the possibility of a move to a repayment system in the future. But PSA would retain responsibility for some projects, in particular those cutting across departmental boundaries.

The Committee was, however, unable to reach agreement on a way of changing the present method of charging for maintenance, so as to give departments more direct responsibility for it. The Committee will consider this further, and report again in November. I understand from Sir Robert's office that the Committee is likely, in the end, to agree on a new system which would give departments more responsibility, though the practical details are proving difficult to sort out.

Agree

i) to endorse the Committee's recommendations on the funding of major new works and that they should be implemented forthwith? *(They have the Chief Secretary's full support - Flay D)*

Yes not

ii) to note that the Committee has been unable to reach agreement on maintenance, but will be reporting again in November?

not

(X)

You will also wish to note departments' continuing concern that the PSA programme is under-funded, and that there are, therefore, likely to be additional bids for 1987/88.

not

Mark Addison

MARK ADDISON

6 May 1986

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9.85 D

PRIME MINISTER

VALUE FOR MONEY TARGETS

I have seen a copy of John MacGregor's minute to you dated 25th April 1986. I am concerned that the Treasury, in an understandable desire to do nothing that would limit the scope for tax reductions, may inadvertently prevent savings part of which should be available to them for use in that way.

In Section 3 of my report to you on Value for Money Targets I argued that in appropriate instances Departments should be allowed to keep a proportion of savings as an incentive that can stimulate the search for better value. Properly controlled this is a way to encourage managers in Departments to obtain savings which they would otherwise not try for. This should not reduce opportunities for reducing taxation; on the contrary the whole purpose would be to encourage managers to search out and achieve savings which otherwise would not be made at all.

Regrettable though it may be, the fact is that many managers in Government are unwilling to drive for savings beyond those obviously obtainable, unless they can see some benefit accruing to their Department. Undue reluctance by the Treasury to permit opportunities for some "profit sharing" will merely slow down the rate at which improvements are achieved. Indeed positive encouragement by Ministers and the Treasury, in this and other ways, is vital if managers are to become bolder and more ambitious in their search for improvements.

I am copying this to Robert Armstrong.

ROBIN IBBS
2nd May 1986





CCBS
A

Ref. A086/1328

PRIME MINISTER

With my minute of 10 March I put forward the main report of the Interdepartmental Committee on Property Repayment Services, which you endorsed. The Committee has now produced a second report which deals mainly with the outstanding issue of the funding of major new works. A copy of the report, which has been considered by Permanent Secretaries, is attached.

at Harp.

2. The issue is whether changes are needed in the present system whereby major new works (over £150,000) are funded by the Property Services Agency (PSA) from its Office and General programme. The Committee has recommended PES attribution to Departments for the works needed to support their operational programmes, whilst PSA retains PES responsibility for works in progress, for common projects such as the International Conference Centre, for estate rationalisation, for the provision of new offices for multiple occupation and works within them, and for certain types of structural work also excluded under the Committee's earlier proposals for the standard option. The details are set out in recommendation 2 in the opening summary of the report. Despite the feeling of Departments that the level of funding of major new works is inadequate, there is general agreement that within the overall constraints on public expenditure, individual Departments are better placed to judge their operational priorities than PSA. The Committee has also recommended PES attribution to Departments for PSA's resource costs (Departmental expenses and consultants' fees) on the works projects which they and not PSA would fund in future, and in respect of specialised projects, where there is already PES attribution to Departments for the works expenditure.



3. The Committee was not able to resolve the difficult issue of whether or not to change the present method of charging for those elements of maintenance and minor new works which will be retained by PSA under the standard option, but further study of the options has been commissioned.

4. Permanent Secretaries are agreed that the changes recommended in paragraph 2 (1) to (7) of the report - which are the changes required to give effect to the recommendation described in paragraph 2 of this minute - should be made, and (on balance) that they should be made in time for this year's PES exercise. There remains a general and justified apprehension that the PSA programme in this area is underfunded and that the PES transfers to Departments entailed by the change will be inadequate for Department's needs. There are therefore likely to be additional bids for 1987-88, to make good the inadequacies. The Treasury will consider such bids on their merits, against the background of the general presumption against any additional bids.

5. Preliminary discussions are already taking place between PSA and Departments to establish the provision Departments will need to find to fund works projects in the coming PES round. Decision will however be needed early in May if we are to take this change in funding on board and still keep to the timetable for the survey. I therefore hope that you will endorse the report so that it can be implemented forthwith.



7. I am sending copies of this minute and the report to all members of Cabinet. Copies of the minute go to all Permanent Secretaries and Permanent Heads of small Departments, who already have copies of the report.

RA

ROBERT ARMSTRONG

1 May 1986

CONQUEROR

B

MAJOR NEW WORKS AND CHARGING FOR MAINTENANCE: REPORT BY THE INTERDEPARTMENTAL COMMITTEE ON PRS

Introduction

In our main report on PRS, which Permanent Secretaries considered on 5 February we indicated that further work was in hand on the funding of major new works and on charging for maintenance. We were instructed to report further on these two issues by end March so that any decisions made could be taken into account in the PES round. Section 1 of this report deals with major new works; section 2 with charging for maintenance. Our conclusions and recommendations are summarised below.

SUMMARY OF THE REPORT

FUNDING OF MAJOR NEW WORKS

1. We have noted the degree of underfunding of PSA's existing baseline (1.2) and are agreed on the need for closer co-operation between PSA and client departments in determining requirements and if appropriate mounting the case for additional bids to Treasury in the course of the survey. Overall constraints on public expenditure must be observed; the Treasury members of the Committee have made it clear that there will be a presumption against additional bids.

2. Most of the Committee consider however that closer involvement will not be sufficient of itself. At present PSA has to take a view on the priorities of rival building projects whose operational priority is essentially for the sponsoring department, and not PSA, to judge. However close the co-operation may be there is no adequate substitute for departments choosing their own priorities and facing up to the PES consequences of their decisions. We have therefore looked at the options of PES attribution and repayment. PES attribution already applies to specialised accommodation. PSA advise on the estimated costs of major new works for which clients are required to find the PES cover in their programmes and PSA then incurs the expenditure on its Vote. Repayment means PSA recouping from departments its actual project expenditure in any one year. These two options are analysed in detail in section 1.3 of the report. Our recommendations are set out below:

(1) Whilst not ruling out the possibility of a move to repayment at some future date, PES attribution should be introduced for Office and General (subject to our proposals on the division of responsibility between PSA and client departments) and retained for specialised accommodation, and PSA resource costs should be attributed accordingly.

(2) Funding responsibilities for major new works (Office and General) should be as follows:

Departments

New construction or acquisitions for sole occupation (including the cost of purchasing a freehold).

Work in existing buildings which does not fall into the excluded categories (set out in Annex 5 of our earlier report) and which, in the case of multi-occupied buildings, does not affect other occupants.

PSA

Estate rationalisation.

Schemes undertaken for special reasons, eg to meet government requirements (Conference Centres) or to ensure suitable development of a key site (Richmond Yard).

New construction or acquisitions for multi-occupation.

Work in existing buildings which falls into the excluded categories or which, in the case of multi-occupied buildings, affects more than one occupant.

In practice these general ground rules will need to be applied with some degree of flexibility at the margin. In particular a department which wishes to fund works which would be PSA's responsibility under these proposals should be able to do so, and existing funding arrangements for particular programmes eg UBOs should continue. These ground rules should be reviewed again before the 1987 round, and further study will be needed of the PES treatment of charges in occupation.

(3) PSA should set out the rules under which the PES attribution system will operate, particularly as regards the assessment of contributions, the management of expenditure during the financial year and the way in which the Treasury's end-year flexibility scheme for underspends on capital programmes applies to the pool.

In 1.8.1 we consider the application of our proposals to smaller departments. A uniform system of PES attribution would be simplest to operate, and since it already applies to specialised we see no strong reasons for recommending any exemptions, but before decisions are made we feel that the smaller departments should give their views in response to this report.

(4) In respect of the Office and General (OGA) programme, PSA should continue to fund projects for which firm construction contracts have been let by 1 April 1987, and the associated resource costs.

(5) The residue of PSA's provision for OGA (none in 1987/88, £4.3m in 1988/89 and £15.3m in 1989/90) should be surrendered as an offset for additional bids, leaving each department, including PSA, to make the best case it can for funds in the coming round.

(6) PES transfers of the resource costs of specialised programmes should be apportioned pro rata to future works expenditure, as illustrated in Annex B, and PSA's residual funds for the resource costs of the OGA programme should be surrendered along with the provision for works expenditure to offset departments' bids.

(7) If the move to PES attribution is to be implemented in the coming PES round, the decision should be taken by the end of April, as considerable work will be required to enable departments to take account of their additional responsibilities. PSA will in the meantime provide departments with details of the schemes they will be required to fund and the estimated resource costs, so that the Survey materials can be prepared.

CHARGING FOR MAINTENANCE

3. The present system of charging is that PSA recovers from client departments its estimated expenditure on maintenance and minor new works for which it retains functional responsibility. It does this by apportioning its total estimated expenditure to clients pro rata to the amount of space they occupy. We set out the arrangements for and against the present system in 2.2 of our report. In brief, the present system does not give departments an accurate cost signal which they could relate to particular occupations. Indeed the aggregate charge for all their occupations will seldom coincide with PSA's actual expenditure. On the other hand the present system has the merit of simplicity and the charge does not fluctuate once set other than to reflect changes in occupation.

4. We have looked at a number of alternative approaches:

(i) "Banding" charges by age or type of building (see 2.3.1) would be a more sophisticated method of averaging than the present system, but could only be introduced by reverting to manual calculation of the accommodation charge and would still not present departments with the actual expenditure incurred. In particular no allowance would be made for major items of expenditure (eg roof or boiler replacement).

(ii) Actual cost recovery systems (2.3.2 to 2.3.5) would involve PSA recovering the actual costs as incurred but there would be vote management problems for departments in coping with unforeseen fluctuations in expenditure unless mechanisms such as advance payment and reconciliation in subsequent financial years was introduced. Job by job and property by property repayment would give the best cost signals but would mean an extra layer of complexity and additional administrative costs. Improvements would be needed in computer systems which will take a considerable time to implement.

(iii) A return to allied service would mean that PSA would no longer recharge client departments, and in consequence they would need to transfer PES back to PSA. Although there is some logic in not recharging for function responsibilities which under the standard options will remain with PSA we do not feel able to recommend such a retrograde step which would imply that client departments had no role to play in considering with PSA the operational fitness of their accommodation.

5. We have also considered whether any alternative method can be adopted for funding the increased delegations proposed under the standard option, other than the method we recommended, namely an abatement of the accommodation charge pro rata to space occupied (see 2.5). We have concluded that any alternative would require the agreement of all departments on special categories of need and, since the total amount of expenditure is fixed, could only be implemented in favour of one departments by withdrawing resources from another. We can see no prospect of such agreement being reached, and no possibility of implementing any other method by 1 April 1987 since the financial effects would need to be known now so as to be taken into account in PES.

6. We have been unable to reach agreement on a change to the present system of charging, and doubt in any event whether there is sufficient time now to work up a new system for implementation in 1987/88. Of the alternatives we have considered, actual cost recovery is the most promising option and we feel that further work should be done on the mechanics of such a system. On the timing of any change, some of us consider that it would be prudent to postpone this until the next major review of PRS in 1988 - which would imply no change before 1989/90 at the earliest. Others feel strongly that the present system should be replaced as soon as practicable.

7. In order that further consideration can be given to these unresolved issues, we recommend that:

(7) The various options (and in particular those involving actual cost recovery) should be worked up in detail by November 1986.

(8) Further consideration should be given then to the options for changing the present charging system, and to whether it would be desirable to implement any changes, either in 1988/89, or at a later date which would enable full account to be taken of the further review of PRS in the latter part of 1988.

8. We were also asked to look again at our estimate of 77 posts to be lost by PSA on the assumption that the standard option is adopted by all PRS clients (see section 2.7 and Annex D to this report). Having considered a range of alternative methodologies which all produce a lower estimate, though for the most part only marginally lower, we consider that the original estimate should stand.

1. FUNDING OF MAJOR NEW WORKS

1.1 Present Arrangements

1.1.1 At present major new works (projects over £150,000) that are classified as office and general fall to PSA's PES and Vote. Client departments in general have no responsibility for funding, although special arrangements have been made from time to time in respect of certain specific programmes such as the UBO programme and Inland Revenue's rationalisation programme for tax offices. By contrast, on specialised accommodation (including programmes like Prisons and Special Hospitals where the accommodation is held by the client department and not by PSA) departments provide the PES for major new works, and the actual expenditure is met on the PSA's Vote.

1.1.2 PSA meets the resource costs (departmental expenses and consultants fees) associated with the design and handling of major new works on both the office and general and the specialised programmes. With a few minor exceptions, client departments are not required to provide the PES to support these costs.

1.2 The Issues

1.2.1 Section 8.7 of the main report set out the considerations which argued in favour of a greater degree of involvement by client departments. In particular we noted the concern that departments who had secured PES for agreed operational priorities could find their programmes jeopardised by lack of PSA funds for the accommodation needed, when those departments had not taken part in the discussions with Treasury on funding the necessary works.

1.2.2 We also noted (in section 8.7.5) the relevance of PSA's responsibilities as central manager of the estate and the practical considerations of programme management which argued in favour of retaining some degree of central pooling of funds to even out the peaks and troughs characteristic of major construction balancing overspending against underspending projects.

1.2.3 Other considerations have been the relevance of the principles underlying the FMI, the recent study by the Efficiency Unit on capital projects, the overall effect on departmental budgets and manpower and public expenditure generally of any change in the present arrangements, and the practicalities of introducing workable new arrangements in time for the coming PES round.

1.2.4 Those of us who represent client departments and PSA itself feel strongly that whether or not changes are introduced in the present funding arrangements, the overall level of provision for major new works is clearly inadequate to meet known operational requirements (see 1.3 below and Annex A), and that this issue will, through whatever process is agreed in the light of our report, need to be addressed very fully in the coming PES round.

1.2.5 Under the present funding arrangements the requirements of one department for accommodation projects will compete with the requirements of others. PSA may therefore have to make the invidious decision of whether to allocate funds to a project needed say for DHSS or to one needed for Inland Revenue. Yet the consequences of proceeding or not proceeding with a particular project impact on the client department. It can be argued that the present system denies funding decisions to departments and provides no incentive for them to weigh up the competing claims of their projects.

1.3 The OGA programme: level of funding

1.3.1 The provision for PSA's Office and General Accommodation (OGA) programme for major new works in 1985/86 is £76m. At Annex A is a breakdown of the provision showing how it has been allocated to the main components of the programme. (The allocations total £72m - the difference between the two figures is due to rounding and the omission of certain items.) The largest allocations are for the Conference Centre and Richmond Yard and for computer buildings. Expenditure on the two London schemes will begin to drop from 1986/87 but computer buildings are likely to continue to require substantial provision.

1.3.2 PSA's estimates provision for 1986/87 includes a provision of £53m for Part I work following a recent reallocation of money from DOE's Heritage provision. The baseline for later years shows a further run down as follows:

<u>1987-88</u>	<u>1988-89</u>
£22.4m	£16.5m

1.3.3 There are several reasons for this drop. Expenditure in 1985/86 includes £29.6m for 3 major projects for which the Treasury agreed special funding but which have now passed their peak rates of spend and will not account for much expenditure by 1988/89. 1985/86 also includes a special allowance of £10m agreed by the Treasury in the 1984 Survey to cover estate rationalisation work and computer schemes, which was counterbalanced by reduction of £5m a year in 1987/88 and later years. Special funding by other departments of programmes like those to relieve overcrowding in UBOs and to reorganise local tax offices has also been included in the figures for 1985/86 and 1986/87 but not in later years as the funding is dealt with by annual PES transfers. Finally, within the PSA baseline total agreed by the Treasury in the 1985 Survey PSA had to make room for a growth in rent payments on the leased estate which, due to the expiry of old leases at low rents, takes place at two or three times the PES allowance for the annual roll forward of provisions. It is estimated that unavoidable expenditure on rents will exceed the previous PES baseline by £16m in 1986/87, by £30m in 1987/88 and by £35m in 1988/89. This is partly offset for the moment by an increase in receipts from disposals (which cannot however continue at their present level of over £20m a year indefinitely) but the overall result has been to squeeze the major new works provision (and also the associated provision for resource costs, including that which though presently included in the PSA baseline relates to specialised building projects whose works costs are attributed to the relevant departmental programmes).

1.3.4 PSA's additional bids for the 1985 Survey included £20m for works services as a whole (excluding the Conference Centre and the Palace of Westminster). The £3.7m which was made available for 1986/87 has been devoted entirely to major new works. This not only leaves maintenance substantially underfunded but falls well short of compensating for the squeeze imposed by the growth in rent payments.

1.3.5 PSA is at present engaged on forecasting the requirements for new works expenditure to 1989/90 in preparation for the 1986 Survey round. Early signs are that the expenditure in 1987/88 on projects where a contract has already been let or which are included in the planned 1986/87 starts will exceed the 1987/88 baseline provision of £22.4m by about £6m, and such works would also account for some expenditure in later years. The existing baseline would not therefore permit any new programme of works to be undertaken before about the spring or summer of 1988.

1.3.6 One of the main characteristics of the Part I OGA programme is its volatility. The timing and the cost of schemes can be affected by factors both within and outside the control of PSA and client departments. Consequently, forecasting at the level of individual schemes is bound to be subject to some degree of error. It is only at the programme level that these changes begin to balance out. PSA has generally applied to programme forecasts of expenditure a slippage allowance of 10% for work in progress and 25% for new starts. Another aspect of the programme's volatility is the tendency for departments' priorities and requirements to vary over the period from the start of a PES survey to the end of the first financial year of the PES period. It is quite common for new and immediately urgent requirements to crop up after both PES and Estimates have been settled and even after the start of the financial year.

1.4 Options for change

1.4.1 (A) Closer involvement by departments in PSA's PES and Estimates

We are agreed that closer involvement by departments is essential in any event. In that sense this is not an option. The option would be to go no further than is proposed here, and therefore leave funding responsibility for OGA major new works with PSA.

1.4.2 Closer involvement would be secured by PSA formally agreeing with client departments individually the schemes to be included in the proposed OGA programme and on which PSA's bids for funds would be based. The case for each proposed new scheme would be agreed with the department concerned and put to the Treasury in support of PSA's PES submission. This would ensure that departments were directly involved in demonstrating to Treasury the relevance of major new works proposals to their operational needs. Departments would know what requirements they might expect to be met, other things being equal, if PSA's bids were accepted and equally what would be at risk if they were not.

1.4.3 For its part PSA will need to identify very carefully what schemes it could not expect to fund within its existing baseline, and to enter negotiations directly with the departments concerned with the aim of establishing an agreed case for an additional bid. This will need to be completed in good time for bids to be entered by Ministers in May as indicated by the Treasury timetable for the coming survey and PSA is already urgently engaged in drawing up the necessary list of schemes. For their part departments must accept the discipline of ensuring that all new requirements which will require expenditure in the survey period are notified to PSA as soon as possible so that properly supported bids can be entered within this timescale. They must also let PSA know promptly of any change in requirements bearing in mind that there will be no scope for taking on board in estimates any significant additional expenditure commitments after PES has been settled unless there are offsetting reductions.

1.4.4 We have also considered whether there should be some kind of multilateral forum at which the proposed programme could be considered. As noted in 1.3.6 above the programme is volatile and far from immutable partly because of changes in departmental requirements and partly because of the vicissitudes of major construction expenditure, in particular the difficulty of making reliable initial forecasts before a project has been designed in detail. Some flexibility would therefore have to be maintained and any forum in which the programme as a whole was considered would therefore need to temper its judgements accordingly. Secondly, it is difficult to see how

members of such a forum could usefully contribute to the consideration of projects in which other departments were concerned or judge competing operational requirements. Moreover there is no ready mechanism which could be devised for linking such a multilateral approach into the series of bilaterals with Treasury by which in practice bids are examined and decisions on expenditure priorities made.

1.3.5 We would therefore recommend against setting up a multi-lateral forum as a standing feature of the survey process. If however circumstances did occur exceptionally where Ministers collectively judged it appropriate for officials to examine the programme on an inter-departmental basis the IDC itself, suitably augmented to include any other departments such as Home Office with a major interest, might provide an appropriate vehicle.

1.4.6 (B) PES attribution

We are agreed that the improved procedures set out in 1.4.2 and 1.4.3 above are needed in any event. Some of us can see difficulties in going no further than that, having in mind the problems that PES funding by departments might cause PSA in its central management role by encouraging departments to consider that they had a proprietary interest in the accommodation thus provided, and also taking into account the volatility of the programme, which might result in pressures on departments' PES that could not easily be anticipated or coped with, and particularly not by smaller departments with a very infrequent call for major works expenditure.

1.4.7 On the other hand, whilst recognising these difficulties, which will need careful attention as indicated later in this report, the Committee as a whole has a clear preference for a change in funding responsibilities to enable departmental Ministers to argue with Treasury the case for all expenditure aspects of their operational priorities, including accommodation.

1.4.8 PES attribution already applies to specialised accommodation, provision for which in 1985/86 was £130m. PSA advises on the estimated costs of major new works for which client departments are required to find the PES cover in their programmes and PSA then incurs the expenditure on its Vote. We have had the benefit of additional contributions to our discussions from representatives from the Home Office, Lord Chancellor's Department and DHSS who have direct experience of running such a system in respect of Prisons, Courts and Special Hospitals respectively. They have pointed out the merits of this method of funding in terms of colocating PES responsibility for accommodation with main programme expenditure without imposing on client departments the additional strain of coping with in-year fluctuations in project expenditure, but maximising the benefits of a common pool of funding for major projects.

1.4.9 We have considered whether PES attribution would increase the pressure on the public expenditure planning total. On the one hand major new works would be the subject of separate bids from individual departments and this in itself might increase the pressure. Moreover at present the necessary allowance can be made in PES for slippage (up to 25% per annum) within the one PSA programme, and this could not so readily be done when that pool of funding is split up between several departmental programmes. On the other hand the overall presumption against additions to public expenditure programmes would be maintained by Treasury, and under the new arrangements it could be easier for increases in major works expenditure to be offset against savings in departments other programme expenditure. The actual amounts spent on projects should not be any greater under PES attribution, but if there is

likely to be a problem of over provision there may well need to be a presumption that exceptional additions to departments' programmes for major capital projects were not used for other purposes if in the event they were not needed in that year because of slippage.

1.4.10 (C) Repayment

This option, whereby PSA would recoup from departments its actual project expenditure in any one year it occurred would give client departments a greater degree of financial responsibility than PES attribution since the actual expenditure, no more and no less, would come directly from their own Votes. Under PES attribution a department may have overprovided for a project which slips or underspends and the PES is lost to it (conversely it can of course "gain" if the project overspends and can be funded from the pool). It can be argued that repayment provides for better financial management by giving client departments a direct incentive to monitor closely the expenditure by PSA on their projects and perhaps might help to reduce slippage.

1.4.11 On the other hand there are drawbacks to a repayment system. It is not self-evident that other financial pressures on a department's vote would necessarily lead it always to wish to exert pressure on PSA to reduce slippage. In a tight year slippage might positively be welcomed. Moreover slippage is not infrequently due to factors which are quite beyond the control either of PSA or the client department. The converse situation where projects overspend might be altogether less welcome; fluctuations either way would be difficult to predict and would exacerbate the task of Vote management. The extension of carry forward under the end-year flexibility scheme to 3% of eligible expenditure or £2 million, whichever is the greater, would help with the slippage problem, but that would not deal with a situation where work proceeded more quickly than expected. Much would also depend on the degree of virement that Treasury was prepared to allow. There would be a clear risk of the aggregate provision in Departments' estimates exceeding the level of provisions that PSA could have made under the existing arrangements. To the extent that any other provision had been covered by offsetting savings there would be no increase in public expenditure. But if additions had been allowed and Departments were free to reallocate any over-provision to other parts of their votes, there would be an increase. In these circumstances the Treasury would be likely to examine very critically proposals from Departments for virement due to underspend on major new works, albeit allowing each case to be considered on its merits.

1.4.12 There might also be a real risk of a wasteful duplication of effort if departments took the view that their Vote responsibilities went beyond close liaison with PSA and regular flows of management information of project expenditure to developing a capacity to second guess PSA on its design and control of the project. That would not only have significant manpower implications but would risk blurring the lines of responsibility for the control of the project. PSA has the direct legal responsibility for paying the contractors the bills it has incurred and under any repayment system has no option but to recharge all its actual expenditure as incurred whatever its clients wishes may be in the matter. Whilst defaulting designers or contractors can be pursued in the Courts the sums recovered often fall short of the full cost of remedial action. PSA has no reserve funds and would have to look to the client to pay. Some claims are not settled for some years after a project is completed and the cost has to be charged to the client who has to retain the liability to pay longer after the building has been brought into use. Indeed it can be argued that PES attribution is in this case closer

to the principles of the FMI because the Vote responsibilities thus lie with PSA and in reality it is only PSA that can properly control and be accountable for the expenditure on the project.

1.4.13 Most of us consider that either an attribution or a repayment basis would be in line with the broad thrust of the recommendations in Sir Robin Ibbs' memorandum of advice on Capital Expenditure Contracts. Under an attribution system the department which holds the PES provision does effectively "own" the project, since it must provide the funds for it. This gives it a direct interest in seeing that its projects are fully (and economically) specified and proceed as far as possible within the planned expenditure totals and profiles and to the agreed timetables. The "owning" department under an attribution system is required to carry out the appraisal of the need and justification for the requirement leaving PSA to appraise alternative ways of meeting it. Where there are alternatives and decisions need to be taken which will affect costs and timetables the owning department is consulted over the effect on their PES funding and their responsibility for appraising and justifying their schemes, and with all major programmes of work there is a network of permanent liaison arrangements to ensure that PSA and the department proceed in conjunction. This includes close contact between the PSA's project managers who are responsible for the design and supervision of the construction work and the staff in departments who are responsible for preparing briefs, taking decisions on requirements costs and timetable and where necessary co-ordinating the PSA work and delivery of equipment and changes in departmental operations. Such staff fulfil the role of project managers for that part of the function which falls to department not to PSA. In appropriate cases there can be joint PSA/Departmental Planning or Project Teams.

1.4.14 We also consider that whether under PES attribution or repayment PSA's resource costs should in future be recovered from the sponsoring department. In addition to PSA's own overheaded departmental expenses these cover the cost of consultants fees and can be a significant element of expenditure on major projects. PSA should be prepared to provide reasonable substantiation for the estimates it puts forward to clients.

1.5 Recommended method of funding

1.5.1 We have noted that those departments with a major programme of Part I works on specialised accommodation and with extensive experience of PES attribution have expressed the strongest preferences for retaining that system, and would resist any move to repayment. Whilst some of use could see attractions in moving to repayment for office and general accommodation, it would be difficult to see the logic or justification of thus moving in one step straight from PSA funding to repayment particularly when the major specialised clients are content to stay with PES attribution.

1.5.2 Whilst not ruling out the possibility of a move to repayment at some future date, we recommend (recommendation 1) that PES attribution should be introduced for office and general (subject to one proposals below on the division of responsibility between PSA and client departments) and retained for specialised accommodation, and that PSA resource costs should be attributed accordingly.

1.6 Division of responsibilities under PES attribution

1.6.1 Certain work will remain PSA's responsibility. PSA will thus continue to sponsor estate rationalisation works and schemes, such as the Conference

Centre and Richmond Yard, which are undertaken for wider reasons. It follows that PSA itself should hold the PES for these functions.

1.6.2 For the rest it might be argued that all operational requirements should be funded by departments, but we foresee major practical difficulties in applying such an approach without exception. The most straightforward case is new building or acquisition for a sole occupation by one department, and there PES attribution should clearly apply. Similarly where major new works in existing multi-occupied buildings do not affect other occupants or raise significant property management issues the sponsoring department should provide the PES.

1.6.3 There would be greater problems however if other clients are involved. A new building or acquisition may well be for more than one client, justified on that basis by investment appraisal, but frustrated by the reluctance or inability of one or other party to provide the PES. PSA could not compel the parties to agree and there is a prospect of long drawn-out wrangles over funding, shares, specification and timing, themselves costly of scarce resources, and a strong risk of lost investment opportunities. Much the same problems could arise with major new works within existing multi-occupied offices where the question of who derives the most benefit could bedevil negotiations on funding and worthwhile improvements could easily be delayed or frustrated entirely. One approach might be to say that the major occupier should provide all the funding required but that would be perceived as manifestly inequitable where that department was only marginally the major occupier, where other departments were getting greater benefits from the work or where moves of staff in the foreseeable future were likely to make that department a minor occupier. If however PSA retained the funding responsibility in such cases these problems would not arise and that therefore seems to us to be the most workable approach.

1.6.4 There is also the question of functional responsibility for certain kinds of major new works within existing buildings. Under our proposals for minor new works in the standard option for PRS (Annex 5 of our main report) a division is made broadly between those internal works which are likely to arise directly out of client departments' operational requirements (eg partitioning, occupation and fitting out works and general refurbishment) and those which fall within PSA's role as the property manager concerned with the overall structure, serviceability and value of the building as property asset (eg lifts, roofing, alteration of external walls). The former category falls to clients to commission from PSA on a repayment basis. The latter is reserved to PSA who retain full financial responsibility. It would be both logical and consistent to maintain this distinction for major new works, since it can be argued that the criterion for determining financial responsibility should be the nature of the works.

1.6.5 Taking all these factors into account we recommend (recommendation 2) that funding responsibilities for major new works should be as follows:

Departments

New construction or acquisition for sole occupation (including the cost of purchasing a freehold).

Work in existing buildings which does not fall into the excluded categories and which, in the case of multi-occupied buildings, does not affect other occupants.

PSA

Estate rationalisation. Schemes undertaken for special reasons, eg to meet government requirements (Conference Centre) or to ensure suitable development of a key site (Richmond Yard).

New construction or acquisitions for multi-occupation.

Work in existing buildings which falls into the excluded categories or which, in the case of multi-occupied buildings, affects more than one occupant.

1.6.6 The division of responsibilities needs to be straightforward, particularly if funding is to be transferred to departments in the current PES round. There will however need to be some flexibility at the margin in those proposed arrangements. For example the reservation of excluded works to PSA could give rise to distorted investment decisions in those cases where there was a choice between new building and major structural work to a property which would otherwise soon be unsuitable for further operational use. Although this would make the arrangements more complex, it would be appropriate to provide that, where investment appraisal had shown excluded major works to an existing sole occupation to be the optimal solution to meeting a specific operational requirement from a client, then the funding responsibility should properly be that of the client.

1.6.7 Equally if a department wished to fund works which would normally be PSA's responsibility and for which PSA did not have funds, agreement could be reached accordingly. It would also seem inappropriate to unscramble existing funding arrangements for particular programmes eg UBOs where the client is already responsible for the funding. However, it will in these cases now be necessary for the client to find the resource costs which hitherto PSA has carried. We consider that these should continue as at present. Given the overall objective of removing obstacles to the achievement of agreed operational priorities, a department which was prepared to fund work from which other client departments would derive benefit without seeking a PES contribution from them need not of course be prevented from doing so if the proposed scheme were otherwise acceptable.

1.7 Changes of occupation and disposals

1.7.1 When major new works have been funded by a department under the arrangements set out in 1.6 above the question then arises of what happens when there is a change in occupation or the property is reallocated or disposed of. In principle it can be argued that the value of the works covered by the PES funding should be repaid. This can and should be done in respect of specialised, including transfers between specialised and office & general. There are however formidable practical problems about transfer within the common user office estate. First, departmental requirements change overtime and particularly with the impetus of occupancy audits departments will want to maximise the release of any space which becomes surplus. Other departments then take up occupation as the space is reallocated. It is not uncommon to find an office originally built or acquired for one client to be in multi-occupation after a few years. Sometimes the original occupant will no longer be the major occupier, or may even eventually move out altogether. It is in the interests of all that surplus space should be reallocated as and when it is found and whole units thus released for disposal. Otherwise there would be little prospect of achieving the substantial savings envisaged in the Multi Department Review of Accommodation.

1.7.2 It is doubtful whether any system of refunding the original sponsoring department could be devised effectively to keep track of this sort of creeping transfer of occupation between one department and another which would not be disproportionately complex and expensive to administer. Moreover any system which interposed a transfer of funds between departments before space could be reallocated would soon "freeze" the estate in its present form with all the attendant diseconomies.

1.7.3 There are also problems with the apparently simpler proposition that transfers of whole properties should be accompanied by PES transfers. A department which foresaw a substantial receipt occurring on a transfer of its whole occupation and was uncertain about its future accommodation requirements might well decide to hang on to surplus space for a considerable period rather than permitting the property to become multi-occupied and foregoing a potential receipt. Moreover it is at least arguable whether in principle transfers between departments on a common user office estate should attract PES penalties or rewards. A department which successfully reduces its space gets the advantage of a lower accommodation charge and hence lower running costs. Any incoming department will still have to pay the opportunity cost for the space it occupies. Since reallocation will often be the most economic option rather than a new build it seems unreasonable to waive the transfer fee in such cases.

1.7.4 Real reductions in cost to the estate as a whole are measured by outright disposals to the private sector and it is here that the case is strongest for the client department to get the PES benefit of any receipt. However for the reasons given above changes in departmental occupation are likely over time to obfuscate the original source of funding and render any "compensation" to the department in occupation immediately prior to disposal singularly arbitrary in its incidence. Records would need to be kept in perpetuity if the original funding department or its functional successor in title were to be the recipient. One approach might be to adopt a strict time limit. Thus one might provide that where a department which had supplied the PES for a new build or acquisition of office and general accommodation released the whole property for disposal within 3 years of the year in which the final tranche of PES was provided then the receipt would accrue to its PES. Even so it is arguable that departments who have incurred substantial investment by government should not be "rewarded" by a PES receipt for such a major change in requirements in such a comparatively short time. Yet to introduce a merit system by which a judgment had to be made on how readily the move could have been foreseen would scarcely be easy or uncontentious. There is no immediate need to take a decision on this, and it should be given further study.

1.8 Managing the programme

1.8.1 Whilst the pooling of provisions for expenditure on major new works offers advantages for the flexible management of building programmes this involves PSA setting underspends on some departments' programmes against overspends on others. In order to ensure that this process is as equitable as possible as between contributors to the pool we recommend (recommendation 3) that PSA set out in writing the rules under which the PES attribution system will operate, particularly as regards the assessment of contributions, the management of expenditure during the financial year and the way in which the Treasury's end-year flexibility scheme for underspends on capital programmes applies to the pool.

1.9 Application to smaller departments

1.9.1 Our recommended option - PES attribution - should have no significant manpower implications for departments over and above the existing level of liaison with PSA which is required for any major project. Moreover smaller departments are already required to put up the funding for major new works which are categorised as specialised and it does not therefore seem unreasonable that they should be asked to do the same in future for office and general. Nevertheless whilst any new expenditure places burdens on all departments, a new office might be within the margins of PES for a department of the size of DHSS would at the other extreme be a very major item for a smaller department of the size of the Paymaster General's Office, and one of such infrequency that no provision could reasonably be made for it. It is therefore for consideration whether an exemption should be allowed for those clients who elect for the traditional option, or alternatively whether sufficient flexibility can be built into PES to allow for bids for major works expenditure by such clients to be considered specifically, notwithstanding their size relative to the normal baseline. It should of course be noted that some such degree of flexibility will be needed even if PSA retains responsibility since PSA will have no hidden reserves of funding for such purposes.

1.9.2 A uniform system of PES attribution would be simplest to operate and since it already applies to specialised we see no strong reasons for recommending any exemptions, but before decisions are made we feel that the smaller departments should give their views in response to this report.

1.10 Basis and level of PES transfers

1.10.1 It would seem inappropriate and inequitable to expect departments to assume PES responsibility for projects which are already committed and we therefore recommend (recommendation 4) that PSA should continue to fund committed projects and the associated resource costs.

1.9.2 This will leave the following estimated provision for works expenditure for new starts:

1987/88	1988/89	1989/90
*	£4.3m	£15.3m

*For 1987/88 there is an estimated shortfall of £6.1m.

1.9.3 There is no very equitable method for distributing these residual amounts which will need not only to contribute to those new starts for which departments will in future be responsible but also PSA's expenditure on retained major new works, and if smaller departments are to be able to opt out, provision for meeting their needs also as they may arise. It might be possible to distribute on a pro rata basis depending on the size of each departments' occupation of the estate but that would produce some very odd results which would bear no relation at all to the likely incidence of expenditure, which is characteristically lumpy and mostly taken up by larger departments. Moreover this approach would give no basis on which PSA's share for its retained expenditure could be determined. An alternative would be to divide the funds according to the incidence of past expenditure. That, however, would give departments like Inland Revenue with the peak of their expenditure now behind them a disproportionate share. A distribution based on future demands for expenditure would be highly speculative, and each department would have a vested interest in inflating its demands. The most

equitable option, particularly since the funds are likely to be well short of demand in 1987/88 and 1988/89, would seem to be to surrender the residue as an offset for additional bids and to leave each department, including PSA, to make the best case it can to Treasury for the limited funds available in the coming PES round. We therefore recommend accordingly (recommendation 5).

1.10.4 It has not proved possible to identify a part of PSA's present baseline for administration costs as specifically set aside for designing and supervising major new works projects, as the provision has not previously been analysed in this way. Instead the Agency's resource costing system has been used to identify the total costs actually incurred on such work in 1984-85 and to relate them to the works expenditure on the same group of projects in that year. Excluding the projects to which attribution of resource costs already applies the resource costs in 1984-85 represented 21% of the corresponding works expenditure in that year. If this ratio applied throughout the Survey period the resource costs which would correspond to the present Survey baseline provisions for works expenditure would be as follows:

		£ million
1987-88	1988-89	1989-90
23.1	22.0	22.6

(Includes in-house costs on prisons; prison fees are already attributed)

Annex B shows how, using the same ratio, these totals might be apportioned between the Department programmes concerned.

1.10.5 A distribution of money between departments using the figures in Annex B would not be entirely satisfactory, since resource costs are not directly related to works expenditure in the same year (more than half the resource costs are usually incurred before construction starts) and within the average figure of 21% there could be considerable variations between projects (for examples on large projects resource costs as a percentage of works expenditure may be only half the level spent on small projects). It is however unlikely that a better method could be worked out and agreed in time for use in the 1986 Survey.

1.10.6 In this case a distribution seems appropriate, because the sums at stake are significant in all years and because the distribution in respect of the specialised programmes would match the existing arrangements for attribution of works expenditure. For the office programme the treatment of resource costs should match the arrangements for works expenditure proposed in para 1.10.3 above. We recommend therefore (recommendation 6) that PES transfers of the resource costs of specialised programmes should be apportioned as described in 1.10.4 and 1.10.5 above, and as illustrated in Annex B; and that PSA's residual funds for the resource costs of the OGA programme should be surrendered along with the provision for works expenditure to offset departments bids.

1.10.7 We recommend (recommendation 7) that if the move to PES attribution is to be implemented in the coming PES round the decision should be taken by the end of April, as considerable work will be required to enable departments to take account of their additional responsibilities. PSA will in the meantime provide departments with details of the schemes they will be required to fund and the estimated resource costs, so that the survey material can be prepared.

2. CHARGING FOR MAINTENANCE AND MINOR NEW WORKS

2.1 The present system; the "club subscription"

2.1.1 At present PSA charges departments on the basis of the area of accommodation they occupy in order to recover the costs of:

- all Part II (minor new works) and Part III (maintenance) works over £1,000 in office and storage accommodation;
- Part III works over £1,000 in specialised accommodation;
- works under £1,000 falling outside the PRS delegation to departments (including works of any type in DEL-serviced buildings).

After 1 April 1987, if Ministers endorse the Committee's recommendations on the standard option, the costs in question will be those of:

- all Part III works over £5,000, except internal decorations;
- excluded Part III works under £5,000 and Part II works over £5,000 excluded from the repayment arrangements;
- for properties occupied by departments electing to remain on the traditional option, all Part II and Part III works in office and storage accommodation costing between £1,000 and £5,000 and all Part III works between £1,000 and £5,000 in specialised accommodation.

2.1.2 It is estimated that in 1987/88 these costs will amount to approximately £78m; it is not yet known by how much this figure will be increased by departments electing to remain on the traditional option. This expenditure represents the functional responsibilities for maintenance and minor new works which we recommended in our main report should be retained by PSA in their role as the Government's property manager and are not therefore to be delegated to departments under the standard option. Treasury controls the total amount of expenditure over the estate as a whole. PSA does not simply fix the sum itself. The present charging system merely allocates the total expenditure to departments pro rata to the space they occupy on the estate and recovers it accordingly. The total recovered (which represents some 14% of PRS receipts) cannot exceed the provision PSA has agreed with Treasury.

2.2 Criticisms of the present system

2.2.1 There are two principal objections to the present "club subscription" system:

- i. it provides inadequate or distorted management information for client departments about the cost of their accommodation;
- ii. because charges bear no necessary relationships to expenditure on a property or even on departmental basis, departments are unable to make meaningful judgments about the value for money they get from PSA.

2.2.2 Some departments feel that they receive a poor deal from the club subscription arrangements, and are concerned that they are unable to exercise proper accountability over a significant proportion of their expenditure on accommodation. The provision of better information about actual expenditure by PSA may only make it more difficult for departments to continue to justify

retention of the present system, in which mismatches between charge and expenditure in any given year - and even over a period of years - are inevitable.

2.2.3 On the other hand the club subscription, which was deliberately designed by Rayner to be a simple and cheap to operate form of repayment, does enable PSA to recover its expenditure across the estate as a whole through a relatively straightforward mechanism which demands relatively little effort either in PSA or in client departments. It also has the effect of levelling out expenditure which is naturally uneven from year to year for individual properties, and providing for which in Estimates would be particularly difficult for departments with small areas of occupation. The point is illustrated by the tables at Annex C, which show that expenditure on, for example, COI's occupations was 46% greater in 1984/85 than in 1983/84, though the PRS charge showed a reduction of 6%; similarly, expenditure on OPCS increased by 259%, though the charge increased by less than 2%.

2.2.4 A further aspect of the present arrangements, that stands out clearly from the tables in the Annex, is that in both 1983/84 and 1984/85 departments have in aggregate benefitted from more expenditure than is recovered through the PRS charge. Moreover, although there are gainers and losers in each of the years shown, in both years more departments benefitted from the system than disbenefitted. There are a number of reasons for this, as indicated in the notes to the tables, but one factor is that PSA was able to divert potential underspending from elsewhere in its programmes to maintenance, where expenditure to absorb it can be initiated relatively quickly. However if our recommendations earlier in this report are accepted and PES attribution is adopted for major new works, there will be little scope in future for this form of internal virement.

2.3 Alternative system

2.3.1 (A) Banding

Under this approach, charges could be based on a graduated series of unit rates, reflecting expected levels of expenditure on different types of property. It is possible that banded unit rates of this kind might be derived from the work that has been done in PSA on maintenance unit costs, though the methodology to do so is as yet undeveloped. The advantage of such a system is that it would represent an undoubted advance in the usefulness of the Accommodation Charge as a signal of cost. The main objection to it would be its complexity of operation. A system of zoned and banded PRS rents, yielding 9 categories of property, has been applied in London Region under the regional average rent arrangements that are now being superseded by individual assessments, and has been a constant source of error and friction with clients. Extending banding for works charges would make the setting of the unit rates vastly more difficult (involving predicting changes in area of occupation for each category, in order to recover the correct total), and would require the manual calculation of all accommodation charges until a major re-design of the computerised system could be accomplished. All these factors would adversely affect the promptness and accuracy of the charge. Moreover such a system would only be a more sophisticated method of averaging out expenditure. It would not tell departments the actual costs being incurred on their occupations.

2.3.2 (b) Actual cost recovery

An alternative approach is to seek to recover actual costs incurred. Under the traditional repayment system this is done for maintenance in sole occupations and minor new works in all types of occupation by making each job a repayment service. (However, in jointly occupied buildings it has been found impracticable to charge on this basis, and maintenance costs are recovered by service charges on an individual building basis, the charge being fixed so as to recover PSA's costs shown in its expenditure records and apportioned amongst the occupants.) This system ensures that occupants only pay for work done for their benefit, and provides for the cost to be broken down between buildings as well as between occupants on an individual cost basis. It also provides in the billing for the amounts spent on individual (large) jobs to be separately listed, but this information is not of course available in respect of costs covered by the service charge.

2.3.3 In the traditional job by job repayment system the customers concerned commission the work from PSA. But under the standard option, the intention is that PSA should retain commissioning responsibility for work above the limits to be delegated to departments. It would still in theory be possible to use the normal repayment arrangement for charging occupants even though PSA, not the occupants, commissioned the works in question. But it is arguable whether occupants ought to be asked to pay bills for individual jobs which they had not themselves ordered and for which they would not necessarily have budget provision. In addition to this drawback such a recovery method has the additional disadvantage of being expensive to operate, both in PSA and in departments, and also means that there can be very big (and not always foreseeable) annual fluctuations in the costs of maintaining individual buildings when for example a roof or a boiler has to be completely replaced. On the other hand it might give departments better cost signals and enable them to set up a more comprehensive and accurate internal budgeting system in accordance with the FMI.

2.3.4 It would be possible, instead of job by job charges, to adopt a service charge approach, where costs are recovered in respect of individual buildings or, even simpler, where they are recovered in bulk by department. Such a system might be feasible, although the technicalities have not been explored, and the existing service charge system has given rise to considerable workload problems in PSA.

2.3.5 In order to allow actual costs to be recovered, such a system must either operate in arrears or contain a provision for retrospective adjustments. If adjustments were made two years in arrears rather than only one it would be possible to make each year's charges coincide with the estimate provision taken to pay them. They would, however, still be subject to fluctuations from year to year which might cause longer term budgeting problems, and would only belatedly provide an accurate reflection of the costs incurred on a departments occupations.

2.3.6 (C) Allied Service

At the opposite extreme is the possibility of a return to the provision of retained works on an allied service basis by PSA. The main objections to this arrangement are presentational in their nature. There must necessarily be doubts as to whether a return to allied service could be countenanced at a time when the thrust of public sector management developments is towards greater delegation of budgeting and greater accountability for costs. There are also, more substantively, questions of the desirability of reducing the

perceived cost to managers of the accommodation resource, when pressure is being exerted to reduce the size of the Government estate.

2.3.7 However, it can be argued that allied service provision would in this instance be more in keeping with the principles of the FMI. On the one hand departments would be funded to carry out works for which they are responsible and on which they are accountable for their expenditure and performance; on the other hand PSA would retain both financial and functional responsibility for the execution of those works which it has not been appropriate to delegate to departments. There would be no reduction in the availability of management information on minor works expenditure. Efforts would continue, notably through the medium of joint planning and liaison, to improve the flow of data about costs in use to occupying departments, without attempting to unite in one system the dual functions of management information and recovery of cost, and without confusing the lines of accountability for expenditure.

2.3.8 Some concern has been expressed that removing the works element from the Accommodation Charge would distort the cost signals. The club subscription provides absolutely no information about the costs of particular properties; as a cost signal it merely expresses the area occupied, and this function together with an indication of the age, condition and location of the property is also fulfilled by the individually assessed rent. Duplication of this indicator does not affect judgments of the relative desirability of different properties, and it must necessarily be disregarded for investment appraisal purposes. For such exercises expressions of actual costs in use are needed, and this information would continue to be available - indeed should in future be more widely available to managers than it is at present. It can also be argued that sufficient pressures would be exerted on departments to reduce areas of occupation by the rent and rates elements alone, particularly as PES cover for the present works charge would have to be returned to PSA. A significant point of friction between PSA and its clients would disappear if the recovery of these costs was abandoned.

2.3.9 On the other hand, the virtue of any charging system is that when departments have to pay they are more directly involved in the problems of maintaining the estate and in the issues of whether the funding is or is not adequate. It can also be argued that although the prime responsibility for retained maintenance and minor works must necessarily remain with PSA as we have previously recommended in our main report, departments nevertheless have an operational interest which a charging system would reflect, and a return to allied service would not.

2.4 Timing Constraints

2.4.1 If any changes in the method of recovery are to be introduced in 1987/88 the consequential adjustments to PESC provisions would need to be made in April if they are to be incorporated in the 1986 Survey from the outset. There are only two methods of dealing with the adjustments which would fit into this timetable. One would be not to make any adjustments; this would leave departments to face whatever any new system produced by way of a different pattern of charges (within an unchanged total) with their existing PES provision based on areas occupied. The second, available only in respect of a switch to an actual cost recovery system would be to assume that the pattern of future charges would correspond to the pattern of recorded expenditure in the last available year (1984/85) and redistribute the existing departmental PES provisions pro rate to it.

2.4.2 No system of calculating future needs or adjustments based on age and type of building, assuming one could be agreed, is likely to be ready for use in time for the next PES round. The PES adjustments to implement a return to allied service provision could, however, probably be implemented quite quickly once the methodology had been agreed by departments.

2.5 Alternative methods of funding the standard option

2.5.1 We were asked to look again at the method of funding the increased delegations proposed under the standard option to take effect in 1986/87. The method recommended in section 11 of our main report was a pro rata abatement of the accommodation charge on the basis of space occupied. We have considered whether means could be devised of directing more resources to departments with particular needs. That would in theory be possible, although the criteria of need would have to be universally agreed and the complexities of operating such a system could be considerable. The major drawback however is that no system of meeting special needs could operate in any other way than by robbing Peter to pay Paul since the total amount available for distribution remains the same.

2.5.2 We are unable to see any basis on which criteria could be devised which would be acceptable to all departments and which would not favour some at the expense of others. Moreover we could see no prospect whatever of agreement on an alternative system being reached in time for any resulting adjustments to be taken into account in PES. We therefore conclude that, as previously recommended, the pro rata method of abating the accommodation charge should be followed.

2.6 Conclusions on the charging system

2.6.1 Some of us would be content to continue with the present system "the club subscription" in spite of its drawbacks because we remain unconvinced that the virtues of those alternative systems which are more geared to actual costs would outweigh the extra complexity they would import into a system which is already appreciably less straightforward than the original concept of PRS. There is also some concern over the implications for departments of coping with additional financial uncertainties, arising from the unpredictable nature and incidence of maintenance expenditure.

2.6.2 Although one department expressed the view that any alternative would be preferable to the present system, we do not as a Committee feel able at this stage to recommend a return to allied service for the reasons set out in 2.3.9 above.

2.6.3 A number of the Committee are attracted to alternative systems based on repayment of actual costs, because they consider that the benefits of being able to perceive in detail what expenditure PSA is incurring on departments behalf outweigh the complexities involved and the possible difficulties in terms of Vote management.

2.6.4 We are however agreed that in practice there is no alternative to continuing with the present system for 1987/88 since there is now insufficient time to take account of the financial effect of any alternative approach in the coming PES round. We have not in fact reached agreement on an alternative and even if agreement were to be reached there would be very little time to work up the details for implementation on 1 April 1987.

2.6.5 We are also agreed that there would be merit in doing further work in exploring the practicalities of the various repayment systems so that if it were decided to change the charging system in 1988/89 or subsequently the necessary groundwork would have been done. We therefore recommend (recommendation 8) that the various options (and in particular those involving actual cost recovery) should be worked up in detail by November 1986.

2.6.6 Careful consideration needs to be given to the timing of any change in the system. On the one hand, the present system has acknowledged inadequacies, and to delay changing it (perhaps until 1989/90 or later) might be difficult to justify and would not be acceptable by all departments. On the other hand, one of the problems which emerges from considering the basis for a charging system is the question of whether financial responsibility should be linked to functional responsibility for maintenance. As a further view will have to be taken in 1988 on the balance of responsibilities between PSA and Departments it might be preferable not to act in advance of that review. There are also arguments in favour of a period of stability in which departments can gain experience of the substantial changes already involved in the standard option. That would also point to leaving over any change until the review of PRS in 1988.

2.6.7 We therefore recommend (recommendation 9) that further consideration should be given in November 1986 to the options for changing the present charging system and to whether it would be desirable to implement any changes in either 1988/89, or at a later date which would enable full account to be taken of the further review of PRS in the latter part of 1988.

2.7 Reductions in PSA manpower

2.7.1 We were asked to look again at the estimate in 11.6 of one main report of the manpower effects on PSA of the delegations proposed under the standard option. The estimate was that if all clients adopted the standard option some 77 posts might be saved. We have considered a number of different methodologies for calculating the link between loss of expenditure and reductions of staff so as to test the original estimate. All produce lower figures, but in all but one case only marginally lower we therefore consider the estimate of 77 posts should stand. The details of the calculations and a distribution of the posts between departments are to be found in Annex D.

THE PART I OGA PROGRAMME: BREAKDOWN
OF PROVISION FOR 1985/86

<u>England, Wales and Northern Ireland</u>	£m
London - Departments' HQ requirements.	3.63
Regional Offices	
New construction and extensions	1.69
Occupational services and adaptations	0.51
Local Offices	
New construction and extensions	2.5
Occupational services and adaptations	0.98
Computer buildings.	13.84
London - major schemes sponsored by PSA (Conference Centre and Richmond Yard).	23.2
 <u>Scotland</u>	
New construction and extensions..	3.0
Occupational services and adaptations.	0.83
Computer buildings.	2.71
Dispersal buildings.	6.42
 <u>UK Programmes - Part I Element (1)</u>	
DE - Relief of overcrowding in UBOs (2)	4.16
Inland Revenue	
Local office reorganisation (3)	1.78
COP/CODA Local office conversion	1.35
CISCO - Restaurant improvement (4)	0.8
Spend to Save Estate Rationalisation	4.6

Notes

- (1) These programmes include both major and minor new works.
- (2) Largely funded by DE.
- (3) Funded by Inland Revenue.
- (4) Funds provided by Treasury specifically for this purpose over 5-year period.

APPORTIONMENT OF FUNDS AVAILABLE FOR PART I WORKS IN PROPORTION TO FORE-
CAST WORKS SPEND

£000s cash

	1987-88		1988-89		1989-90	
	Forecast Works Spend	Resource Share	Forecast Works Spend	Resource Share	Forecast Works Spend	Resource Share
2.1 Overseas Representation	589	123	604	127	↑ assumed the same as for 1988/89 ↓	130
3.7 MAFF	4250	950	5412	1137		1164
4.2 Sci & Tech Assistance	8822	1854	9043	1900		1945
6.4 Ports and Shipping	1089	228	1116	235		240
6.7 Other Transport	1303	273	1336	281		287
8.6 Misc Env Svcs	1051	221	986	210		215
9.1 Administration of Justice	36990	7774	38990	8192		8387
9.2 The Penal System	-	1000	-	1000		1100
9.3 General Protective Svcs	315	66	296	63		65
9.4 Civil Defence	5298	1113	2296	482		494
9.6 Home Office Misc	320	75	325	69		71
11.3 Health	8131	1708	8334	1751		1793
13.4 Records	100	20	NIL	NIL		NIL
15.1 Ag. & Fish. Scotland	1175	247	1205	253		259
15.7 Law and Order	6402	1345	7732	1624	1663	
15.9 Arts and Libraries	6599	1387	5754	1209	1238	
SUB TOTAL	82704		83432			
14.1 OGA (not subjected to further analysis)	22435	4716	16499	3467	3549	
OVERALL TOTAL	105139	23100	99931	22000	22600	

FPSA

PRS - PART II/III SERVICES
Comparison of PRS Charges and Recorded Expenditure

	1983/84					
	PRS Charge £'000	Recorded Expenditure (a) £'000			(i)-(iv) £'000	(i)-(iv) %
		Direct	Apportioned	Total		
	(i)	(ii)	(iii)	(iv)	(v)	(vi)
MAFF	5989	5323	565	5888	- 101	- 1.7
Cabinet Office	288	299	17	316	+ 28	+ 9.7
COI	334	342	3	345	+ 11	+ 3.3
Charity Comms	72	57	6	63	- 9	- 12.5
Customs & Excise	5106	6350	300	6650	+ 1544	+ 30.2
Crown Estate Comms	49	21	2	23	- 26	- 53.1
Crown Office Scotland (b)	-	-	-	-	-	-
MOD	8962	7921	828	8749	- 213	- 2.4
DES (c)	862	493	295	788	- 74	- 8.6
DEmp	6302	9631	675	10306	+ 4004	+ 63.5
DEnergy	430	858	38	896	+ 466	+108.4
DOE	3178	3095	450	3545	+ 367	+ 11.5
ECGD	477	711	41	752	+ 275	+ 57.7
FCO	2018	2265	831	3096	+ 1078	+ 53.4
Reg Friendly Socs	34	6	-	6	- 28	- 82.4
Govt Actuary	32	118	8	126	+ 94	+293.8
DHSS	17856	15206	2186	17392	- 464	- 2.6
Home Office	4344	4535	723	5258	+ 914	+ 21.0
IRO	16793	14639	2532	17171	+ 378	+ 2.3
IBAP	73	132	-	132	+ 59	+ 80.8
LCD	4175	7921	485	8406	+ 4231	+101.3
MPO	630	656	63	719	+ 89	+ 14.1
NAO	102	55	8	63	- 39	- 38.2
NEDO (d)	-	-	-	-	-	-
NILO	20	37	-	37	+ 17	+ 85.0
DNS	967	610	118	728	- 239	- 24.7
Nth Ireland Office	146	230	7	237	+ 91	+ 62.3
OAL (c)	-	-	-	-	-	-
ODA	523	930	5	935	+ 412	+ 78.8
OFT	125	85	13	98	- 27	- 21.6
OPCA	31	148	2	150	+ 119	+383.9
OPCS	568	250	45	295	- 273	- 48.1
O Tel (e)	-	-	-	-	-	-
PGO	152	152	-	152	-	-
PSA	4236	(f) 5526	1159	6685	+ 2449	+ 57.8
Privy Council	10	20	1	21	+ 11	+110.0
PRO	682	686	58	744	+ 62	+ 9.1
Registrar Scotland (b)	-	-	-	-	-	-
GRO Scotland (b)	-	-	-	-	-	-
Scottish Office (b)	3120	2954	946	3900	+ 780	+ 25.0
Scot Courts Admin (b)	-	-	-	-	-	-
DTI	5940	6316	672	6988	+ 1048	+ 17.6
Dip	3882	5024	332	5356	+ 1474	+ 38.0
Treasury (d)	984	1135	170	1305	+ 321	+ 32.6
T Sol (d)	-	-	-	-	-	-
Welsh Office	969	581	173	754	- 215	- 22.2
Vacant	2374	3690	1168	(g) 4858	+ 2484	+104.6
Totals	(h) 102835	109008	14925	(i) 123933	+21098	+ 20.5

PRS - PART II/III SERVICES

Comparison of PRS Charges and Recorded Expenditure

	1984/85					
	PRS Charge £'000	Recorded Expenditure (a) £'000			(i)-(iv) £'000	(i)-(iv) %
		Direct	Apportioned	Total		
	(i)	(ii)	(iii)	(iv)	(v)	(vi)
MAFF	5442	4349	572	4921	- 521	- 9.6
Cabinet Office	198	273	18	291	+ 93	+ 47.0
COI	314	500	3	503	+ 189	+ 60.2
Charity Comms	76	42	6	48	- 28	- 36.8
Customs and Excise	4778	6254	304	6558	+ 1780	+ 37.3
Crown Estate Comms	39	58	2	60	+ 21	+ 53.8
Crown Office Scotland	222	334	25	359	+ 137	+ 61.7
MOD	8971	7570	839	8409	- 562	- 6.3
DES	761	470	290	760	(j)- 1	- 0.2
DEmp	6178	8166	684	8850	+ 2672	+ 43.3
DEnergy	495	690	39	729	+ 234	+ 47.3
DOE	2764	2193	456	2649	- 115	- 4.2
ECGD	442	636	42	678	+ 236	+ 53.4
FCO	2076	2511	842	3353	+ 1277	+ 61.5
Reg Friendly Socs	45	15	-	15	- 30	- 66.7
Govt Actuary	32	44	8	52	+ 20	+ 62.5
DHSS	17069	14839	2215	17054	- 15	- 0.1
Home Office	4962	4516	733	5249	+ 287	+ 5.8
IRO	15716	17041	2565	19606	+ 3890	+ 24.8
IBAP	70	186	-	186	+ 116	+165.7
LCD	5405	8869	491	9360	+ 3955	+ 73.2
MPO	658	807	64	871	+ 213	+ 32.4
NAO	102	66	8	74	- 28	- 27.5
NEDO	64	138	3	141	+ 77	+120.3
NILO	23	44	-	44	+ 21	+ 91.3
DNS	846	507	119	626	- 220	- 26.0
Nth Ireland Office	170	242	7	249	+ 79	+ 46.5
OAL	27	16	9	25	- 2	- 7.4
ODA	567	680	5	685	+ 118	+ 20.8
OFT	124	76	13	89	- 35	- 28.2
OPCA	32	136	2	138	+ 106	+331.3
OPCS	578	1014	46	1060	+ 482	+ 83.4
O Tel	24	49	-	49	+ 25	+104.2
PGO	134	128	-	128	- 6	- 4.5
PSA	4203	(f) 5662	1174	6836	+ 2633	+ 62.6
Privy Council	24	20	1	21	- 3	- 12.5
PRO	811	2313	59	2372	+ 1561	+192.5
Registrar Scotland	112	28	5	33	- 79	- 70.5
GRD Scotland	73	79	72	151	+ 78	+106.8
Scottish Office	1902	1110	677	1787	(k) - 115	- 6.0
Scot Courts Admin	738	982	180	1162	+ 424	+ 57.5
DTI	5594	6589	681	7270	+ 1676	+ 30.0
DIP	4998	5494	336	5830	+ 832	+ 16.6
Treasury	857	862	143	1005	(L) + 148	+ 17.3
T Sol	266	89	26	115	- 151	- 56.8
Welsh Office	868	874	175	1049	+ 181	+ 20.9
Vacant	(m) 7773	3669	1183	4852	- 2921	- 37.6
Totals	(n) 107623	111230	15122	(o) 126352	+18729	+ 17.4

NOTES

- a. Recorded expenditure includes both expenditure directly attributed to a client department (col ii) and that which is recorded by property and apportioned to the occupying departments by area of occupation (col iii).
- b. In 1983/84 the entry for Scottish Office includes the Crown Office, Registers for Scotland, General Register Office (Scotland) and Scottish Courts Administration.
- c. In 1983/84 DES includes OAL.
- d. In 1983/84 Treasury includes NEDO and T/Sol.
- e. New client in 1984/85.
- f. Includes costs of services carried out for the estate as a whole but not apportioned to departments (eg water sampling and testing by the Laboratory of the Government Chemist) and certain end-of-year adjustments on DEL overheads.
- g. Includes expenditure on Vacant areas for which PSA did not bear the Accommodation Charge in 1983/84.
- h. In calculating the amount to be recovered through the Accommodation Charge £6.6m was netted off from projected Part III expenditure, representing the maintenance element in service charges received from non-PRS clients.
- i. Includes expenditure of £3.2m on collective services not recovered from clients, £3.5m of expenditure against funds transferred from elsewhere in PSA's Vote, and £5.1m of overspend.
- j. Difference would have been - £3,000 if OAL still included.
- k. Difference would have been + £445,000 if Crown Office, Registers of Scotland, GRO (Scotland) and SCA still included.
- l. Difference would have been + £74,000 if NEDO and T/Sol still included.
- m. Includes charges raised on all categories of Vacant accommodation.

n. In calculating the amount to be recovered through the Accommodation Charge, £6.9m was netted off from projected expenditure to reflect the maintenance element in service charges received from non-PRS clients, and £2.7m to reflect miscellaneous receipts. It was also assumed, in line with PES assumptions for the PRS system as a whole, that the size of the civil estate would decrease by 2% between September 1983 and September 1984. In the event ALA decreased by only 0.042%, resulting in higher receipts than anticipated.

o. Includes PES transfers of £1.8m, £9.2m on collective services not recovered from clients, and £1.7m of expenditure against funds transferred from elsewhere in PSA's Vote. This total represents an underspend of £2.3m against provision.

PRS/IDC (86) 8

INTER-DEPARTMENTAL COMMITTEE ON PRS

MANPOWER IMPLICATIONS OF THE STANDARD OPTION

Note by PSAIntroduction

1. It was estimated in PRS/IDC (85) 14 that the transfer of resources from PSA to departments to implement the standard option would be in the region of £13.2m at 1985/86 prices, excluding expenditure on Part II services to be provided on a repayment basis, and assuming that all departments elected to move on to that option. An attempt was also made in that paper to exemplify the manpower effects for PSA of this increase in delegation.

2. At the meeting of Permanent Secretaries on 5 February the IDC was remitted to look again at this issue. This paper accordingly sets out a further analysis of the data available.

PRS/IDC (85) 14

3. Information derived from PSA's PATOCAP management information system showed that if responsibility for all maintenance and minor new works expenditure on the PRS estate were transferred to departments the result would be a reduction in PSA's manpower requirement of some 1,100 posts, once allowance had been made for proportionate reductions in supervisory support, contracts and establishments staff. This implied a ratio of manpower to works expenditure of one post for every £95,000 of expenditure. However, it was evident that in reality smaller increases in delegation would not be translated into staff savings on this scale, as marginal reductions in works expenditure would not give rise to significant changes in workload outside the District and Area Works Offices. On the other hand, PATOCAP data also indicated that the time devoted to operational duties directly related to Part II and Part III expenditure for PRS clients was equivalent to about 600 posts, from which it could be inferred that at the margin every reduction of £175,000 in works expenditure could be expected to result in a saving of one post.

4. The Committee accepted the proposition in PRS/IDC (85) 14 that in practical terms the consequences of an increased PRS delegation of the magnitude being considered would lie somewhere between the marginal and average rates of change in PSA's manpower requirements suggested by these figures. It was further accepted that the movement from one rate to the other might be by regular step-wise gradations, with a rate of one post for every £155,000 applying in the £10m - £20m range. This yielded a possible manpower saving of 77½ posts, as follows:

$$\frac{\text{£10.0m}}{\text{£0.175m}} = 57.1$$

$$\frac{\text{£3.2m}}{\text{£0.155m}} = 20.6$$

77.7, say 77½ posts (rounded to 77 in main report)

5. If, alternatively, it had been assumed that the increased delegation would have no effect outside the local works organisation, then applying the marginal rate derived from PATOCAP to the whole tranche of expenditure would yield:

$$\frac{\text{£13.2m}}{\text{£0.175m}} = 75.4, \text{ say } 75 \text{ posts.}$$

Other Methodologies

6. A number of other techniques have been used in PSA to determine for internal management purposes the relationship between works expenditure and the deployment of manpower. These can be applied to the estimated £13.2m of the standard option delegation, and in each case produce figures which are broadly comparable with the 77 above.

i. Bristol Yardsticks

7. When PSA's District Works Offices were first set up in the early 1970's, the "Bristol yardsticks" were devised to define optimum

workloads and staffing levels both at District and at Area Works Offices. The updated yardsticks recommend normal loads for Part II and Part III work, at January 1985 prices, of:

PTO 1	£5.53m
PTO 2	£1.33m
PTO 3)	
PTO 4)	£0.32m

Applying these loadings gives:

PTO 1s	13.2	=	2.4
	<u>5.53</u>		
PTO 2s	13.2	=	9.9
	<u>1.33</u>		
PTO 3s)	13.2	=	41.3
PTO 4s)	<u>0.32</u>		
			<u>53.6</u>
			say 53½ posts

ii. DWO Expenditure Model

8. An alternative method of assessment is to be found in the UKTO Staffing Models developed more recently by the PSA staff inspectors; these "fair share yardsticks" do not distinguish between grades of staff. The DWO Expenditure Model provides, in addition to a factor to convert total annual Part II and Part III expenditure to total District PTO staff, a further weighting to be applied to civil Part III expenditure to allow for the acknowledged special demands of that work. The Part III element of the £13.2m, including internal decoration, is £10.4m, and the result of applying this method is as follows:

£13.2m	x	4.1	=	54.1
£10.4m	x	2.0	=	.20.8
				<u>74.9,</u>
				say 74½ posts

iii. MINIS 6

9. The sixth round of PSA's management information system for Ministers, MINIS, showed that at 1 April 1985 the Agency had 4,249 PTO staff at District and Area level. Total Part II and Part III expenditure in 1985/86, including Defence work and work for British Telecom and civil repayment clients, will amount to some £760.5m, giving an expenditure ratio of £0.179m per PTO post. This implies that the effect of the standard option delegation would be as follow:

$$\frac{\pounds 13.2\text{m}}{\pounds 0.179\text{m}} = 73.7, \text{ say } 73\frac{1}{2} \text{ posts}$$

iv. Proportion of Expenditure

10. A further check on the MINIS 6 figures is provided by a simple proportional assessment of the manpower/expenditure relationship. If £13.2m is 1.74% of total Part II and Part III expenditure, then the reduction in manpower requirement could be assumed to be:

$$4.249 \times 1.74\% = 73.9, \text{ say } 73\frac{1}{2} \text{ posts}$$

Summary of Results

11. In the preceding paragraphs the various methodologies examined have yielded the following results:

PRS/IDC (85) 14	77½ posts
PATOCAP marginal rate	75 posts
Bristol yardsticks	53½ posts
DWO expenditure model	74½ posts
MINIS 6	73½ posts
Proportion of expenditure	73½ posts

12. Apart from the Britol yardsticks, all these techniques produce very similar results. The procedure adopted in the earlier IDC paper gives a higher figure than any of the alternative approaches, because it assumes that at the level of delegation proposed some effects will be felt in parts of PSA's organisation other than the District and Area Works Offices.

13. There are thus no grounds for believing that the figure put forward in the IDC report underestimates the ~~changes~~ to PSA's manpower requirement arising from the standard option. It may, in fact, overestimate the effect of this increased delegation, for it was assumed that putting Part II works in office and storage properties onto a repayment basis would be neutral in manpower terms. It is not unlikely, however, that the more elaborate procedures associated with repayment will lead to increased effort both in works offices and in PSA Accounts; it is also possible that departments will take advantage of the new arrangements to commission a higher volume of Part II works than can currently be funded by PSA. It was also assumed that the effort devoted to advisory functions in relation to PRS clients, which at present amounts to some 120 man-years, would remain constant. However, it is likely that the further increase in delegation will lead to an increased demand from departments for advice and assistance, principally from DWOs but also perhaps from central parts of the organisation on issues such as Building Regulations and fire certification, and that this will to some extent offset the reduction in workload on operational functions. If anything, therefore, the estimate of 77 posts which the IDC was charged to reconsider is an over - rather than under estimate of the resources that PSA will be able to surrender.

Distribution of Resources

14. On the assumption that an acceptable figure for PSA's surrender of posts in connection with the standard option can be agreed with Treasury, the question remains of how these resources can be redistributed to departments. The IDC agreed, in discussion of PRS/IDC (86) 5, that it would not be feasible to distribute PES cover for the increased delegation to departments by any other means than a uniform reduction of the club subscription. In other words, funds would be distributed pro rata to space occupied rather than in relation to any special needs. Departments who wished to make a case to Treasury for additional funds were of course at liberty to do so.

15. Similar arguments apply to the distribution of manpower. It is suggested that the only practicable basis for the allocation to departments of the posts surrendered by PSA would be pro rata to space occupied and hence to the additional funds being made available for delegated works. An illustration of the effects of such an allocation, following the percentage occupations of the civil estate shown in Annex I of the main report, is set out at Annex A. All 1985/86 PRS clients, with the exception of Vacant, are shown; the percentages have been adjusted to reflect the exclusion of Vacant. This method distributes less than $77\frac{1}{2}$ posts, because of the effect of allocations of less than half a post, which for realism have not been shown. The distribution has not been re-weighted to allocate the full $77\frac{1}{2}$ posts, as some of the fractions of man-years attributed to smaller departments will be retained by PSA when the number of departments choosing the traditional option is finally known, and cannot therefore be allocated to larger departments at this stage.

16. It is proposed that a proportional distribution, akin to that shown in Annex A, would be an appropriate basis for re-allocating manpower in connection with the standard option. Departments wishing to bid to Treasury for additional posts over and above this share of current resources would be free to do so. As was indicated in the main report, PSA will undertake to reduce its manpower ceiling by a given number of posts, and a comparable number of posts will in consequence be available for distribution to other departments. There is no presumption that staff will be available for transfer; any proposal to transfer staff would have to be considered on its merits, in the light of PSA's current recruitment and staffing position, and be discussed with the TUS. In any case, the intention of the IDC has been that the standard option delegations should be capable of being exercised by non-technical accommodation staff in departments, whereas the consequential reductions in workload in PSA will fall generally on PTO grades.

Conclusions

17. In conclusion, the IDC is invited to consider the alternative methodologies for assessing the manpower effects on PSA of the standard option, and to agree that there is no possibility of more

posts being made available for re-allocation to departments than the 77½ indicated in earlier discussions. The Committee is also asked to agree that, in accordance with its findings on the distribution of funds, the allocation of posts to departments should be based in the first instance on their areas of occupation of the civil estate.

PSA

March 1986

ALLOCATION OF STAFF RESOURCES PRO RATA TO % OF THE ESTATE OCCUPIED

MAFF	6½	NEDO	0
CAB OFF	0	OFF FAIR TRAD	0
COL	0	ODA	0
CHAR COMM	0	OPCAD	0
CUST & EXC	3½	PGO	0
MOD	5½	OPCS	0
ED&SC	0	PRIVY CO	0
EMPL	4½	PSA	3
ENERGY	0	PRO	½
DOE	1½	DT&I	3½
ECGD	0	DTP	3½
FCO	1	TREASURY	½
RF SOCY	0	T SOL	0
GOVT ACTY	0	WELSH OFF	½
DHSS	13	NI OFF	0
HOME OFF	4½	NI COURT	0
OFTEL	0	SCOT OFF	1½
INL REV	12	CR OFF SCOT	0
IBAP	0	D REG SCOT	0
LCD	4	GEN REG SCOT	0
MPO	0	SC CTS AD	½
N INV & LOAN O	0	OAL	0
DNS	½	PSA CONF	0
		TOTAL	<u>70</u>

Gov. MACH. - Rayner - Pt 20



CF

NOTE FOR THE RECORD

The Efficiency Unit will be responding to the Treasury's letter of 25 April. Meanwhile I have proposed to them that the meeting with Sir Robin Ibbs on 13 May might be extended to a discussion we are seeking on value for money targets and the Diary Secretary will be coming back to us.

Meanwhile ^H no need to put the report in to the Prime Minister ^{for now.}

MAA.

MA

30 April 1986

I have suggested to Sir Robin Ibbs' Secretary that his meeting with the PM on 13 May be extended to 1300 hrs, to provide $\frac{1}{2}$ or VFM together. Keith Jenkins suggests this would be a good idea. Before 7/5 to check with Hill's office.

CONFIDENTIAL



Treasury Chambers, Parliament Street, SW1P 3AG

Mark Addison Esq
Private Secretary
10 Downing Street
London
SW1

25 April 1986

Dear Mark,

VALUE FOR MONEY TARGETS

Thank you for your letter of 18 April enclosing a copy of the report which Sir Robin Ibbs has submitted to the Prime Minister on value for money targets.

The Chief Secretary warmly supports the main themes of the report. In particular, he agrees with the pragmatic and decentralised approach in the opening section of the report, and the emphasis on the role of top management and the need to stimulate ambitious targets.

On the recommendation on efficiency savings, the Chief Secretary feels it is important not to lose sight of the reasons why we need to seek efficiency savings in the first place. The Government has set itself demanding objectives for taxation, borrowing and expenditure. Given all the pressures in the other direction, the taxpayer's interest in efficiency savings must not be overlooked. The ICI analogy which Sir Robin Ibbs draws in paragraph 13 of his report is apt. We need to change the climate so that departments and managers are motivated by the need to get the best value for the taxpayer and not simply to promote the services with which they are currently concerned. Moreover, when Ministers come to take difficult decisions during the Survey, they will want to reflect the Government's own priorities between the various services, and this will not necessarily coincide with the outcome of ploughing back or sharing efficiency savings in the individual services.

CONFIDENTIAL

CONFIDENTIAL

Sir Robin Ibbs' report recognises these points in a number of places, e.g. in paragraphs 13 and 15. Recommendation (9) suggests that the idea of ploughing back efficiency gains is something to be considered in appropriate instances. It should be possible to find ways of doing this in suitable cases, e.g. by building an adequate initial allowance for efficiency improvements into departmental allocations in the overall spending plans. But this has to be handled case by case, and the concept of "ring-fencing" (paragraph 16) will not necessarily be the most helpful. Ministers have been asked, in this year's public expenditure Survey, personally to scrutinise priorities within their programmes, and make every effort to accommodate upward pressures through offsets and improved efficiency. The Chief Secretary would not want them to be able to quote the report at him as a reason for resisting justified programme reductions on account of efficiency, especially in programmes where insufficient progress has been made hitherto.

The Chief Secretary hopes, therefore, that in commending the main themes of the report to Ministerial colleagues, the Prime Minister could underline the paramount importance of efficiency savings in achieving the Government's aims for reducing taxation, and stress that any arrangement of the kind mooted in the report must not stand in the way of those aims.

The report also suggests, in recommendation (8), that Treasury Ministers should take the lead in promoting wider understanding that if targets are demanding they may not be achieved at the first go. The Chief Secretary would be content to take suitable opportunities to explain this, although it would be helpful if other Ministers were to make it too. Obviously, it would be necessary to get the balance right; performance targets should be stretching but they should also be realistic.

I am copying this letter to Kate Jenkins.

Yours ever,



JILL RUTTER
Private Secretary

CONFIDENTIAL



Gout. Machinery : Rayner
PE 20

COOPER & CO.

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McAdd
F.

MR ~~WICKS~~

BRIEFING FOR PAC APPEARANCE ON NAO REPORT ON RAYNER SCRUTINIES

Sir Robin Ibbs and Miss Mueller will be appearing before the Public Accounts Committee on 28 April following the National Audit Office Report "The Rayner Scutiny Programmes, 1979 - 1983".

You may like to see the brief which Sir Robin and Miss Mueller will be using. In particular the first page sets out the points they consider it essential to put across to the Committee.

I am sending a copy of this to Michael Stark.

Kate Jenkins

KATE JENKINS
23 April 1986

AJ3/PACNO10

A KEY POINTS TO GET ACROSS

1 ACHIEVEMENT

Scrutinies have helped departments achieve real results. Welcome endorsement of C & AG.

- savings of £300m per year by 1985/86 (£950m cumulative)
- improvements in effectiveness achieved, eg concentrating export services on firms most likely to benefit

2 VALUE FOR MONEY

Welcome C & AG's endorsement of scrutinies as high level management technique to improve vfm

- everyone needs to get the maximum value from the money they spend: either more output for same input, or less input for same output
- emphasis on service to customer, eg clear points for VAT enquiries
- encouraging Ministers to identify key targets for better vfm and supporting scrutinies

3 REFORM FROM WITHIN

Scrutinies are done by people inside departments for departments. Departments implement their findings

- remit of PM's adviser is to help departments make their own improvements

4 AIMING HIGH

Scrutinies bring out radical options and present hard decisions. But the potential rewards are correspondingly high.

- what matters is the absolute levels of savings achieved, and whether they are greater than those from 'playing safe'.

5 IMPLEMENTATION

Changes made, as recommended in 'Making things happen'. Greater emphasis now on implementation.

- two year period of change in which to do and implement scrutiny; appointment of action manager at start; monitoring by EU; implementation report at end; further emphasis on need for commitment from Permanent Secretaries and Ministers

6 ALWAYS ROOM FOR IMPROVEMENT

Always new ways of improving efficiency and fresh areas to be looked at. Welcome endorsement of C & AG - an important stimulus to departments.

- the world does not stand still; Government needs to respond
- response should be search for year on year improvements

B GENERAL QUESTIONS

1 SAVINGS ACHIEVED

Savings significant in any terms and worth achieving.

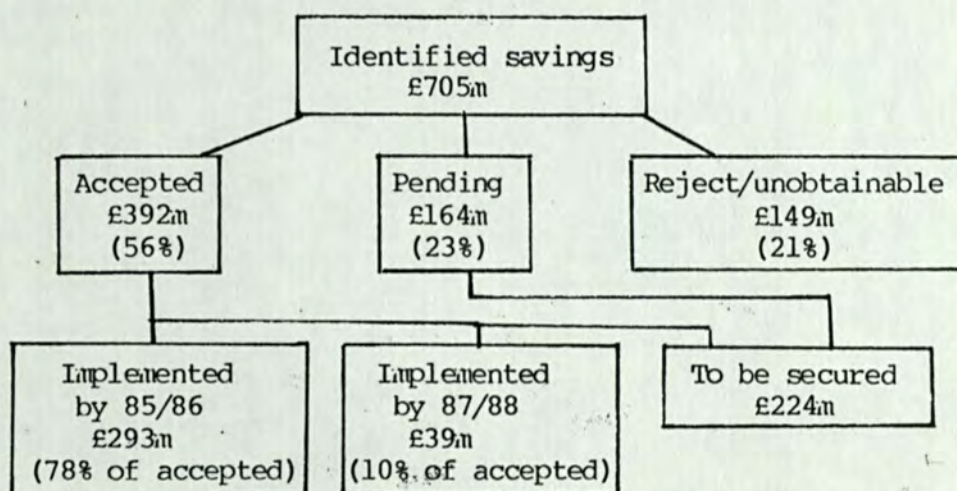
Value of savings achieved

£300m pa by 1985/86; £950m cumulative. Significant, even if less than scrutinies thought possible.

Latest figures for scrutiny savings

Details at Annex 1

Latest figures for scrutinies and multi department reviews show: [figures provided by departments and checked with them annually]



Price basis of savings

Savings are measured in the prices at the time of the scrutiny. The totals therefore include a mix of price bases. The figures are only intended to give a broad order of savings. They should not be equated with, say, figures in the Appropriation Accounts.

How do savings feed through to public expenditure?

The benefits are passed on in a variety of ways, either directly as a reduction in spending, or indirectly by allowing some alternative service to be funded. This cannot be quantified precisely, though increased streamlining and efficiency have probably led to a reduction of about 80,000 civil service posts since 1979. Scrutinies have made a contribution of about 22,000 posts to this.

Savings attributable to scrutinies or other controls?

Departments have been subject to tight manpower targets, and they have used scrutinies to help them achieve their targets effectively. That is a legitimate use of scrutinies. Scrutinies provide one means of helping departments achieve their objectives.

2 SAVINGS - LOST

The NAO report points clearly to the reasons which have led to savings not being achieved, viz:

- not acceptable to Ministers
- some estimates of savings too optimistic;
- some recommendations were impracticable
- delay in making decisions, and implementing them

What proportion lost for different reasons?

On a very rough analysis about a quarter of unachieved savings resulted from wrong estimates or impracticable recommendations. The rest were rejected by Ministers.

High proportion of recommended savings rejected

It is the prerogative of Ministers to decide what action to take on proposals for improvement. Scrutiny reports do present difficult decisions to Ministers, deliberately so. Aiming for high rewards carries the risk that not all recommendations will be accepted. But playing safe and cosy would undoubtedly yield lower rewards. What matters is the absolute level of savings or improvement.

Inaccurate costings

The key to getting accurate costings is for departments to have good financial systems. Departments are getting better all the time.

Examining officers must agree with the department as far as possible the basis on which savings are calculated. EU stresses importance of this to examining officers.

But of course a lot of recommendations involve judgments about the future, so 100% accuracy is unlikely, eg lower than expected take up direct payment of benefits to bank accounts.

Delays in making decisions and implementation

Delays do cost money. The Unit's report 'Making Things Happen' showed that if decisions on scrutinies had been taken within six months the total cumulative saving to the taxpayer to date would probably have been £300m more. That is why we have acted on the report's recommendations for a tighter framework.

3 IMPLEMENTATION

The NAO report records Sir Derek Rayner's view that the purpose of scrutinies was action not study. (para 1.2)

'Making Things Happen' has helped us recognise the need for improvement in the framework for securing action. We have introduced changes and we are monitoring results.

Changes made

The scrutiny process is now a **two year period** starting on the first day of the scrutiny; ending with an implementation report

The department must provide a **specification** at the outset, saying what its targets for improvement are and the timetable for implementation.

The department must nominate at the outset an **action manager** who will be responsible for implementing the scrutiny

The importance of **commitment from Permanent Secretaries** and Ministers is restated

The Efficiency Unit will keep in touch with the Action Manager after the scrutiny and **monitor implementation**

After 2 years there will be an **implementation report** of action taken and results achieved.

Results of changes

Early signs are that departments are taking a new and more committed approach to implementation. One indicator is that the proportion of accepted savings implemented within two years has gone up from 30% in 1983 to 70% in 1984.

'Making Things Happen': done as a scrutiny?

Yes. The scrutiny started at the beginning of January 1985; the report was finalised by late April (ie within 90 days). The Prime Minister agreed action on the report in mid-May. The Unit revised and piloted new notes for guidance over the Summer. The new notes were published at the end of October (ie implementation within 6 months). The Prime Minister receives an annual implementation report.

4 VALIDITY OF TECHNIQUE

Encouraged by C & AG's endorsement of technique (para 10 of summary).

Main elements of the technique

- observation of what actually happens
- radical questioning
- proposals for action and improvement
- by an insider who is given independence and reports to the top

Timetable

- Tight, but designed to ensure focus on key issues.
- Need for sense of urgency in achieving improvements
- Results show that 90 days sufficient for most subjects.

5 SCOPE OF SCRUTINIES

Basic technique has developed over the years to encompass policy and effectiveness issues, eg scrutinies of BBC External Services (1984), Community Programme (1985). [further examples at Annex 2]

Choice

Entirely agree C & AG's view of importance of right choice (para 10 of summary) and need to focus on areas where maximum potential for improvement

How chosen in departments

999

Variety of arrangements in departments, as NAO report shows, but common element is that it is a top management decision and associated with top management systems (eg MINIS).

Sir RI encouraging Ministers to set key vfm targets for their main activities and to use scrutinies to support these targets

Sir RI's discussions with Ministers about targets and scrutinies intended to help them make the best choices. But the choice rests with Ministers and their Permanent Secretaries.

Some departments better than others?

Most departments recognise scrutinies as a major tool for securing vfm improvements. The NAO report illustrates this clearly in the four departments it studied; and scrutinies done since the report provide further evidence (eg FCO and Home Office have tackled important subjects since 1983).

Run out of subjects?

Agree view of C & AG that momentum must be maintained. Welcome his endorsement of the view that there will always be new ways of making improvements.

Value covered in scrutinies: 1983 - £390m; 1984 - £2,200m; 1985 - £2,900m

6 SCRUTINIES VS OTHER REVIEWS

As NAO report says, it is a high level management tool designed to secure improvements in vfm.

Validity of scrutiny technique lies in making connection between delivery of the service (or what is happening on the ground) and the policy or administration which supports it.

Distinguishable from management consultants because done by an insider; there is also external pressure to implement recommendations. The Department 'owns' the recommendations and retains the expertise. [cheaper too]

Distinguishable from NAO reports because an internal management tool.

7 SIR ROBIN IBBS' REMIT FROM THE PRIME MINISTER

Sir RI is the Prime Minister's adviser on efficiency. He reports direct to the Prime Minister. Appointed in July 1983 in succession to Lord Rayner. [Press notice at Annex 3]

His remit from the Prime Minister is to help central and departmental Ministers to use top management systems:

- to set targets for improvements in vfm
- to commission scrutinies to bring the improvements
- to review progress in the achievement of lasting reforms in financial and staff management, and in implementing the findings of previous scrutiny work

8 EFFICIENCY UNIT - WHAT IT DOES

The Unit supports the Prime Minister's adviser, in particular:

- it co-ordinates the central programme of scrutinies (25-30) per year
- helps and advises examining officers
- follows through with departments action on scrutinies

supports PM's adviser in discussions with Ministers about vfm

supports other measures to secure lasting reforms eg FMI (through involvement with Wilson review)

9 EFFICIENCY UNIT - ACCOUNTABILITY

The Unit reports through Sir Robin Ibbs to the Prime Minister. The costs of the Unit are borne on the MPO vote (like those of No 10 and Cabinet Office staff). [Note on history of Rayner Unit at Annex 4]

Control of EU expenditure

The head of the Unit controls the Unit's administrative expenditure within the budget allocated to her. She has the same responsibility to the MPO Accounting Officer as any other MPO Responsibility Centre manager.

Split accountability

Any split between accountability for inputs and outputs is more apparent than real. Ultimately all concerned are accountable to the Prime Minister.

In practice there have been no difficulties in these arrangements.

10 EFFICIENCY UNIT - COSTS AND STAFFING

Costs

EU's 1986/87 budget is just over £300,000. [details at Annex 5]

Unit Staffing

10 in all, including three secretarial posts.

Two secondments into the Unit (one from IBM, one from the Australian Government). Others on secondment from Government departments. The Unit has a mix of Whitehall and private sector experience.

Head of the Unit (Kate Jenkins) is Grade 3 (Under Secretary)
[details of staffing at Annex ~~VII~~
6]

Adequate staffing levels?

About right. Broadly constant since 1983. Unit's basic job is to encourage departments to secure their own improvements, not to do it for them.

Will it last for ever?

A matter for the Prime Minister. [The ideal is that departments should need no help or stimulus to seek improvements in vfm.]

11 EFFICIENCY UNIT - RELATIONS CENTRAL DEPARTMENTS

EU works closely with MPO and Treasury, but each has a different emphasis.

Difference in work

EU is single-minded: its aim is to find ways of getting better value for money. It uses scrutinies and targets to achieve this.

MPO responsible for the efficiency of the central management of the civil service, eg regulating and advising departments on recruitment, promotion, staff appraisal, retirement policy and dismissal. Also provides advice and central guidance on efficient management of resources, especially on activities common to several departments (eg stores and stockholding, forms, office accommodation).

Work adequately related?

The relationship depends on the requirements of the case. Many examples of the Unit and the central departments working together (especially on multi-department reviews). But there is much work that is distinct, eg MPO's work on record management, office services and MPO's direct consultancy work in departments. [list of MDRs at Annex 10]

12 EFFICIENCY - GENERAL

Running out of steam?

Absolutely not. As the Minister of State, Privy Council Office, said in his letter of 29 March to The Times, there is still much to do, to consolidate and follow through the series of related initiatives in the management of money, people and physical assets. But we continue to drive towards a Civil Service which retains all the traditional virtues and is also efficient and professional. We are carrying through the programme of management reforms with determination and commitment.

[Times leader and letter attached; Efficiency Strategy Paper at Annex 9; Civil Service Manpower and public expenditure information at Annex 11]

How do Units at centre fit together?

Many of the Units (Efficiency Unit, CUP, JMU) have interests in pursuing efficiency. Their overall aims are similar; but the topic of efficiency has many different aspects, and each of the Units is dealing with specific aspects of it. The prime responsibility lies, of course, in the individual departments themselves.

[Note on 'Who does what at the centre' at Annex 8]

Training for civil servants

A large programme of training exists to help civil servants improve vfm in the areas in which they work. The programme is co-ordinated by the MPO. [Further details at Annex 7]

REVERSING DOWN WHITEHALL

In a fortnight the official head of the Efficiency Unit leaves the Civil Service. In one of his last reports he showed how many of the money-saving recommendations proposed by Mrs Thatcher's waste-watcher, Lord Rayner, had not been put into effect. Efficiency, MINIS, the Financial Management Initiative: in today's Whitehall they are regarded as yesterday's tunes.

For some time, perhaps since the 1983 election, the Government's commitment to reform of Whitehall has wavered. The Ponging episode was, in many ways, a distraction. The resignation of Mr Michael Heseltine, in his guise of super-manager, was a real loss. In his two departments, environment and defence, his enthusiasm for a new way of working had been infectious.

MINIS, the Management Information System for Ministers, stood for a principled reorganization of a department's work. It was never widely popular. Any enthusiasm that remained for MINIS was killed by the Westland affair. Westland glorified not the civil servant as manager but the official as fixer; power to the civil servant ablest to save a minister from embarrassment. Reform is now in reverse.

For all Mr Heseltine's revelations about the innards of Cabinet government, no serious discussion followed about the committee structure and the burdens of ministers. Now, with the next election in sight, who has time for the machinery of government? The minister for the civil service has become an invisible man. Mrs Thatcher, at one and the same time the only

source of reformist inspiration and the biggest single barrier to change, has other concerns.

But the need for reform will not disappear. Privatization and the reduction of civil service numbers are welcome but do not address the issues. These have to do with the conduct of business in a Parliament where hours and styles still fit nineteenth century rhythms. Redefining the task of the civil servant cannot be isolated from the incoherence of the minister's job, its mixture of parliamentary, constituency, political, managerial and departmental activities producing, after six years in office, so many burnt-out cases.

Here is as good an explanation for the timorous spirit of ministers in 1986 as personal pusillanimity. The strong critique advanced by Sir John Hoskyns of the absence within government of political back-up, sources of fresh and committed thought, still stands unanswered.

The canvas is large. On it figures if not a freedom of information statute then a drastic revision of the rules about the flow of information within/into/out of departments. With a better flow of facts and ideas goes the movement of personnel. In an ideal world, the departure of the head of the Efficiency Unit, would be matched by the importation of a private sector (or local government) figure.

There has been some progress. But it is not enough to appoint a purchasing manager from the private sector; why not a corporate policy-analyst as under-secretary. The only barrier to such

movement is the conservative principle of safeguarding positions and prospects.

As the series of articles published in *The Times* this week has shown, there is growing recognition, not least within the civil service itself, that the old boundaries between the political and the administrative have shifted. A redrawn boundary between politics and administration could be policed without revolutionary changes. In the United States at a certain level civil service rules cease and appointees have tenure only for the life of an administration. A version of the French cabinet system has been suggested. It might take the form here of an enhanced private office.

The convention that ministers are responsible for all that departments do in their name is exhausted. Civil servants — properly rewarded for the responsibility — must be given greater discretion to manage the business of government and take a higher profile.

Here is an agenda waiting for action. It is not up to Sir Robert Armstrong (though enthusiasm for reform might be a useful qualification for his successor in office). Whitehall reform is a task for politicians, and especially the Prime Minister. Institutional reform is not a substitute for economic and social policies to regenerate Britain. It is complementary. It matters not for the sake of arcane administrative flow charts, but for the sake of programmes and policies. If the machine does not function, or works slowly and grudgingly in the old ways, the most radical political ambition may come to nothing.

Civil Service as spur to reform

From the Minister of State, Privy Council Office

Sir, Your editorial of March 27, "Reversing down Whitehall", needs answering. As Minister with day-to-day responsibility for the Civil Service I welcome your lead in discussing the role of the Civil Service. But your arguments lack cohesion.

Two important questions need to be posed. Is the Civil Service an obstacle to the carrying out by an elected government of its policy programme? And is the Civil Service as efficient and professional as it should be?

The first question is broadly answered by examining this Government's achievements in the last seven years. In that period we have pursued radical reformist policies on trade unionism, home ownership, privatisation, training and taxation amongst others. Plans are in hand for major reforms on, for example, social welfare, education and local government finance. These are all major changes which the Civil Service has loyally helped to implement.

On the second question, your editorial fails to acknowledge the scale of the management reforms which have taken place in the Civil Service since 1979 under the Prime Minister's leadership.

The Civil Service is now smaller than it has been ever since the Second World War, slimmed by 20 per cent since 1979. The work of the Efficiency Unit (which will continue vigorously in its task under the leadership of Sir Robin Ibbs of ICI), reinforced by the financial management initiative, has already transformed the management of the Service, bringing home to civil servants at all levels the need constantly to question existing practices and procedures and to keep a tighter

control on costs. For the first time line managers now have clearly defined responsibility both for the tasks which they carry out and for the resources they use.

Nothing could be further from the truth than your suggestion that the process of reform is in reverse. There is, of course, still much more to do, to consolidate and follow through the series of related initiatives in the management of money, people and physical assets. But today we undoubtedly have a Civil Service which not only retains all the traditional virtues but is also efficient and professional. Civil Servants deserve enormous credit for carrying through our programme of management reforms with determination and commitment.

There are of course many other aspects of government which merit public debate. The complexity, the growth of select committees, the demand for more information and the role of political advisers all pose interesting and important questions about the relationship between ministers and civil servants. The Select Committee on the Treasury and Civil Service will shortly be reporting on this and will doubtless stimulate further discussion.

The Government will be considering these questions very seriously. We shall also continue to press ahead with the programme of management reforms which I have outlined. I fully agree with your view however that "institutionalised reform is not a substitute for economic and social policies to regenerate Britain", and I regret the tendency in some quarters to suggest otherwise.

Yours etc,
RICHARD LUCE,
Cabinet Office,
Great George Street, SW1.
March 29.



ccBG
DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

01-212 3434

OUR REF: R/PSO/3922/86

The Rt Hon Kenneth Baker MP
Secretary of State for the Environment
Department of the Environment
2 Marsham Street
LONDON SW1

22 April 1986

Dear Kenneth

DEREGULATION : CONSULTATION UNDER ARTICLE 15 OF THE GDO

Thank you for sending me a copy of your letter of 4 April to David Young about your proposals for improving consultations under Article 15 of the GDO. *WILL REQUEST IF REQUIRED*

From the highways standpoint, your proposals should work satisfactorily. To a limited extent pre-application discussions already take place between highway authorities, including my own regional engineers, and prospective developers. Your proposals would extend existing practice. I would be glad to write to all concerned to encourage this further if there is general agreement to your proposal. You may however think that a more general circular to local authorities would be appropriate.

I have only two points of detail on your certification proposal. First, I assume that you have in mind to make it a requirement that consultees should issue a certificate reasonably promptly following the satisfactory completion of discussions. If consultees drag their feet, the benefits from your proposal might be lost. Secondly, it must be for local planning authorities to ensure that the proposals covered by a certificate match those in the planning application since, in these cases, you are proposing to dispense with the formal post-application consultation.

Copies of this letter go to David Young, Peter Walker, Michael Jopling, George Younger, Nicholas Edwards, Richard Luce, and, for information, Malcolm Rifkind.

Johnson
Nicholas

NICHOLAS RIDLEY



CONFIDENTIAL

File

CAJ



10 DOWNING STREET

From the Private Secretary

18 April 1986

Dee Jill

Sir Robin Ibbs has submitted the Efficiency Unit's second report on the use of value for money targets. I attach a copy of Sir Robin's covering report.

BF 11 Before I submit this to the Prime Minister, I should be grateful to know whether you wish to comment on the recommendation he makes that Departments should be provided with wider discretion to hold on to efficiency savings (recommendation 9).

I am copying this letter to Kate Jenkins in the Efficiency Unit.

2 e

Mark Addison

MARK ADDISON

Ms. Jill Rutter,
H.M. Treasury

CONFIDENTIAL



PRIME MINISTER

VALUE FOR MONEY TARGETS

in folder attached to file.

I attach my report on the investigation of value for money targets you commissioned last autumn. The evidence confirms that targets are an important force in generating the drive and determination needed to improve performance. But although progress is encouraging, further effort is needed if they are to become a standard part of good management in government.

There is nothing novel in the recommendations in the report. They focus on maintaining pressure to get targets used, and increasingly to extend them to getting better value from programmes as well as administration. The understanding and response to the concept by Permanent Secretaries has grown markedly - that is most encouraging. The active interest of your colleagues remains the catalyst that is still in short supply. I should welcome an opportunity to discuss with you how they can be stimulated to take greater interest.

During the investigation one senior civil servant wrote to me "I am somewhat isolated, amidst an unholy alliance of Ministers and practitioners who find it much more comfortable to do without targets." It would not be right to name him, or his Ministers for I do not believe this is the only example of such lack of support. But he does demonstrate that those fighting to improve efficiency still need all the support you and I can give them.

If you accept the recommendations in the report, I suggest that you circulate it to colleagues commenting that you welcome the commitment of Permanent Secretaries to the use of value for money targets, and that you look to Ministers and officials to support the recommendations.



Although the report indicates steady progress in developing the new approach to civil service management, I doubt whether it would be wise to publish it because of the risk of malicious reporting. But I am sure that occasional reference in your speeches to the continuing success in improving value for money would be helpful. Your private office might adopt the practice, for example, that when they seek departmental help on speeches they always ask for some good example of improvements in value for money which can be quoted.

I am copying this to Robert Armstrong. His commitment to the new management style is an important element in maintaining progress.

VR

Robin Ibbs
16 April 1986

CONFIDENTIAL

THE USE OF VALUE FOR MONEY TARGETS 1985-86

Report in folder
attached to file

Report to the Prime Minister by Sir Robin Ibbs

The public rightly expects government progressively to improve the quality of services the State provides such as health and education. But if this is to be done at a cost the country can afford, steadily improving results must be achieved from the resources already agreed. It is wrong to expect new money for every improvement. And in the absence of profit as a spur and measure of success, specific targets for better performance from available resources are an important key to getting continuous improvement. That is why I said in 1984 that Ministers could accelerate progress if they set explicit targets for improving the relationship of results to costs in public programmes.

2. Last Autumn you asked the Efficiency Unit to examine the progress made by Departments in using value for money targets - their origins, their importance, how ambitious they are and how those responsible have set about delivering them (Mr Addison's minute of 5 September).

3. By improving value for money I mean doing things to an acceptable standard with less expense or achieving more within agreed costs. By targeting I mean aiming at something better than people would achieve left to their own devices.

4. The results so far of the enquiries by the Efficiency Unit are clear-cut and quite encouraging. Target-setting is still in its early days but for 24 targets examined in some depth (the most important out of over 100 offered by Departments):

- (i) Most were genuinely about value for money.
- (ii) Most of them were genuine targets, not just forecasts of what was likely to happen anyway.
- (iii) Three-quarters of them formed part of a programme for progressive improvement - important evidence of increasingly systematic attention to value for money.

However,

- (iv) Most are about bureaucracy, few concern programmes.
- (v) About half of the targets seemed to me to be insufficiently ambitious.
- (vi) More emphasis is needed on results and 'service to the customer', rather than simply cost: When resources are authorised they should be associated with planned outputs and targets should seek to improve the ratio between the two.

5. In total the 24 targets represent potential improvements worth at least £1,000 million - though, as is only to be expected, not all will be achieved and the figure is an amalgam of cash improvements and resources switched within a programme which cannot be taken simply as money that could be returned to the taxpayer. The Efficiency Unit has explored the history and effectiveness of the targets by interviewing Permanent Secretaries and other levels of management involved in developing and delivering them. The Unit has received full co-operation from all concerned and Permanent Secretaries have taken an active personal interest in the topic. Three things stand out from these enquiries:

(1) Top-down management

6. Permanent Secretaries spoke of their determination to use targets ambitiously. They described targets as useful to Ministers and to themselves in defining strategy and creating additional room for manoeuvre within it, by getting better performance from available resources. But not all of them yet see the widespread use of targets as strategically important. I do.

7. I also believe that fundamental improvement depends on Ministers' willingness - with suitable caveats and devices for self-protection - to use targets to get at better value from programmes.

8. It is the job of top management to set priorities and to be selective. Having chosen a target they must maintain interest and support those who have to deliver it. Two good examples of this approach are:

- (i) In the Customs and Excise the Management Board defines the Department's priorities, sets key results to underpin them, and publishes these results in a "Management Plan".

- (ii) The Chief of Defence Procurement decided that one of his top priorities was to increase competition (an intermediate step towards improving value for money in defence equipment procurement) and so set that as a prime quantified target.

There are others. It must also be said that the setting of good targets is far from easy. It needs extensive preparation and understanding of the activities in question. Quantification where possible is always helpful but must not lead to important potential qualitative improvements being ignored. Too brash an approach can risk distorting performance because one or two aspects are singled out without regard to balance with others. But in general there is scope for increasing the leadership which is given at the top through clear targets.

(2) The need to stimulate ambitious targets

9. When most people are asked to produce a target there is a natural tendency to put forward the forecast of what should be attainable without undue difficulty if everyone tries hard. There is a hard slog in getting even this far and much of the effort in MINIS systems so far has been to achieve just that. But such a forecast should be the start of a discussion in which top management challenges middle management to do better and middle management agrees to a target that is more extending and ambitious. (In all this the final target must not be impossible; an unrealistically ambitious target that destroys commitment does more harm than good.)

10. I am not convinced that this process is sufficiently widespread. The recent report by the Head of the Government Accountancy Service on departmental budgetary practices makes a similar point about the lack of challenge in some instances in the procedures by which administrative budgets are sought and authorised.

11. This approach goes beyond activities within a Department. Several good targets in the sample had been set for organisations which were at arm's length from the Department concerned: for example, the targets set as part of the corporate planning cycle for the DOE's sponsored bodies, or the electricity supply industry's target for reducing costs. An arm's length relationship is conducive to good target setting, because it necessitates a genuine dialogue about objectives in relation to resources which is clear, formal and rooted in an understanding of respective roles and capabilities. In some instances, for example education, a wide range of authorities over whom there is little or no control has to be motivated if targets are to be delivered and this calls for skilful leadership.

(3) Encouraging people to try harder

12. There is excessive caution in government. Part of the fear is that the assumptions and caveats on which the target was based will be forgotten in the heat of political debate. Part is a natural apprehension in Ministers about the presentational and political implications of setting targets in policy areas. And part is a fear that failure to achieve an ambitious target will be seen as culpable and exposed to public denigration whatever the reasons. Unless these fears can be dispelled progress will be slow. There is a need to educate Parliament and the public that this sort of criticism is misplaced. It is right that budgets should be set on a basis that gives a high probability of achievement - even so this does not mean they should be soft. But targets are different; the practice ought to be to budget with care but to target more ambitiously. Internal and unpublished targets are often the only way forward if managers are to be set good challenges without hostages being given to later hostile criticism. What matters is that those who are in a position to deliver the targets know what it is they are expected to do.

13. There is also the vexed question of what will happen to savings that are made. In ICI it is widely accepted that, for the good of the company as a whole, an operating unit may at times generate income for other units to use (for investment etc) and that at other times it will itself be a beneficiary. The comparable attitude of give and take seems much weaker between departments in government, even though the Government has overall collective objectives.

14. Given this starting point, if managers in government are to be encouraged to go for more difficult targets, it is important to motivate them to do so. Public expenditure control remains one of the Government's top priorities. Without damaging this, it should be possible in suitable instances to reassure managers that if they improve value for money the 'centre' - be it their own Finance Division or the Treasury - will not automatically pocket all of the proceeds. At the least people need an idea of how the benefit arising from the improvements they generate will be used.

15. There can be no presumption that the benefit should all be ploughed back into an improved service by the unit that makes the saving. But it may be possible to agree a ploughing-back or sharing of efficiency savings in some areas which will be fair to the taxpayer as well as to the beneficiary of the service without hazarding the public expenditure totals. The NHS's cost improvement programmes, which have been highly successful, could serve as a model.

16. Of course ideally Ministers should sanction every decision about the reallocation of resources collectively in the Public Expenditure Survey. But except for very large switching of resources this is hardly practical.

However it may increase motivation towards better value for money if there is de facto some 'ring-fencing' of expenditure and savings below the level of programme totals. I believe there is increasing understanding of this in the Treasury and some other Departments, and it needs to be encouraged.

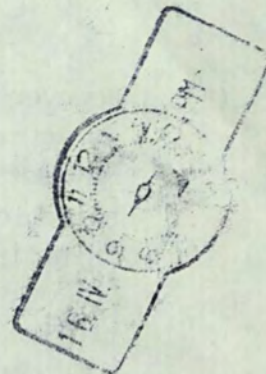
RECOMMENDATIONS

- (1) It is up to Departments to make the running on target-setting. This is not a candidate for another central management initiative. Permanent Secretaries will need the support of their Ministers as they work out how to integrate the widespread use of targets to improve value for money into their top management systems (paras 6-8).
- (2) If targets are going to contribute fully to value for money they will have to extend to programmes and Ministers' priorities for those programmes (para 7).
- (3) Ministers and top management in Departments should use the process of agreeing the annual value for money targets to challenge middle management to be more ambitious (para. 9).
- (4) Departments should continue to use scrutinies (assisted as appropriate by the Efficiency Unit) in support of value for money targets in their major areas of business (para 9):
 - to clarify objectives,
 - to identify output measures,
 - to indicate the potential for value for money improvement, and
 - to define the steps that should be taken to achieve it.
- (5) I should continue to focus on value for money targets when discussing efficiency improvement with your colleagues. These targets should also provide the main focus for your value for money seminars with Ministers (para 9).
- (6) Departments responsible for expenditure managed by bodies which are independent of central government should develop appropriate types of dialogue to secure the commitment of those bodies to the principles in this report (paragraph 11).
- (7) Unpublished internal targets should be encouraged where the risk of hostile criticism makes published targets undesirable (para 12).

- (8) However there needs to be wider understanding that the new management approach will involve the setting of targets which may not be achieved at the first go. Ministers should take suitable opportunities to explain this so as to forestall misplaced criticism in Parliament and elsewhere. It would be particularly effective if the Chancellor of the Exchequer and the Chief Secretary to the Treasury could take the lead, explaining that this does not endanger public expenditure control (para. 12).
- (9) Where it would encourage their managers to go for more difficult targets, Departments should consider giving them extra incentives by agreeing to plough back part of the benefit. The same idea should be extended in appropriate instances to the relationship between Departments and the Treasury, following the example of the NHS cost improvement programme (para. 15).

ROBIN IBBS
April 1986

Govt Mach; Rayner Pt 20



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From the Minister of State
for Industry and Information Technology

GEOFFREY PATTIE MP

David Waddington Esq QC MP
Minister of State
Home Office
Queen Anne's Gate
LONDON
SW1H 9AT

MST

10 April 1986

Dear David

FIRE SAFETY IN CINEMAS

attached

Thank you for your letter of 2 April.

You will by now know that my postponed meeting with Simon Glenarthur has been rescheduled for Thursday 10 April, and I look forward to discussing this with him then. You mention in your letter that the CEA first raised objections to the present draft regulations in April last year. The CEA tell us that they have been arguing for relaxations of one sort or another for over 30 years. The question of minimum staffing requirements was, they say, first raised at a meeting with the then Home Secretary in April 1971, and further meetings took place in July 1975 under the previous administration. It was following these discussions in 1975 that the standing advisory committee was set up and I understand that cinema interests, and the CEA in particular, reiterated their views on a number of occasions at SAC meetings. I admit I am far from clear about the evolution of these particular regulations and the process of consultation upon them; but it does seem that the CEA's objections to some of the ideas embodied in them, and their wish to see some element of deregulation, are not as recent as last April.

I am copying this letter to Simon Glenarthur and to the other recipients of yours.

GEOFFREY PATTIE

AP2/AP2AAR

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BICENTENARY

GOVT MACH: Rajm PT20





cc/G
HOME OFFICE
QUEEN ANNE'S GATE
LONDON SW1H 9AT

- 2 APR 1986

Our Ref: FIR/85 15/122/10

Law

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DEREGULATION: FIRE SAFETY

at top

Thank you for your letter of 14 March.

I quite understand your concern on the costs to and burdens on business resulting from the present Fire Precautions Act, and, granted the desire of us all to see no reduction in fire safety standards, we have formulated proposals accordingly. We shall therefore ensure that, when the forthcoming draft consultative document is circulated officially to government departments including your officials in the EDU, it will be accompanied by a compliance cost assessment.

I am copying this letter to the other members of MISC 121 and to No 10.

David Waddington

(DAVID WADDINGTON)

The Rt Hon The Lord Young of Graffham

GOVT MACH Rayner PT20



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SRW

10 DOWNING STREET

From the Private Secretary

21 March 1986

Dear Michael

REPORT OF THE INTERDEPARTMENTAL
COMMITTEE ON PROPERTY REPAYMENT SERVICE

The Prime Minister has seen Sir Robert Armstrong's minute of 12 March. She has approved the Interdepartmental Committee's report, noted its conclusions and agreed to their implementation.

I am copying this letter to the Private Secretaries to Cabinet Ministers.

Le
Mark Addison

(Mark Addison)

Michael Stark, Esq.,
Cabinet Office.

GA

PRIME MINISTER

REPORT OF THE INTERDEPARTMENTAL COMMITTEE ON PROPERTY
REPAYMENT SERVICE

You have now agreed the future of the PSA in broad terms, (MOD have still to sort out one or two points bilaterally with the PSA).

The Interdepartmental Committee on Property Repayment Service has now reported with its proposals for improving and extending the existing PRS system. Sir Robert Armstrong's covering note is at Flag A and the Report (which you do not need to look at, except for the first few pages) at Flag B. It recommends that most departments should take on increased direct responsibility for works up to £5,000, though those not wishing to do so will be able to negotiate with the PSA to remain on the existing system: experiments will be held to see whether Departments who wish to go further should be allowed to do so. Sir Robert endorses the report's conclusions and seeks the Prime Minister's agreement to them. They were of course foreshadowed in his report on the future of the PSA.

Particular points to note:

- (i) the new regime will give departments more choice about how to arrange their relationship with the PSA;
- (ii) Permanent Secretaries believe that if departments take on more responsibility themselves, there may be some net staff increases required, but they believe this in the end should produce improved value for money.

Approve the report and agree that its conclusions be implemented (they are summarised at paragraph 11 - see Flag B)?

Mark Addison

MARK ADDISON
20 March 1986
SL2AGD

Yes

RWAAT

RU Addison

MR. WICKS

Les. N.C.U
20-3

I have seen your letter of 18 March to Richard Mottram. I take it that MoD will be content, and that therefore settles, in broad terms, the future of the PSA for now.

I ask because I am holding on to a minute from Sir Robert Armstrong covering the report of the Interdepartmental Committee on Property Repayment Service. The Committee recommend that most Departments would take on increased direct responsibility for works up to £5,000, though those not wishing to do so will be able to negotiate with the PSA to remain on the existing system. Experiments will be held to see whether Departments who wish to go further should be allowed to do so. Sir Robert endorses the report's conclusions and seeks the Prime Minister's agreement to them. They were of course foreshadowed in his report on the PSA.

Content that I should put forward the PRS report to the Prime Minister for her approval?

Mark Addison

MARK ADDISON
19 March 1986

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From the Minister of State
for Industry and Information Technology

GEOFFREY PATTIE MP

David Waddington Esq QC MP
Minister of State
Home Office
Queen Anne's Gate
LONDON
SW1H 9AT

MBM

18 March 1986

Dear Sir

DEREGULATION FIRE SAFETY IN CINEMAS AND MISC 121

WITH MSA

I have seen a copy of your letter of 28 February to David Young which dealt in part with cinema safety regulations.

I am concerned that there is a slight ambiguity in your letter, which refers to the new regulations having been "drafted in consultation with the Cinema industry (who fully support them)". The industry, represented by the Cinematograph Exhibitors' Association (CEA) are in fact firmly opposed to the section of the draft regulations which requires the provision of a specified number of staff on the premises, related to the number of members of the public who are present (the staff/patron ratio). The CEA believe that such requirements should be transferred from the regulations to the accompanying guidance document and should represent a ceiling level. This would have the effect of giving local authorities who are responsible for the licensing of cinema authorities in their area some flexibility below this ceiling, as to how these requirements are to be applied in particular cases, taking account of new developments (eg wider aisles, continuous lighting throughout performances, increased space between rows facilitating a quick exit, etc) which may be more effective in ensuring safety than having a number of young staff on the premises. The CEA's view has been endorsed by the British Screen Advisory Council in a letter of 13 February to Simon Glenarthur.

MR3/MR3AAY

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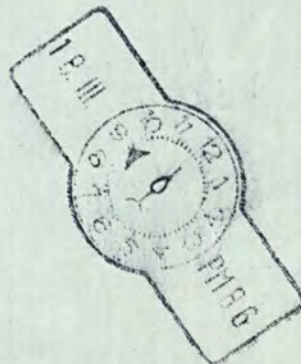
GOVT MACH
Rayner P120

There are two other aspects of the regulations about which the CEA have some reservations. The first concerns flammable film. As your letter suggests, the industry have been content with the regulations in so far as they relate to flammable film. However, I understand that the International Standards Organisation (ISO) have recently put forward proposals in this area and the CEA believe it is important that these should be considered before the regulations are finalised. The second aspect concerns the disabled.

The CEA are sympathetic to the needs of the disabled wishing to see a film in a cinema, but they are concerned that the new draft guidance document accompanying the regulations takes account of these needs in a way which could be detrimental to the industry and to other customers. For example, they believe there is a possibility that in aiming to secure admission for people in wheelchairs, the draft guidelines could have the effect of removing the cinema manager's discretion to refuse admission to drunks or tramps, to the detriment of everyone wishing to enjoy the film. I understand that discussions between the CEA and your officials are continuing on this point.

I hope this letter helps to clarify the latest position and I look forward to meeting Simon Glenarthur to discuss some of these issues further. I am copying this letter to him and to members of MISC 121.

GEOFFREY PATTIE



MR 3/MR 3AAY

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ccBG



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David Waddington QC MP
Minister of State
Home Office
Queen Anne's Gate
LONDON SW1H 9AT

MJM

14 March 1986

David

DEREGULATION: FIRE SAFETY AND MISC 121

Thank you for your letter of 28 February following your earlier letter of 13 February to Kenneth Clarke.

It is helpful to have more details of how you plan to take your review of the Fire Precautions Act 1971 forward following consultation. You kindly agreed in your letter to Kenneth Clarke that my officials will be sent an early draft of the further consultative document you are preparing which will also take account of Mr Justice Popplewell's findings.

I share the concerns Kenneth Clarke has already raised with you over the important issue of fire precautions. These concerns centre on the costs to and burdens on business imposed by the present Fire Precautions Act and how these may be affected by any new proposals. While it will be valuable to see the early draft of your consultative document, I should be grateful to know whether and how the costs to business have been calculated in the recommendations for legislation which officials are putting forward to you.

Let me emphasise that I have no desire to see any reduction in fire safety standards. Rather, calculation of business costs should help in devising a new regime which most effectively maintains or improves standards in a cost effective way, both for the fire authorities and businesses. As some business organisations have expressed mixed views about the requirements which a new system may impose, I feel that early compliance cost assessment is needed in order to form a balanced judgment about proposals for new legislation.



I should be grateful for your reassurance that business costs and resources are forming part of the evidence on which new legislative proposals will be based.

I am copying this letter to the other members of MISC 121 and to No. 10.

*Yours,
David*



GOUT MAEH
RAYNER
P 720



ABC
(covering letter only)

Ref. A086/810

PRIME MINISTER

CF
PL of Wednesday
19/13
Ment 1413

Report of the Interdepartmental Committee on
Property Repayment Service (PRS)

As you are aware, the PSA are now tackling a number of problems affecting the management and control of the Government estate. Proposals for improving and extending the existing PRS system, by which Departments pay PSA for the property they occupy on the Government's civil estate, are set out in the attached report. Permanent Secretaries have discussed the proposals and we are agreed that they will improve the balance of the relationship between PSA and its PRS clients. They will allow Departments a greater control over their own accommodation, while retaining PSA's central responsibility for strategic estate management. I should be grateful for your approval of the report and your agreement to implementation.

2. The Committee's conclusions are set out in paragraph 11 of the opening summary of the report. Most Departments would take on increased direct responsibility for works up to £5,000 and all internal decorations, together with greater financial control over certain new works through commissioning PSA on repayment terms. These arrangements are based on the Secretary of State for the Environment's proposals of last year. It will be open to Departments not wishing to take on additional responsibilities to negotiate with PSA to stay on the existing system. A few Departments, for whom accommodation is a major component in their big operational tasks (like DHSS and the Department of Employment) would prefer to go further than these proposals and experiments will be held to test the feasibility of a substantially greater degree of untying from PSA.



3. The Interdepartmental Committee that prepared the report is now undertaking further work on the funding of major new works and on the system of paying for work retained by PSA. It will report to Permanent Secretaries again on these matters by the end of March so that, if appropriate, changes can be made in the 1986 Public Expenditure Survey. It will also monitor the experiments in untying over the next two years and the working of the new system from April 1987. It will carry out a further review of PRS in 1988 in the light of progress achieved and experience gained. This will allow both PSA and Departments to concentrate on making a success of the current proposals before undertaking further major review.

4. The proposals have financial and staffing implications for Departments and for PSA. Departments will have to meet the costs of their new responsibilities within their general budgets and manpower and running cost targets, and the PRS accommodation charges made by PSA will be reduced to reflect the transfer of responsibility. Some manpower provision will also be transferred from PSA to Departments. Some Departments will have to consider whether they can take on the additional responsibilities because of difficulty in making the necessary finance and manpower available from their mainstream activities even after reallocation of resources from PSA. You will already be aware from recent Ministerial correspondence that several Ministers regard the provision in PES for the maintenance of the Government estate as seriously inadequate; and the transfer of responsibility now proposed could reinforce their views. Departments also feel that there is a trade-off between manpower numbers and value for money. The general view of Permanent Secretaries is that it may well be necessary to assign more staff resources to this work than will, in aggregate, be transferred to them from PSA but that provided this can be done the further devolution of responsibilities should produce a net improvement in value for money.



5. I am copying this minute to all members of Cabinet and Ministers in charge of Departments. Copies of this minute also go to all Permanent Secretaries and Permanent Heads of small Departments, who have already received copies of the report.

Robert Armstrong

ROBERT ARMSTRONG

12 March 1986

REPORT OF THE INTERDEPARTMENTAL COMMITTEE ON PRS

SUMMARY OF THE REPORT

1. PRS (Property Repayment Services) is a system for charging departments for the property they occupy on the Civil estate. It is also a means of clarifying the respective responsibilities of the PSA as estate manager and departments as authorities accountable for their own operations. Our report is about the system; it is also about the relationship between PSA and departments.
2. Our conclusions and recommendations are listed in full in section 14. The supporting analysis is set out in sections 6 to 8. A companion report by our subgroup on information requirements has been circulated separately to Principal Establishment Officers. The principal points from that report are contained here.
3. PRS started with Lord Rayner's view that departments needed to have the cost of their accommodation brought home to them by a simple system of recharging, so that some of the resource consequences of operational decisions would be readily apparent. What has emerged to date is far from simple. However, the friction which exists at present and which was highlighted in the MDR is only in part due to the elaborate accounting rules, delegations and procedures which were devised to give practical effect to the original concept, although these have certainly made it more apparent. The strains and stresses within the system are to a large measure attributable to differing perceptions of what responsibilities departments should have in respect of accommodation under the Financial Management Initiative on the one hand, and on the other hand the traditional role of PSA as central manager of the civil estate and as the primary source within government of professional and technical expertise on works services. This basic problem has been exacerbated by shortages of funds and resources which have made it more difficult for PSA to adjust to a new relationship with its clients, and have led to increasing frustration on the part of departments.
4. Were the problems of funding (see Section 11 of our report) to be resolved the question of the relative responsibilities of the PSA and departments might be disguised but would remain to be settled. This report recognises the wide spectrum of views within the Committee as to the best balance, but offers a practical way forward.

Analysis of the relationship between PSA and departments

5. The key issues concern the extent to which financial and functional responsibilities are to be shared with departments. Three different arrangements can be illustrated in terms of the issues reviewed in section 8 of the report, depending on where the decision to spend is made and on whether PSA or the department orders the work.

(a) departments pay the charge, but responsibility for initiating work remains with PSA. PSA controls expenditure and determines the priorities on maintenance and new works, leaving departments to pay a pro rata share of PSA's estimated aggregate expenditure on the estate as a whole.

This serves the purpose of registering accommodation costs - the original intention of PRS. The purest form of this is the opportunity cost rent (which we discuss in 8.2 of our report). The "club subscription" for works services gives departments only a generalised cost signal, but not necessarily an accurate one in relation to particular buildings. It leaves unanswered the issues of what information departments should be given about PSA's actual expenditure on their occupations and what their involvement should be in the

planning of the expenditure (see section 8.3 on the club subscription and 8.9 for our proposals on joint planning and liaison). This arrangement raises in its most acute form the question of departments' responsibility to control resources needed to discharge their operational work, while preserving PSA's role as estate manager.

(b) departments decide to commission the work. But PSA retains the task of designing and executing the work; and charges departments the expenditure it has actually incurred.

Commissioning the work means that departments have direct financial responsibility but they are still able to benefit from PSA's professional and technical expertise and PSA is able to ensure through its advice to them that the structural integrity of the property is safeguarded and generally to carry out its responsibilities as the property manager. It is necessary to define which works should be thus commissioned and which retained under PSA controls and to settle disputes over timing and priority when PSA does not appear to be able to meet departments' requirements. We deal with this more fully in 8.6.

(c) departments operate under full delegation; they decide to initiate work, and order the work direct; they pay for what is done.

Full delegation or untying means that departments not only pay for but are themselves responsible for specifying and executing the work without PSA as an intermediary. It leaves a residual need to liaise with PSA on estate management matters without indicating either the form or substance of such contact. It thus raises in reverse form the acute problem referred to in (a) above. In our view this approach is constrained by the practical issue of how far this can be taken for implementation in 1987, taking account of the financial and manpower implications particularly for smaller departments. The present system already has full delegation for works under £1,000. We look at the adequacy of this limit in 8.3 and deal with the scope for full delegation on internal decorations in 8.5. Untying could go much further than this. More radical propositions and experiments to test their effects are outlined in 9.4.

Practical options

6. We have proposed three options for the future of PRS that broadly speaking reflect the analysis sketched in the previous section. The options have been labelled "traditional", "standard" and "radical"; in the last case we have not felt able to proceed beyond recommendations to undertake empirical study in order to establish the feasibility of the option.

7. We consider that the proposals we have put forward as the standard option for implementation in 1987 would represent a better balance of responsibilities between PSA and clients than the present system. Increasing the minor works delegation to £5,000 will give departments more scope for dealing direct with day to day works expenditure in their offices. The proposals for commissioning from PSA certain minor new works above £5,000 will give departments financial responsibility for their most common operational needs, and the proposed safety valve will allow them to go through consultants or direct to contractors in those cases where it can be clearly shown that PSA cannot meet their requirements. The delegation of internal decoration will give departments the opportunity to take direct responsibility for the look of their offices - and office environment can be an important factor in staff morale.

8. Some caution is needed. Though we judge that the standard option should be within the capacity of most departments, we recognise that some may have difficulty

in coping with the significant extra responsibilities involved, and that there is a need to weigh carefully the financial and manpower implications. We recommend that departments wanting to remain on the traditional option should open discussions with PSA who should report back to IDC on the outcome by end March 1986. We do however draw attention to the problems which could arise for PSA and client departments in operating different systems unless the exceptions to the standard option are relatively few and as far as possible restricted to smaller departments with only a limited degree of joint occupation on the estate.

9. Through the proposed experiments on the radical option DHSS and DE will be exploring the feasibility of taking on a large measure of the technical works services which PSA at present provide. Our proposals for a new formal system of joint planning and liaison and for a better flow of information between PSA and client departments should ease the operation of PRS at local level and help to ensure a more concerted joint effort to tackle common problems, and make the most cost effective use of limited resources. Our suggestions in section 12 for monitoring the effect of our proposals will enable PSA and departments alike to form a more objective view of the impact of PRS. The action plan in section 13 should help to ensure a smooth lead in to implementation in 1987.

10. The results of the experiments on the radical option will be available in the course of 1988 and by that time departments generally will have had sufficient experience of the standard option for a judgement to be made on whether further development in PRS is justified. We recommend that this Committee should remain in existence to oversee the implementation of our proposals and to deal with any further issues which may subsequently arise. We do not rule out the possibility of some further development of PRS over the interval to 1988, but we feel strongly that there is now a need for a period of relative stability and consolidation and that if our proposals are accepted there should be no further major review on this scale until 1988.

Conclusions

11. Permanent Secretaries are invited to consider the report, noting in particular section 10 on application of the options and section 11 on financial and manpower effects, and to endorse generally the conclusions and recommendations summarised in section 14. The main propositions to be considered are as follows:-

a. that the immediate options are a traditional option (representing the existing system of PRS) and a standard option (comprising an extended minor work delegation of up to £5,000 per job, full delegation on internal decoration, departments commissioning PSA on repayment terms for minor new works as defined in Annex 5, and safety valve arrangements as set out in Annex 6 for those minor new works up to a £25,000 per job limit); (9.2.1)(9.3.1)

b. that as far as practicable there should be a general move by departments onto the standard option commencing 1 April 1987, although we recognise that some will need to remain on the traditional option; (10.5.3)

c. that those departments intending to stay on the traditional option should seek to reach agreement that they should do so; that PSA should report back to the IDC by end March 1986 on the outcome of the negotiations; and that if need be the IDC should thereupon report back to Permanent Secretaries on any outstanding issues; (10.5.3)

d. that experiments to test the scope and practical implications of a radical option (removing the technical exclusions and untying departments for maintenance up to £100,000 per job, and for all minor new works - up to £150,000) should proceed under the monitoring arrangements proposed in section

9.4.6 to 9.4.12 of the report; and that the radical option be further reviewed once the experiments have concluded (end March 1988) and the results have been assessed; (9.4.12)

e. that once PSA has made available the figures for actual expenditure on departments' occupations the IDC should consider a further paper on the system of charging for minor new works and maintenance retained by PSA (the club subscription); (8.3.20)

f. that the IDC should prepare a further report to Permanent Secretaries, by no later than end March 1986, on the arrangements for funding major new works; (8.7.6)

g. that the IDC should remain in being to oversee implementation of the recommendations in this report and to deal with any other issues on PRS of general concern to departments which may be referred to them; (paragraph 10 above)

h. that the action plan set out in section 13 should be endorsed; (13.1) (13.2)

i. that there should be a further major review of PRS in 1988 in the light of the experiments on the radical option and of experience with the standard and traditional options (paragraph 10 above).

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1. THE IDC - COMPOSITION AND TERMS OF REFERENCE

1.1 History of the IDC

1.1.1 The IDC was set up at the initiative of the central departments in April 1983. It was intended that the Committee would be able to alleviate or resolve any problems with the new PRS system as they arose. It would also look forward at a number of issues that needed to be resolved before the final form of PRS could emerge. The terms of reference of the original committee were:

"to consider how PRS may be developed and improved and to make recommendations"

1.2 Composition

1.2.1 The Committee was chaired by the Principal Finance Officer of PSA with representation from the other central departments - Treasury and MPO and client departments. When it was first set up only 4 client departments were invited to be represented; Inland Revenue, DHSS and Department of Employment because of their large regional organisations and MAFF because of its interest in specialised accommodation.

1.2.2 Several refinements have been made to the PRS system at the recommendation of the Committee, including the increase in the minor works limit from £500 to £1000 in April 1984.

1.2.3 On 10 July 1985 Permanent Secretaries decided that the IDC should be enlarged to make it more representative and in order to consider the findings of the Multi Departmental Review of Accommodation (MDR) which were relevant to PRS. The membership was therefore expanded to include the remaining departments involved in the MDR (Environment and Transport, Energy, Trade and Industry and Customs and Excise) and two others (Foreign and Commonwealth Office and Ministry of Defence).

1.3 Terms of Reference

1.3.1 In order to fulfil the remit from the Permanent Secretaries' meeting the terms of reference of the enlarged IDC were defined as:

"To consider how PRS should best be developed in the light of the Multi Departmental Review of Accommodation, the proposals made by the Secretary of State for the Environment, and the views expressed by departments, with a view to making recommendations to Ministers for implementation by 1 April 1987"

1.3.2 The purpose of this report is accordingly to set out the Committee's recommendations and the factors which it has taken into account in arriving at them.

2. MEMBERS OF THE IDC

CENTRAL DEPARTMENTS

Mr M V Hawtin	PSA	Chairman
Mr R G S Johnston	PSA	
Mr J A Owen	PSA	
Mr A C Wyatt	PSA	
Mrs G M Holt	PSA	Secretary
Mr D R Instone	HMT	
Mr R J Meadows	HMT	
Mr D A Fowler	HMT	Secretary
Mr E A Whitear	RGPD	
Miss E M Goodison	MPO	

OTHER DEPARTMENTS

Mr P J Andrews	MOD	Mr C Hook	DOE/DTp
Mr M H Atkinson	DEN	Mr V Matthews	C&E
Mr D Corry	DE	Mr R D McLean	DHSS
Mr D A Crampin	MOD	Mr J E Nunn	MAFF
Mr K J Doyle	DTI	Mr J Tudor	IR
Mr D Harris	FCO	Mr B Verity	DE
Mr D M Harrison	FCO		

3. PRS TO DATE: ORIGINS AND DEVELOPMENT

3.1 600 Years of Central Control - An Historical Perspective

3.1.1 The system of central management of Government buildings has a long history. It can be traced back as far as 1378 when John Blake was appointed Clerk of the King's Works bringing responsibility for the construction of Crown buildings under central control for the first time. By the accession of James I there was a well defined Office of Works largely controlled by the master craftsmen. The permanent staff, which included directly-employed labourers allocated to particular buildings, did not exceed 40 until the end of the 18th century.

3.1.2 The construction of government offices was placed entirely under Office of Works control in 1828, after a large scheme put out to a private contractor failed disastrously. In 1851 the Office of Works became directly responsible to Parliament, with the First Commissioner of Works as its political head. The Commissioners had power to "buy, take or accept any hereditament necessary for the public service and to sell or lease any so taken." This power was entirely subject to Treasury instructions. After 1851 responsibility for maintaining Crown buildings passed gradually from departments to the Office of Works until in 1870 a Director of Works and Buildings was appointed to supervise all government buildings. The last department to control its own maintenance - Customs and Excise - lost that role in 1877 and by 1914 the Office of Works had 800 staff and was responsible for 3300 buildings.

3.1.3 The First and Second World Wars saw a great increase in the activities of the Office of Works, housing Civil Servants and also building hospitals. In 1940 the organisation became the Ministry of Works, which enabled Parliament to take closer control of the allocation of scarce resources during the war years. Its name was again changed in 1962 to the Ministry of Public Building and Works. In 1970 it became a part of the newly-formed Department of the Environment.

3.2 The PSA

3.2.1 In 1970 Sir Derek Rayner (then special advisor to the Government) suggested that "departments" be set up for construction and supplies. Various studies were then undertaken into how such an organisation could be set up "to develop management accountability, to improve efficiency and effectiveness." From the conclusions of these reports it was decided to set up a departmental agency which would deal with both construction and property management, but would have no major field of policy. It would be headed by a Chief Executive as Accounting Officer and would come into being on 1 September 1972. The Property Services Agency as it was called was to "put to best use the land and buildings of the Government Estate".

3.3 The Origins of PRS

3.3.1 In March 1980 an Inter Departmental Group consisting of representatives of Treasury, PSA, CSD, and Sir Derek Rayner's Office was set up to enable Sir Derek Rayner to submit proposals to Ministers on the principle of repayment for PSA services. The intention, in line with the Government's general aims for Civil Service management, was "to give the Civil Service manager a greater degree of awareness and responsibility for the overhead costs he is incurring in administering his programmes and policies."

3.3.2 Rayner's InterDepartmental Group took as their objective the formulation of proposals which would meet the following criteria:

- a) to ensure consciousness in departments of the costs of the accommodation services incurred by them;
- b) to provide an incentive for economy and efficiency in the use and control of accommodation services at the point where the demand arises;
- c) to ensure effective central management and maintenance of the government estate and government building programmes.

It would also have to meet the criterion that financial transactions between departments should be avoided unless they served important purposes of presentation or financial control.

3.3.3 Rayner felt that there was a need for payment "to sharpen the sense of responsibility" but recognised the possible costs of setting up and running repayment systems. He therefore suggested that a simpler system than traditional repayment should be sought. The Inter Departmental Group therefore investigated various options ranging from the status quo of allied service to full repayment of actuals.

3.3.4 The Group chose a system of modified repayment which with some development became the PRS system. Its main features were:

- an accommodation charge to include rent, rates, maintenance and minor new works above £500, calculated on a per square metre basis with different charges for office, storage and specialised accommodation. Average market rents were applied for office and storage properties with zone and quality banding in London
- departments to take on responsibility for minor works under £500 subject to technical exclusions and with PSA retaining responsibility for the building as a whole
- PSA to retain responsibility for estate management and rationalisation
- fuel and utilities to be charged on actuals
- supplies services on repayment
- PSA resource costs to be included in the accommodation charge
- Defence and overseas Diplomatic properties were not included although MOD and FCO civil properties would be included

3.3.5 Rayner reported to the Secretary of State for the Environment that this system would provide an incentive whilst avoiding the "bureaucratic clutter" that was associated with traditional repayment. He agreed with the Group that there should be a constructive dialogue between PSA and departments concentrating on ways of reducing the estate but not on the detailed make-up of the accommodation charge. Rayner was also very much in favour of the common user estate principle and that PSA should retain its central estate management role.

3.3.6 The Group did not believe that savings in total accommodation costs resulting from the new system could be quantified but felt that only a small percentage saving would be required to cover the cost of setting up the system.

3.3.7 Rayner and the Group put forward their proposals as a "workable first step" and included possible future developments in their reports. These included the possibility of refinements to the system of rent charging, the imposition of

penalties on departments blocking estate rationalisation, bringing the Defence and Diplomatic estates into line with PRS and also bringing traditional repayment customers into the PRS system. It was also recognised that there would be problems in introducing the system and that these would have to be ironed out in the light of experience. Rayner therefore suggested that a development group be set up to consider the system's future.

3.3.8 The PRS system was introduced in April 1983 very much as it had been proposed, but without the benefit of a suggested trial run in 1982/83. The first meeting of the development group also took place in April 1983.

3.4 The Interdepartmental Committee on PRS

3.4.1 The IDC was set up to fulfil the requirement for a development group. Unlike the IDG that had produced the report to Rayner this Committee included departmental representatives from outside the central departments.

3.4.2 Even before the introduction of PRS various issues had already come to light that the Committee would need to consider, in addition to those identified by the IDG. These included: exclusions from PRS, charging systems for vacant accommodation, the minor works limit and the method of billing for fuel and utilities.

3.4.3 It was quickly agreed that the accommodation charge should be broken down building by building rather than only into PSA Regions. Agreement was also given to a change in the system of estimating areas for the accommodation charge; the area charged for each financial year would be the actual area occupied on 30 September. During the first 3 quarters of the year a provisional amount would be recovered based on the previous year's area of occupation. In the 4th quarter the balance of the charge due for an agreed area of occupation as at 30 September would be claimed. Both of these changes were agreed at the first meeting. The Committee also agreed at an early meeting to work towards the use of individually assessed rents and to an increase in the Minor Works limit. PSA also agreed to carry all viable vacant space on its own charge.

3.4.4 The idea of having different minor works regimes for different departments was rejected as being too complex and removed from the intended simplicity of the system. Also rejected was the idea of direct billing for fuel and utilities. The arguments on the latter point were put forward again in 1985 (see section 3.8). The question of incentives to give up space was discussed but no solution was reached that could overcome the key problem of inability to carry savings into the following year. The future delegation of internal decorations was also suggested.

3.5 IDC Report in July 1983

3.5.1 An IDC report in 1983 recommended various changes for implementation in 1984/85. They were:

- a) a building by building breakdown of the accommodation charge;
- b) the change from forecast to actual areas as the basis of the accommodation charge;
- c) viable vacant space to be borne on the PSA charge;
- d) Minor Works limit to be raised to £1000;
- e) Minor Works to include grounds maintenance.

3.5.2 The report also recommended delegation of responsibility for internal decorations over £1000 on a repayment basis some time after April 1984 and the introduction of individually assessed rents in 1985/86. It also suggested that further work should be done to prepare for the delegation of internal decorations and on information on fuel and utilities. Mr Gow wrote to Ministers on 17 August 1983 commending the report.

3.5.3 A seminar for accommodation officers was held in November 1983 to explain the proposed changes. Similar seminars had taken place before the introduction of the system in April 1983, including one for the Council of Civil Service Unions, and formed part of the efforts made by PSA, both centrally and in the Regions, to impart knowledge of the system before its introduction. Seminars have also been held subsequently and have given valuable feedback from departments on how the system could be developed.

3.6 Recent Work of the IDC

3.6.1 Following the acceptance of its report the IDC continued to work on issues including: individually assessed rents and rates, incentives to give up space, fuel and utilities, further delegation of minor work, and the roles and responsibilities of PSA and the issues of passing rent and rates.

3.6.2 On internal decoration it was decided that experiments should take place before delegation. The proposal to introduce individually assessed rates was accepted and it was decided that both should be introduced for 1986/87 rather than 1985/86. Quinquennial reviews for rents were also accepted in principle as was payment of rates on vacant space.

3.6.3 Given the agreement of the Committee to the above changes PSA then turned to producing a paper setting out its views on the future development of PRS. The proposals were discussed initially by the IDC and then put to Ministers and Principal Establishment Officers in April 1985. A large number of comments were received and further points were made when PSA's proposals were discussed at the Permanent Secretaries' meeting on 10 July. The Permanent Secretaries' meeting gave the IDC a remit to work up the PSA package and to look further at other options. It also recommended that the IDC be enlarged to include representatives from a small department, from MOD, and from those departments involved in the Multi Departmental Review of Accommodation who were not already represented. The considerations and conclusions of the expanded IDC constitute the main body of this report.

4. FINANCIAL MANAGEMENT INITIATIVE

4.1 The Financial Management Initiative, launched in 1982, required each department to develop systems in which managers at all levels would have:

- a clear view of their objectives, and means to assess, and wherever possible measure, outputs or performance in relation to those objectives;
- well-defined responsibility for making the best use of their resources, including a critical scrutiny of output and value for money; and
- the information (particularly about costs), the training and the access to expert advice which they need to exercise their responsibilities effectively.

4.2 In response to the FMI, departments have developed and are still developing budgetary control systems which make managers accountable for the resources they consume in relation to the results they achieve. Among these resources is accommodation.

4.3 The Property Repayment Services system was developed independently from the FMI, but reflects very similar thinking about the requirements of good public sector management, and the same broad policy imperatives. It was designed both to bring directly home to managers the cost of the accommodation resource, and also, through the minor works delegation, to provide them with a degree of immediate control over expenditure on their accommodation. The extent to which departments have so far devolved responsibility for budgeting for accommodation and for ordering minor works within their organisations has varied. But, even where a central accommodation manager remains responsible for the department's accommodation budget, the introduction of PRS has exposed the limited extent to which departments are themselves in command of the resource, and revealed more clearly than before the tension between PSA's responsibility for central management of the estate and departments' responsibility for making the best use of their resources and maximising their own operational efficiency. The tension has grown as departments have developed their own responses to the FMI, and some have increasingly come to see features of PRS as constraints on their ability to improve accountability and ensure value for money in relation to accommodation.

4.4 Awareness of this tension has led to conflicts and problems, many of which are considered in the following sections of this report. For example, PSA's central responsibility for the economic management of the estate may point to housing a department in a Crown building in one location while the department may feel it can achieve better value for money in terms of its own inputs and outputs if it is housed in a leased building elsewhere. Again a department may judge that the motivation and performance of its staff is seriously impaired by shabby surroundings and demand a redecoration programme from PSA. But PSA may conclude that its very limited central maintenance funds are better spent on repairing another department's leaking roof.

4.5 Departments have also found that some aspects of PRS do not lend themselves well to incorporation in systems of devolved budgeting for running costs. In particular, the method of charging for maintenance and minor new works through a unit rate "club subscription" means that in any one year the charge levied on a department's holdings may bear little resemblance to PSA's actual expenditure on those buildings. And at the level of individual cost outlets in headquarters buildings the amounts charged are likely to be even more loosely related to the immediate works requirements of the units of accommodation concerned. On the other hand, the irregularity and unpredictability of much maintenance work, and the impossibility of carrying over funds from one year to the next, lead to extreme

difficulties in budgeting accurately on an annual basis for expenditure individual properties or relatively small groups of properties. It might be argued that these difficulties can be alleviated either if maintenance budgets are controlled centrally within departments or if funding is managed centrally for the estate as a whole.

4.6 The problem is that what may be genuinely the best use of resources if judged in a departmental context alone may look very different if set against the background of the government estate as a whole, and vice versa.

4.7 We do not believe that this tension can be entirely eliminated from the management of the Government's civil accommodation. The main aim must rather be to find ways of using it constructively to improve the quality of management of accommodation, and to ease some of the day-to-day points of friction between PSA and departments that at present lead to frustration and disagreement on both sides. The creation of such tension by the FMI is not unique to the area of accommodation. Departments are finding much the same problems internally in defining the role of central finance divisions in relation to policy and executive divisions. Just as these problems are having to be resolved by establishing a workable balance between the centre and line management so we believe it is necessary to strike a balance in departments' relationships with PSA on accommodation. The optimal point of balance may be different for different departments, and we discuss the implications of this in sections 9 and 10.

5. MULTI-DEPARTMENT REVIEW OF ACCOMMODATION

5.1 The combination of the launch of the Financial Management Initiative and the introduction of the Property Repayment Services system led to much increased responsibilities for accommodation managers in departments and for line managers in relation to accommodation. In addition, it exposed the tensions between departments and PSA described in sections 6 and 8. The multi-department review of accommodation therefore set out, using the scrutiny technique, to examine the management of accommodation in departments and what improvements were necessary, together with the way that the efficiency of departmental management of accommodation was affected by the structure of relationships between the Treasury, PSA and occupying departments.

5.2 The review identified the need for departments to improve their planning, budgeting and information systems for accommodation so as to allow more positive and effective management of an important resource. Line managers need to be more aware of their costs and accommodation managers need to be trained to make the most effective use of space and to obtain value for money in the areas of responsibility delegated to departments. Both line and accommodation managers need clear responsibilities, if they are to be held accountable for their use of accommodation. Line managers ought to be made accountable through budgeting systems and accommodation managers' performance ought to be measured and targets for improvement set.

5.3 As far as departments' relationship with PSA is concerned, the review recommended a clarification of responsibilities and a greater flow of information between departments and PSA, so that each side knows what to expect from the other and each side's objectives are clear. The review also suggested certain developments to the PRS system to extend delegation to departments to allow them more authority over the resources they consume, while retaining PSA's overall responsibility for the civil estate. The aim is to integrate accommodation more closely into departments' systems to achieve a clearer link between accommodation resources consumed and operational performance, in accordance with the principles of the FMI.

6. CENTRAL MANAGEMENT OF THE CIVIL ESTATE

6.1 Size and Shape of the Estate

6.1.1 As at January 1985 the total area of the civil estate was 10.1 million m², of which 6.6 million m² was office, 1.6 million m² storage and 1.9 million m² specialised (courts, laboratories etc). There are 47 PRS clients using the civil estate (excluding PSA itself). At Annex 1 there is a full list of PRS clients with details of the total size of their occupations, and the percentage these represent of the civil estate. Of the office estate over 40% is in multiple-occupation. Some clients (including DHSS and Employment) have between 60% to 70% of their offices shared with one or more other departments.

6.1.2 The asset value of the estate was estimated at just under £3 billion in 1982. (The largest private sector property company has assets of £1.8 billion). Of the office estate some 40% is freehold and 60% leasehold. PSA's outgoings on rents and service charges will be some £230 million in 1985/86 and receipts from disposals are estimated to be £19 million. At February 1985 some 5% of the estate was held as surplus awaiting disposal or allocation. Since March 1980 the size of the estate has been reduced by 3% overall (by 6% for office).

6.2 PSA's Objectives for the Management of the Estate

6.2.1 As central manager of the civil estate PSA is required by its Ministers:

- a. to provide economically and efficiently for the present and planned future needs of civil clients within the constraints of PESC and voted expenditure;
- b. to hold an estate to meet objective a. and to dispose of any surplus accommodation quickly and effectively;
- c. to reduce the amount of vacant space to the minimum consistent with meeting objective a.;
- d. to maintain the value and operational fitness of the estate retained in accordance with objective b. by timely and economic expenditure on maintenance within the constraints of PESC and Voted expenditure;
- e. to keep outgoings on the leased estate (rental payments and landlords service charges) to the minimum achievable in negotiation with landlords;

6.2.2 Thus in its Civil Estate Strategy for 1985/86 the Agency is required inter alia to meet the following targets:

to reduce the office estate by 0.1 million square metres

to achieve disposals of £19m

to reduce the proportion of surplus space from 5% to 4%

6.2.3 To meet these targets PSA has three main policy instruments, all of which depend heavily on the co-operation of client departments and which must be attuned to an appreciation of their operational requirements. These are monitoring the use of space, estate rationalisation and disposal of surplus space.

6.3 Monitoring the use of space

6.3.1 Hitherto PSA has monitored the civil estate by inspections which sought to ascertain excess of space over the centrally agreed space standards. The Multi-Departmental Review of Accommodation has recommended that this function should in future be discharged by departments themselves conducting regular audits of the space they occupy.

6.3.2 Following consideration by the Information Requirements Sub-Group of the IDC, guidance on the conduct of occupancy audits was issued by PSA to Principal Establishment Officers on 11 October 1985.

6.4 Estate Rationalisation

6.4.1 PSA conducts a programme of town reviews which look at all properties on the civil estate within a given area, assess the costs in use, the amounts and location of vacant space, requests for new acquisition or hirings, known operational requirements, and opportunities for surrendering or renegotiating leases. Opportunities for rationalisation are identified, costed and their feasibility discussed with clients. A special allocation of funds (provisionally some £6.5m in 1985/86) is made for the costs of the most economic schemes with a pay back period of 5 years or less. More tailor-made schemes can also be devised in collaboration with clients such as Inland Revenue who have large operational estates in need of review and rationalisation. Under the proposals for the development of PRS, improved joint planning and liaison (see 8.9) will require more informed discussion with all the client departments concerned.

6.4.2 Rationalisation will often be the most cost-effective means of dealing with surplus space by ensuring that departmental occupations are concentrated on a smaller number of holdings which are both apt to operational requirements and economic in use. In this way PSA can maximise the potential yield from disposal of whole marketable units or achieve the maximum savings by surrendering unwanted leases. A good example of what can be achieved is the London Headquarters Estates Strategy which has already achieved capital receipts from disposals of £18m and predicted current savings of £36m pa by 1988. Outside London similar estate rationalisation schemes are in hand. For example, as a result of the relocation of an Inland Revenue Office and DHSS office (total cost £210,000) PSA was able to terminate the lease of Teesdale House, Middlesbrough on 31 March. This reduced the estate by 2,149m² and produced savings in rent and outgoings of £97,000 pa.

6.5 Disposal of surplus space

6.5.1 PSA's procedures for securing the disposal of surplus space are the subject of a separate Rayner Scrutiny (the terms of reference for which are at Annex 2) and have not been examined by the Committee. We have however considered the criteria for judging whether vacant space can be accepted as viable (see 8.11).

6.6 Land Holding Powers and Legal Responsibilities

6.6.1 We have described the historical development of PSA's central management of the estate in 3.1. Legal title to the civil estate is now vested specifically in the Secretary of State for the Environment. All leases and legal liabilities to landlords etc entered into by the PSA are expressed in his name, and when other departments act to discharge their delegated maintenance functions they can only do so as his agent since under the legal doctrine of privity of contract all the rights, responsibilities and obligations under leases attach solely to the Secretary of State and he alone is answerable for any default. Other departments have land-holding powers for specific operational purposes - a list of those known to PSA is at Annex 3. Transfer of title might in theory be achieved by amendment

of the relevant Order in Council defining the functions of the Secretary of State under the Commissioners of Works Acts. It would not however be possible for more than one Secretary of State to exercise functions in respect of the same lease.

6.6.2 The procedures for transferring property between one government department and another were examined in detail by an interdepartmental working party in 1980. (The Working Party on Government Land Holdings). Their basic conclusion was that the legal and administrative costs, and the lack in a number of cases of appropriate land-holding powers militated against transfer of title, and that administrative transfers of sole occupations would have the same practical effect and would generally be preferable. This is the policy PSA has followed in its relationships with its traditional repayment clients. Other than the initial "free transfers" of sole occupations when the procedures were first set up in the early 70s very few administrative transfers have however been successfully conducted in recent years, in part because of the Treasury requirement that such transfers should be at current market value, and in part because of the reluctance of some repayment clients to agree to formal and binding agreements with PSA.

6.6.3 There are advantages in coping with machinery of government changes if the title of the property does not have to be transferred when departments are merged or new ones created.

6.6.4 We do not recommend any change in the present legal responsibilities for the civil estate, but note that further consideration would need to be given to the legal and administrative implications should such a proposition be canvassed.

6.7 Central Management

6.7.1 Central management of the estate will be a key factor in securing the estimated £50m space savings by 1988 identified by the MDR. It should also give PSA more flexibility to respond to changes in departmental needs.

6.7.2 Without central management the objectives set for the civil estate, set out in 6.2.1 would not readily be achievable. The extent of multi-occupation on the estate is such that departmental occupations could not within the foreseeable future be disentangled except over time as leases fall in, and the financial disadvantages in terms of the space left surplus as departments withdrew from joint occupations would be very difficult to justify. It would be equally difficult to justify a situation where government departments were in effect bidding against each other for scarce office space, particularly in Central London.

6.7.3 It is noticeable that those private sector organisations which maintain an operational estate generally keep tight central control over its management with only modest delegation to their operating centres. As the MDR noted, government has developed the concept of delegation on matters of accommodation to a greater extent than the private sector, although the analogy is not precise as there is nothing in the private sector that resembles the government estate in size and diversity. It has also been argued that parallels might be drawn in some respects between the occupations of a single department such as DHSS and those of a large company like ICI.

6.7.4 The general view of the Committee is that it would not be financially prudent at this stage to contemplate delegation proceeding to the point where PSA's ability to continue to exercise its central estate management functions was called into question. However, some departments, and in particular DHSS, think there may be benefits to be obtained from untying which could outweigh these considerations (see 9.4.2 for their views on the radical option).

6.8 Potential Conflict

6.8.1 There is however potentially a conflict between PSA's role as central manager and departments' pursuit of their operational priorities and their implementation of the FMI. It will for example sometimes be preferable in PSA's view for a department wanting new accommodation to accept vacant space on the existing estate. It is inevitable however that what is available on the estate will not always be suitable and a department may have good operational reasons for wishing to be located elsewhere by a new hiring. We do not consider that potential conflicts can always be prevented. If there are genuine differences of view then we consider that the first step to resolution should be to identify as far as possible all the relevant costs and benefits, both to PSA and to the client department, in a properly conducted investment appraisal as recommended in the MDR. A department which chose to pursue an option which clearly could not be justified on the basis of the investment appraisal would need to put its case to Treasury and its Accounting Officer would also have to consider carefully how to justify the expenditure. By the same token PSA could not reasonably insist on an estate management solution which was patently uneconomic when the department's costs were taken into account. The need for an appraisal should not however become an excuse for delaying a decision.

6.8.2 There are however also more basic problems of understanding and communication which have in the past exacerbated relationships between PSA and its clients. Whilst there should always be scope for genuine differences of view greater co-operation is essential if progress is to be made and we consider that working relationships would be greatly improved by a clearer understanding of each party's roles and responsibilities (see section 7) and by the new system of joint planning and liaison which we recommend (see 8.9). This will require a greater openness and understanding of departments' needs by PSA, and better communication by departments of their operational priorities. The view has also been expressed that Treasury should display greater understanding of departments' operational requirements in considering overall levels of funding for accommodation. We discuss the problems of funding in more detail in 11.7 below.

6.8.3 As to the implementation by departments of the FMI, we do not consider that PSA's central estate management role, which we have assumed will continue, need be regarded as a constraint to the further development of delegations to departments providing that a reasonable balance is preserved between PSA's role and that of its client departments. In our view the proposals for the further development of PRS contained in this report will meet this condition.

7. THE PRESENT PRS SYSTEM: ROLES AND RESPONSIBILITIES

7.1 Introduction

7.1.1 In order to consider the practical implications of any proposals for the further development of PRS it is first necessary to establish clearly how the present system operates in detail. This section accordingly sets out the respective roles and responsibilities of PSA and of departments occupying accommodation on the civil estate under the present PRS arrangements.

7.1.2 The Committee has also noted the importance for the efficient and economical operation of the Government estate of ensuring that PSA and departments have a clear understanding of each other's functions, so that they can each fulfil their own roles in the management of accommodation and know what to expect of the other. We therefore recommend that by end March 1986 PSA should issue a statement of roles and responsibilities along these lines, amended to take account of whatever changes to the system are agreed, to all departmental Accommodation Managers and circulate it widely within PSA.

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7.2 Definition of Objectives

7.2.1 The Secretary of State for the Environment is responsible and accountable to Parliament for both Crown freehold and leasehold buildings on the civil estate. PSA acts on his behalf in the care and management of both freehold and leasehold properties. The Agency's principal policy objectives for the civil estate are as stated in 6.2 above.

7.2.2 Client departments undoubtedly have their own formulations of their objectives for the management of the civil accommodation they occupy. These will be ancillary to the departments' aims and objectives for the conduct of their main businesses. It is likely, however, that they will include something like the following:-

- i. to ensure that all staff and functions are adequately accommodated in suitable locations, with due regard to economy and to the appropriate space standards;
- ii. to consider means of reducing the amount of surplus space held by the department, and to prepare plans reflecting the department's likely future accommodation needs;
- iii. to carry out delegated minor new works and maintenance efficiently and economically, within the constraints of PESC and Voted expenditure.

7.3 Definition of Respective Responsibilities

7.3.1 It is evident that the objectives of both clients and PSA for the management of the estate are only capable of achievement through close co-operation and liaison and an adequate flow of information in both directions. The primary aim both for departments and for PSA must be to achieve the maximum value for money for the tax-payer in accommodating the functions of Government, which requires a careful balancing of costs, benefits and priorities. Because of this shared aim, there is no single analogy from the private sector which adequately reflects the relationship between PSA and its clients. The apparent resemblance to a commercial landlord/tenant relationship is misleading because of:

- PSA's monopoly position as the Government's provider of accommodation

- the common objective of economising on the size and balance of the estate, which prevents PSA from behaving like a commercial property company
- the constraints on public expenditure, which must take precedence over mutual agreements between the two parties on levels of service.

Another apparent analogy is with the relationship between a private property management agency and its clients. However, this is similarly not a true comparison because PSA has its own responsibilities and objectives for the estate and discharges many functions (such as the payment of rent and the appraisal of options for meeting new requirements) which in the normal agency relationship would be exercised by the client.

7.3.2 As no ready-made models can be relied on, it is necessary to define each aspect of the unique relationship between PSA and departments. The following sections seek to do so in general terms for a number of activities with which departmental accommodation managers are likely to be involved. More precise and detailed guidance is available from other sources such as the Accommodation Officers' Guide and the Minor Works handbook.

7.4 PRS Accommodation Charge

7.4.1 Departments are required to pay an Accommodation Charge for all space they occupy at 30 September of each year, whether leasehold or freehold, and are responsible for ensuring that they take adequate provision to meet these charges. They are also responsible for checking that the area of occupation on which the Accommodation Charge is calculated has been agreed with PSA.

7.4.2 PSA is responsible for maintaining and agreeing with departments an up to date record of areas of occupation, and for calculating and notifying to departments their annual Accommodation Charge. This comprises 3 elements:-

i. a rental element, reflecting the current market value of the accommodation and hence the opportunity cost to the Exchequer of the department's continuing occupation. This is charged for both leasehold and freehold buildings, and in the case of leasehold property inevitably differs from the historic passing rent paid by PSA to the landlord. The PRS rent is assessed (and re-assessed at 5-yearly intervals) by the local PSA estate surveyor, but departments may question an assessment if they have clear evidence of error, and ultimately raise the matter with the Chief Estate Surveyor if necessary.

ii. a maintenance charge, calculated on a unit rate basis, through which PSA recovers the cost of the maintenance and minor new works it carries out on the estate (an additional charge is made where work costing under £1000, otherwise delegated to departments, is carried out by PSA Directly Employed Labour). These charges apportion PSA expenditure in relation to areas of occupation, rather than in relation to the actual costs incurred on particular properties. Properties are classified as office, storage or specialised, according to their predominant use, and different unit rates are charged for each category.

iii. an administration charge, levied on a percentage basis on the maintenance element of the Accommodation Charge, through which PSA recovers the proportion of its overheads associated with this work.

In addition, PSA collects departments' contributions in lieu of rates on behalf of the Rating of Government Property Department, together with an administration charge levied by RGPD on a percentage basis.

7.5 Works Services

7.5.1 These consist of major new works (over £150,000), minor new works (up to £150,000) and maintenance. The respective responsibilities of departments and PSA in relation to these are described in the next two paragraphs.

7.5.2 Departments, except in those buildings serviced by PSA DEL, are responsible for funding and carrying out:-

i. maintenance works costing not more than £1000 (inclusive of VAT), excluding work which is the responsibility of others (eg landlords, local authorities, statutory undertakers, Crown Suppliers) or work which requires PSA's special expertise (in particular the maintenance of mechanical and electrical equipment, and work on items indicative of structural failure). More precise guidance on excluded work is to be found in the Minor Works handbook.

ii. minor new works costing not more than £1000 (inclusive of VAT), provided that PSA has confirmed in advance that the proposed work is technically feasible, that any necessary statutory or landlord's approval has been obtained, and whether or not PSA's technical oversight (eg certification of compliance with Building Regulations) is required.

iii. maintenance and minor new works, under the above delegations, in the common areas (including roofs, and fixtures such as down pipes) of buildings of which they are the major occupier;

iv. the provision and maintenance of approved supplementary heating, subject to advice from PSA on electrical safety.

7.5.3 PSA is responsible for:

i. carrying out all major new works on the civil estate in response to departments' requirements. This involves the planning and design of individual projects, which is done both in-house and through consultants, the letting and supervision of contracts, and the management of overall programmes of work. The office programme is financed from PSA's own PES, while PES provision for work on specialised buildings such as courts, prisons and special hospitals is found by the client department and transferred to PSA's Works Vote. In some cases departments also provide PES cover for the cost of non-specialised new works, where PSA does not have the funds to meet an urgent requirement.

ii. in buildings serviced by DEL, carrying out all maintenance and minor new works costing up to £1000.

iii. in other buildings, maintenance works under £1000 which are excluded from the delegation to departments, the technical oversight of minor new works carried out by departments where this is judged to be necessary, and the seeking of statutory or landlord's approvals in connection with such work.

iv. all maintenance and minor new works costing more than £1000. In office and storage premises the cost of this work is recovered through the maintenance element of the Accommodation Charge. For specialised properties only the cost of maintenance is met through the Accommodation Charge, with the actual costs of minor new works being recovered on a repayment basis from departments.

v. the maintenance of buildings' mechanical and electrical systems (including heating and hot water installations, lifts, and air conditioning), apart from some simple repairs (as defined in the Minor Works handbook) which are delegated to departments.

vi. carrying out, in conjunction with departments, annual inspections of all properties to ensure that they are being appropriately and safely maintained, and that the terms and conditions of leases and Fire Certificates are being complied with. Where the need for urgent and essential work falling within the £1000 delegation is discovered as the result of such an inspection PSA will ask the department to order and pay for the work required.

7.6 Health and Safety

7.6.1 Departments have responsibility for ensuring that:

- i. persons using premises under their control are safe and without risk to health;
- ii. no injury is suffered by any person as a result of failure to carry out work falling within their delegation, from the carrying out of such work, or from defects in the work;
- iii. contractors carrying out delegated work are informed of unusual hazards that might affect the work, such as the presence of asbestos or fragile roof coverings;
- iv. the terms of Fire Certificates are complied with, and that works are not carried out in such a way as to create a fire hazard or render existing fire precautions ineffective;
- v. fire alarm systems are periodically tested, and smoke checks and fire resisting doors regularly inspected;
- vi. portable fire equipment (eg extinguishers and fire blankets) are regularly inspected and only repaired or replaced to PSA approved standards;
- vii. all staff in a building are informed of the location of known asbestos materials, all work on asbestos-containing material is carried out by PSA or its contractors, any damage to known asbestos and any suspected new finds are reported promptly to PSA, any any exposure of staff to levels above 0.01 fibres/millilitre is recorded on personal files.

7.6.2 PSA has similar duties to those outlined in 7.6.1 i.-iv. above, in relation to work (including maintenance and minor new works under £1,000 in buildings serviced by DEL) that is the Agency's responsibility. PSA is in addition responsible for:

- i. the maintenance of fixed fire-fighting systems, such as sprinklers, detectors, hose reels, and wet and dry risers;
- ii. providing advice to departments on matters relating to fire precautions, and on other aspects of health and safety, such as asbestos;
- iii. re-surveying all properties on the estate at intervals, to ensure that fire precautions and means of escape are satisfactory and that fire appliances are being cared for;

iv. advising departments of the dangers of asbestos, deciding whether to seal or remove known asbestos and employing competent firms to carry out the work, monitoring dust levels on completion of work, keeping records of all known asbestos and providing details to occupying departments, and carrying out regular inspections of the condition of all known asbestos.

7.7 Other Responsibilities

7.7.1 Departments are responsible for:

i. repaying to PSA the actual cost (usually apportioned in proportion to areas of occupation in jointly occupied buildings) of heating fuel and utilities; of minor new works up to and including £150,000 in specialised properties; and (in buildings of which they are the major occupier) of custody guards employed by PSA in London.

ii. payment direct to the Crown Suppliers for goods and services ordered from them (apart from heating fuels).

iii. encouraging the conservation of energy in the buildings they occupy, and carrying out associated minor new works within the delegation to departments.

7.7.2 PSA is responsible for:

i. the payment of landlord's rents and service charges, accounts submitted by Crown Suppliers for heating fuel, and accounts submitted by suppliers of gas, water and electricity;

ii. negotiating rent reviews with landlords;

iii. informing departments about fuel costs and consumption, advising them on energy conservation measures, and carrying out a programme of capital investment to reduce energy consumption across the estate;

iv. payment of the Accommodation Charge for and care and custody of all vacant space on the estate which is not currently allocated to a department.

7.8 Provision of Accommodation

7.8.1 Departments are responsible for:

i. identifying in good time (whenever possible) any need for new accommodation, for briefing PSA in detail on their requirements, and for ensuring that provision is made to meet any costs arising from the occupation of the new accommodation, including the Accommodation Charge and (in most cases) removal costs.

ii. procuring and paying for casual hirings to meet short term accommodation needs.

7.8.2 PSA is responsible for:

i. ascertaining that new accommodation requested by departments does not without good reason exceed the minimum space standards for the staff to be accommodated;

ii. determining, in consultation with the departments concerned and taking account of their operational requirements, the most economical and effective means for Government of meeting accommodation needs - for example by the re-

allocation of space within jointly occupied buildings, the re-allocation of buildings between departments, the use of existing vacant accommodation on the estate, or the hiring, leasing, purchasing or construction of new accommodation;

iii. providing whatever estates and works services are needed, including negotiations for the lease or purchase of new buildings and the carrying out of in-going services and new construction, with the objective of ensuring that the new accommodation is ready for occupation when required by the client.

iv. in exceptional cases, where a move has been initiated by PSA in pursuance of its objectives for the management of the estate, meeting the costs of removals.

7.9 Disposal of Accommodation

7.9.1 Departments are responsible for identifying space within their occupations which is surplus to their current and foreseeable operational requirements, and for discussing with PSA whether any such space can be assembled into viable units for re-allocation within Government or disposal.

7.9.2 PSA is responsible for:

i. maintaining an oversight of the allocation and occupation of accommodation on the civil estate;

ii. negotiating rationalisation schemes with occupying departments where these will release space for disposal or obviate the need for new accommodation to be procured, and promoting such schemes by meeting some associated costs;

iii. discussing with departments the identification and assembly of units of viable vacant space for re-allocation or disposal;

iv. negotiating with landlords the termination or assignment of holdings;

v. the setting and achieving of annual targets for the disposal of surplus accommodation on the civil estate.

7.10 Conclusion

7.10.1 The foregoing paragraphs do not purport to represent comprehensive advice on the duties of departmental Accommodation Officers and PSA staff. More precise definitions - for example of the scope of the minor works delegations, or of departments' financial responsibilities - are to be found in the Accommodation Officers Guide, the handbook "Minor Works in Government Premises", and the Treasury circular DAO 4/84. Instructions to PSA staff on the professional and technical aspects of their duties are found in the relevant internal codes and instructions. This section does, nevertheless, set out the Committee's view of the general principles underlying the division of responsibilities for accommodation between PSA and client departments on the civil estate, under the present PRS arrangements.

8. ANALYSIS OF ISSUES AND NEED FOR CHANGE

8.1 INTRODUCTION

8.1.1 In this section we review the main issues which have been raised by various departments since the inception of PRS, take a view on whether any further change is needed, and put forward the proposals for further development which will constitute the standard option.

8.2 INDIVIDUALLY ASSESSED MARKET RENTS AND RATES

8.2.1 The element in PRS which perhaps more than any other signals to departments the cost of the accommodation they occupy is the assessed market rent they are required to pay as an element of the Accommodation Charge. Taken with rates it amounts to on average some 80% of the Charge. Some departments have from time to time raised doubts about the principle of charging the market rent when PSA itself may not be paying any rent at all on a Crown freehold or a "passing rent" which for historical reasons is substantially lower than the current market rent.

8.2.2 Following the suggestion in the MDR that the case for charging market rents should be explained for the benefit of departments we have looked again at both principle and intended practice in the light of a paper presented by Treasury. The paper was circulated to all departments in August as PESC (85) 27.

8.2.3 The arguments in favour of using assessed rather than actual rents are set out in more detail in the extract from the Treasury paper at Annex 4. In brief the argument is that rents based on open market valuations provide a much better approximation to the true economic costs than the rents (if any) that PSA actually pay themselves. This is the view which was expressed in the Ministerial correspondence in 1984.

8.2.4 We have also taken note of Treasury's proposals (also contained in PESC (85) 27) for the annual increase and five-yearly review of market rents (which as Ministers have agreed will be individually assessed for each property from 1 April 1986), and for the individual assessment of the rates which the Rating of Government Property Department recoup from departments through PRS.

8.2.5 We do however feel it right to point out that if the annual increases, needed to conform to the exigencies of PES, exceed the uplift factor there will be a further squeeze on departments' already hard pressed provision for accommodation. This is a factor we are bound to take into account in forming our overall view of the resource implications of the proposals we have considered for the development of PRS (see section 11).

8.2.6 We have also considered the issue raised by the requirement for departments to pay a market rent to PSA when they take up occupation of specialised accommodation for which they themselves have provided the resources. This has given rise to complaints that departments are required to "pay" twice. As the Treasury has pointed out however if occupying departments did not pay a market rent reflecting the value of the accommodation there is a risk that it would be regarded as a free asset, and that its opportunity cost would not be taken into account, leading in due course to inefficient use.

8.2.7 We have noted the recommendation in the MDR that PSA should provide a suitable mechanism whereby departments could raise questions about the level of rental assessments. We understand that PSA will shortly be advising accommodation officers on the appropriate procedures.

8.5 MAINTENANCE AND MINOR NEW WORKS

8.3.1 There are two main issues. First there is a need to find a better balance of responsibilities for maintenance than is afforded by the existing minor works delegation. Secondly there is likely to be some mismatch between the expenditure actually incurred on a department's occupations and the unit charge levied in the Accommodation Charge (the so called "club subscription", which covers both Part III and Part II works, and the associated administration costs).

8.3.2 The present £1,000 delegation has generally worked well, and goes some way towards meeting the overall FMI objective of making local management more directly responsible and accountable for their operational costs. It is necessarily a matter of judgment whether better value for money has been achieved but, as the MDR bears out, that is the firmly held view of those who have been responsible for this expenditure in departments.

8.3.3 There is considerable pressure from many departments to extend the delegation, and PSA suggested in its April consultation document that there might be scope for extending the delegation with the aim of enabling departments to do more non-structural work.

8.3.4 The present delegation has a number of technical exclusions, which provide that work which requires a degree of technical knowledge to specify, supervise and control to the appropriate standards remains reserved to PSA. The exclusions cover work to electric circuits and lifts, boilers and other mechanical or structural features of buildings.

8.3.5 Departments would need to set up their own works organisations or otherwise acquire technical capacity to do this work. This would duplicate PSA's technical expertise, and the benefits to departments are as yet unproven. We accept that PSA as the Government's property manager needs to retain some overall control of works which may affect the structure or the basic services of a building, not least as so many offices are shared between several departments. [But see section 9 for our views on traditional, standard and radical options.]

8.3.6 Nevertheless we do feel that departments can be given greater delegated responsibilities within the field of maintenance and minor works without giving rise to such problems, and that experience with the existing delegation has demonstrated that there are real benefits to be gained by giving local accommodation managers responsibility to handle more of the minor day to day problems which occur in their offices. [See however section 11 on the resource implications of our proposals as a whole.]

8.3.7 The problem has been to find the best way of giving effect to an increased delegation. We have considered a number of options. One option was for PSA to do work for departments on repayment terms. We did not favour this because of the disproportionate administrative costs involved in the commissioning and accounting transactions for a multitude of small jobs. Another was to attempt to define job by job a distinction between structural and non-structural work. However, other than in the case of internal decoration (see 8.5) there are no significant categories of work which readily categorise themselves as non-structural. We consider that it would not be administratively feasible to run a system of delegation on the basis of a highly complex compendium of rules which attempted to distinguish every possible item of work which might arise and classify it as structural or non-structural.

8.3.8 We have concluded that the most practicable approach is to increase the present £1,000 per job limit.

8.3.9 Any financial limit is to an extent artificial, and creates anomalies on either side of the divide, but it does have the substantial merit of simplicity and we have found no alternative which would not have greater disadvantages. The level of the limit is a matter of judgment, but having considered the views of a number of departments who responded to PSA's consultation document by suggesting an increase to £5,000 and having also considered the information PSA has been able to supply on the value of work done up to this level (see section 11 on resource implications) we consider that £5,000 would represent an appropriate level of delegation.

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8.3.10 We therefore recommend that the present delegation for maintenance and minor new works within which departments go direct to contractors should be increased from £1,000 to £5,000; but retaining the present technical exclusions and the need to consult PSA on minor new works. The new limit should be uplifted automatically at appropriate intervals to allow for inflation and PSA should agree an appropriate mechanism with Treasury.

8.3.11 We are however conscious that increasing the delegation, even with the existing technical exclusions, will bring more work and more complex work within the ambit of accommodation managers and thus bring with it a need for better guidance and training. We note that PSA is setting in hand work on producing better guidance for lay accommodation managers on a range of issues relevant to works services including contractual procedures, specification, supervision, legal obligations, standards of design and materials used, fire health and safety etc. There will be a similar need in respect of internal decoration (see paragraph 8.5.3 below).

8.3.12 PSA should draw up appropriate guidance for accommodation managers on work within the proposed new delegation with a view to making it available in 1986 well in advance of the delegation taking effect (see also our recommendations on timing of implementation in 13.1 and on training in 8.12).

Works costs and charging - the "club subscription"

8.3.13 The MDR drew critical attention to the present system of charging for works costs under PRS (the "club subscription") and made some suggestions for improvement, including the possibility of banding on analogy with the current banding of rents in London. There is also a strong feeling amongst departments that the unit rates charged bear no relationship to actual expenditure by PSA on maintenance and minor new works on their occupations and that they should know what that expenditure is.

8.3.14 On the question of information the report of our sub group on information requirements recommended that PSA should make available to departments information on its past expenditure on each property (where possible over the last 5 years) on maintenance and minor new works, and should also provide information on the main components of estimated expenditure in the current financial year, and forward plans and estimates of cost for the coming financial year and the year after where known (6.2.1a). The sub group also recommended that departments should, after the end of each financial year, be provided with the global figures for the maintenance charge and for the actual maintenance expenditure on their occupations (4.7.1). We endorse both these recommendations and consider that they will go a good way to meeting some of the criticisms of the present system.

8.3.15 The mismatch between the charge raised and the actual expenditure incurred will however remain and is likely to be put into sharper focus once departments have the figures on actual expenditure. We have therefore given initial consideration to a number of possible alternatives to the present system in the light of the report from our sub group.

8.3.16 We agree with the assessment by the sub group (in section 4.2 of their report) that an adjustment to the rents charged in PRS to reflect the poor condition of some properties and the cost of maintenance would in effect be double counting since the individual assessment of rents for PRS already takes into account the condition of the property and its costs in use to the extent that the market itself would.

8.3.17 Some of us feel strongly that it would be preferable to dispense with the club subscription entirely as a method of recouping PSA's expenditure for the works for which it will retain control and financial responsibility once further delegations have been made to departments. The argument is set out in 4.3.1 of the sub-group's report, where it is suggested that the remaining elements of the charging system would adequately bring home to departments the cost of their accommodation, and that it would be more appropriate in FMI terms for PSA to be wholly responsible for funding those works for which it retained responsibility. It has also been argued that the distorted cost signals provided by the present system may be prejudicial to good management of the estate.

8.3.18 On the other hand we are conscious that if departments were no longer to bear this element of the total costs of their accommodation it could be regarded as a retrograde step. We have therefore looked at possible ways of refining the present charging system. There are a number of possibilities here. One could for example move to using maintenance unit costs to produce "banded" charges in place of the present charging system or move direct to a system of charging based on estimated actual expenditure. These possibilities were analysed in some detail in section 4.4 of the sub-group's report but as that analysis shows there are difficulties in either approach, in part because of the volatility and unpredictability of the need for works expenditure and the restraints on the funds available to meet those needs and in part because of the inadequacies in present information. There are some doubts as to whether it is technically feasible at present to move to a more refined system of charging. Although we recognise the strength of the dissatisfaction amongst some departments with the present system, we would therefore want to see how successful departments and PSA are in practice in building up a reliable profile for this element of accommodation costs through the process of information sharing and joint planning and liaison before recommending changes.

8.3.19 There is also a more fundamental issue on which views vary considerably within the Committee. Changes to the charging system may have implications for the way in which PSA controls and distributes its overall funds for the works services it will retain. Some of us believe strongly that there are advantages in a common fund of sufficient size to deal with contingencies as they arise according to priority of need and consider that departments with smaller resources will be particularly exposed if PSA's funds are tied down department by department. Others take the view that it is wrong for one department in effect to subsidise another. We also note that the whole problem is exacerbated by underfunding of maintenance expenditure.

8.3.20 We have not been able to reach any firm conclusion on this difficult issue within the time available for completing our main report, but we acknowledge that further work and analysis is needed and that the issue should not be allowed to go by default. By the end of January 1986 PSA will have made available figures, showing the amounts recovered through the club subscription from each department in 1983/84 and 1984/85 and PSA's minor works expenditure on that department's occupations, which will assist this analysis. When these figures are available we shall consider a further paper on the charging system and on the options for further development.

8.4 DIRECTLY EMPLOYED LABOUR (DEL)

8.4.1 At present a number of offices, particularly although not exclusively in London, are excluded entirely from the minor works delegation because they are served by DEL. This exclusion runs counter to the general intent of the delegation, and is an anomaly which a number of departments have criticised.

8.4.2 Ministers have recently concluded that the assurance given to the unions that there would be no compulsory redundancies in the DEL purely on account of PRS should continue to be honoured. They also concluded however that the IDC should be invited to consider means by which offices served by DEL should be included in PRS.

8.4.3 We have noted that DEL will continue to run down progressively by a combination of natural wastage and voluntary redundancies but that particularly in London there is likely to be a significant work force for the foreseeable future.

8.4.4 PSA has proposed, and we agree, that offices served by DEL should nevertheless be included in PRS by enabling accommodation managers to order work via the DWO within the minor works delegation which will be done by DEL on a repayment basis (the resource implications are considered in 11.3.1). Through the medium of joint planning and liaison (see 8.9), PSA and departments would establish in the autumn of each preceding year what work DEL was equipped to do in each local office concerned. For those categories of work the accommodation manager would be required to submit an order through the DWO who would either arrange for it to be done by DEL on repayment terms or inform the accommodation manager that the work was beyond the present capacity of the DEL and that he was free to go direct to contractors. For work outside the defined categories the accommodation manager would go direct to contractors without this prior procedure. PSA would retain overall responsibility for managing the DEL and departments would in effect remain tied to their use to the extent necessary to ensure that they were fully utilised.

8.4.5 We suggest that PSA should consider further the detailed procedures for giving effect to this proposal, and in particular whether there is any scope for setting limits to the time departments may be asked to wait before an order can be carried out by the use of DEL, but we note that negotiations have yet to take place with the unions concerned. The aim should however be to have a workable system in place for 1 April 1987.

Rec 3

8.4.6 We recommend that the present DEL exclusion should be removed with effect from 1 April 1987 to permit accommodation managers to commission work from them on repayment terms within the proposed minor works delegation, and to go direct to contractors (subject to the normal process of consultation with PSA for Part II works) where DEL cannot undertake the required work.

8.5 INTERNAL DECORATION

8.5.1 At its meeting on 12 December 1984 the Inter-Departmental Committee on PRS agreed to set up pilot schemes on delegating responsibility for internal decorations to departments. The principle that internal decoration should be delegated had been generally accepted. The aim of the pilot schemes was to discover how delegation might best work in practice, to shed light on the advantages or disadvantages were departments to be untied from PSA, and to identify any practical or administrative problems which would need to be addressed in implementing any general delegation.

8.5.2 The Committee's interim report in November 1985 was made before most of the 13 pilot schemes were complete. On the evidence available it recommended delegation of responsibility for internal decorations to departments from 1 April

1987 to coincide with other proposed changes. It also recommended that departments who wished to do so and had the funds available should be permitted to carry out further schemes for internal decoration during 1986/87.

8.5.3 Although one or two schemes are still in progress and the monitoring consultants have not finally reported, the pilot schemes have been a success. There are practical points emerging from them which will be drawn together in a full report to the IDC and taken into account in the guidance PSA is now preparing for departments. We feel confident in endorsing the recommendations of the interim report that:

Rec 4

- full delegation should take place from 1 April 1987 to coincide with other proposed changes;

- the intervening period should be used by PSA and departments to prepare fully, including those departments who wish to do so and have the necessary funds being enabled to carry out further schemes during 1986/87.

8.6 MINOR NEW WORKS

8.6.1 We have already recommended that maintenance and minor new works up to a new limit of £5,000 should be delegated to departments. However that will not of itself achieve the appropriate balance of responsibilities between PSA and occupying departments. Many of the new works which departments have at present a major role in initiating, stemming from their operational requirements, can be expected to exceed £5,000. An example is internal repartitioning where the associated costs of rewiring can soon bring even a fairly modest scheme over the threshold.

8.6.2 Here again there is a balance to be struck between a number of factors. As property manager PSA needs to satisfy itself that the proposed new works are technically and structurally feasible and to consider the interaction with other works and where appropriate the choice between repair and new provision. If landlord's consent is required PSA will need to obtain it. PSA also has functions in respect of fire certification, building regulations, and planning permission or listed building consent where applicable. While some departments may feel that they can do a better, cheaper or prompter job by using their own resources or by buying in management expertise from the private sector, others may not wish to duplicate PSA's professional and technical expertise on the design, supervision and control of minor new works, and may feel that the resource implications in setting up the necessary expertise to do so could be more than it would be reasonable to contemplate for changes to take place in 1987. Nevertheless, it seems right that they should have a greater say than at present, particularly on works which affect the internal layout of their occupations.

8.6.3 We consider that the best way of allowing for the necessary interactions between PSA and clients whilst making departments more directly responsible for the minor new works incurred on their occupations is to move towards departments commissioning work from PSA on a repayment basis. Under this approach PSA would in agreement with the client undertake all the necessary work involved in designing, specifying, supervising and controlling the contract and would recharge to departments the works costs plus its standard percentage charge for its own departmental expenses. The necessary transfer of resources would be effected by an abatement of the Accommodation Charge pro rata to the space occupied by the departments on the estate (see section 11 for the resource implications).

8.6.4 There are certain categories of Part II work which it might be more appropriate to reserve to PSA entirely rather than putting them on a repayment

basis. In addition, it might be appropriate for PSA to fund works expenditure needed to facilitate an estate rationalisation move initiated by the Agency. Our detailed suggestions for those categories which should be devolved are contained at Annex 5. We recommend that these categories of minor new work should be placed on a repayment basis from 1 April 1987.

8.6.5 Even when departments become responsible for commissioning and funding minor new works on a repayment basis there may still be occasional difficulties where PSA lacks the resources to plan the work, or where a department is not satisfied with the timescale or cost of a project as indicated by PSA, because it considers that a less elaborate solution might suffice. The proposals we make in 8.9 on joint planning and liaison should help to improve communications and planning generally but we feel that a more specific mechanism will be needed to deal with the problems we have outlined.

8.6.6 We have therefore welcomed PSA's proposals for a safety valve whereby departments could in certain circumstances use agents other than PSA for minor new works between £5,000 and £25,000. (These figures would need to be adjusted periodically for inflation). We recommend that the procedures adopted for the safety valve should be those set out in more detail in Annex 6.

Rec 5

8.7 MAJOR NEW WORKS

8.7.1 At present major new works which are categorised as office and storage fall to PSA's PES and Vote; on specialised accommodation departments provide the PES and the expenditure falls on PSA's Vote. The MDR recommended that:

"the Treasury reviews by 1 April 1986 PES and vote procedures for major building works with the objective of bringing the cost of the projects closer to departmental funding."

8.7.2 We have considered initial papers on this issue by Treasury and PSA respectively and have formed some conclusions on a possible way forward. The problem is essentially whether PSA should continue to fund and run centrally an overall programme of expenditure on major office building works (ie projects over £150,000), or whether it would be better for each department to have a more direct involvement in determining the funding for the works which PSA undertakes to meet specific operational requirements. If there is to be a greater involvement the question is what changes are needed in existing financial arrangements.

8.7.3 Departments already provide PES cover in the case of major new works in specialised accommodation (eg Research Establishments). There is also a precedent for departments funding work by PSA in non-specialised accommodation. This already happens on certain sub-programmes within PSA's overall Office and General programme where departments such as Employment have been able to get work done which PSA could not otherwise have funded.

8.7.4 There are advantages in FMI terms in an approach whereby departments themselves fund major new works by PSA. Under this approach departments would have to find the resources to back their departmental requirements and make a full assessment of their priorities. When PSA has the financial responsibility it can be argued that departments have no real incentive to choose the accommodation option which represents the most effective use of limited resources. When PSA does not have sufficient funds to meet demands departments may find that their schemes are not given the priority they would wish. There is concern that departments who have secured funds for agreed operational priorities find their programmes jeopardised by lack of PSA funds for the operational accommodation needed, when the departments concerned have not taken part in the discussions with Treasury on funding the necessary works.

8.7.5 On the other hand there are certain advantages in the present system. Whilst some projects may be closely identified with a particular department's operational requirements, in other cases it will not be at all easy to divorce the consideration of a proposal for major new capital expenditure from PSA's overall responsibilities as central manager of the estate. There are a number of projects which in effect represent a solution to the accommodation requirements of several departments. There are also considerations of programme management. With one central programme PSA can to an extent even out the inevitable peaks and troughs in major construction by offsetting overspending against underspending projects. Few departments would have a sufficient volume of major building works to be able to take advantage of this levelling out. For many departments, and particularly those with only a small area of occupation on the civil estate, there could be genuine difficulties in finding provision for a need which may arise perhaps once in ten years, and which may have an uncertain incidence of expenditure over any given PES period.

8.7.6 There is not yet agreement within the Committee on the way forward and we shall need to look further at a number of detailed points which have emerged during discussion before we can put forward our considered conclusions on this issue. In doing so we shall take account of the recent report on the control of capital expenditure contracts; we note that Treasury has been charged with conducting a further study on this.

8.7.7 We intend to consider urgently the following points:

- (a) the effect of better liaison arrangements which we agree should be introduced whatever changes are made to the funding system;
- (b) the scope for recategorising certain types of expenditure on major new works in the present Office and General programme as more akin to specialised accommodation because of the extent to which they are "dedicated" to meeting particular departments' operational needs;
- (c) whether works within existing offices which exceed the present £150,000 boundary line between minor and major new works might be treated similarly in terms of funding responsibilities;
- (d) to assist with this analysis, a detailed breakdown of the present Office and General programme into its component elements;
- (e) an estimate of the amounts which might be available for transfer to departments if there were to be a change in funding responsibilities, and an assessment of the extent to which departments might be required to seek additional funds to meet the shortfall in PSA's existing PES baseline, and the consequent resource implications for departments;
- (f) a detailed analysis of the options for a change in existing funding arrangements, ranging from a more systematic involvement of client departments by PSA in preparing its bids for PES, to a system of PES attribution, or alternatively moving to full repayment;
- (g) the transitional arrangements which would be needed if any change were to be recommended and the timing of its implementation, and
- (h) the extent of any continuing role for a PSA controlled central programme to meet expenditure needs which could not clearly be allocated to particular departments, central initiatives such as estate rationalisation or energy conservation, and the requirements of smaller departments.

8.7.8 We shall need in the light of this analysis to look further at the arrangements for specialised accommodation (as currently defined) and to take a view on whether it would be desirable to move from the present arrangements for PES attribution to a full repayment system. We shall also need to take account of the question of how PSA's departmental expenses on the design and planning of major new works in specialised accommodation should be funded. For these purposes we shall need to involve in our discussions other departments with a substantial stake in the specialised estate, eg Home Office and the Lord Chancellor's Department.

8.7.9 We need to make further early progress on these issues and propose that we should report separately to Permanent Secretaries with our findings by no later than end March 1986.

8.8 WORK OF THE SUB GROUP ON INFORMATION REQUIREMENTS: FUEL AND UTILITIES

8.8.1 The MDR commented as follows:-

"If line managers are to be encouraged to reduce their energy costs, they must be given information about the energy consumed by their commands. The present system, under which departments pay for their energy on the basis of bills presented by the PSA does not provide the necessary information about consumption, either for checking the bills, or for monitoring the effects of conservation measures."

8.8.2 This issue was debated at some length in the IDC as previously constituted but little progress was made. As we noted in our interim report we set up a sub-group to look specifically at this question and at information requirements generally. After full and detailed consideration of these and other issues they produced a substantial report with their recommendations which we considered at our meeting on 19 November. We believe that the detailed contents of that report will be of considerable interest to those concerned with accommodation matters in departments. We have therefore arranged for it to be circulated separately to Principal Establishment Officers for their information rather than adding to the bulk of this report.

8.8.3 In this and the paragraphs that follow on joint planning and liaison and on information requirements generally we therefore confine ourselves to the main conclusions and recommendations for action which we wish to present for consideration by Permanent Secretaries.

8.8.4 On fuel and utilities our recommendations are as follows:

- Rec 6 1. The present system of centralised payment of fuel and utilities accounts by PSA should be left unchanged for the time being; but other means should be sought of making comparable information about cost and consumption available to departments; and that the possible benefits and disbenefits of direct billing should be examined further in the context of the proposed experiments on the radical option (see 9.4 below).
- Rec 7 2. PSA should provide to departments quarterly reports of fuel consumption for each property they occupy; as a first step, the first reports to be available in January 1986.
- Rec 8 3. Departments should take steps to distribute improved information on consumption, when available, to local Accommodation Officers or other appropriate points in their organisation; the relevant tariff information should be obtained locally, from the District Works Office.
- Rec 9 4. Departments should be made aware of the specialised tariff - checking exercise being undertaken by PSA's consultants, in order to avoid duplication of effort.
- Rec 10 5. PSA should accord a high priority to work on the development of a more comprehensive system for reporting cost, consumption and tariff information to departments.
- Rec 11 6. Departments should take steps to ensure that all staff concerned with the management of accommodation receive adequate information, advice and training on energy conservation measures.

Rec 12

7. Departments should consider the feasibility and possible benefits of installing water meters in properties they occupy, where this has not already been done.

We recognise that there are resource implications in these proposals. However in 1984/85 the amount recovered by PSA from departments to recoup its actual expenditure on fuel and utilities was some £65m, and we consider that the adoption of the measures we have recommended will lead to savings which will amply repay the initial effort required to implement them.

8.9 JOINT PLANNING AND LIAISON

8.9.1 At present considerable administrative effort at all levels within PSA and client departments goes into dealing with accommodation problems as they arise. Problems can be exacerbated by misunderstandings, faulty lines of communication, lack of clarity about responsibilities, mutual lack of information about plans, priorities and funding and recrimination about the quality of service expected and actually provided.

8.9.2 The proposals we put forward in this report for changes to the present system of PRS should help in part to reduce some of this wasteful friction. At the same time the enhanced responsibilities which departments will now have mean that it will be even more important in future for there to be close co-operation at every level in jointly tackling common problems.

8.9.3 We have therefore endorsed the proposals for a more formal system of regular joint planning and liaison meetings between PSA and client departments which were set out in the consultation letter which PSA sent to Principal Establishment Officers on 13 April. In order to better assess the resource implications and find the best and most economical formats for joint planning and liaison which will work to the mutual satisfaction and benefit of client departments and PSA our sub-group on information requirements has set up practical experiments in three PSA Regions, London, Midland and Southern, further details of which are contained in their report. The experiments will include an opportunity to explore practical ways of taking forward the recommendations contained in the MDR about quality of service. The sub-group will act as a steering committee and will report back to us with its conclusions. We shall then arrange for advice to be issued to departments on the results of the experiments.

Rec 13

8.9.4 We recommend that the aim should be to have a fully developed system of joint planning and liaison operating for all departments in time for implementation of the proposed changes to PRS on 1 April 1987.

8.10 INFORMATION REQUIREMENTS

We have set out in 8.8.4 our recommendations on the information requirements in respect of fuel and utilities. We take as read the continuing supply of information to departments on the component elements of their Accommodation Charge; and note that there are a number of issues which will be explored in the experiments on joint planning and liaison where an assessment is more likely initially to be qualitative and ad hoc eg appraisal of condition of accommodation, operational deficiencies, and service delivery. The report of the sub-group sets out in detail (in section 6.2.1) our suggested list of minimum items of information. Our recommendations on implementation are as follows:-

Rec 14

i. PSA should aim as a priority task to develop a new electronic information system to include in a uniform way appropriate items from the list of minimum requirements. The aim should be to have this information held electronically in a uniform way no later than 1 April 1988.

Rec 15

ii. In the interim PSA should make available the information in the form in which it exists at present with such manual collation and adaptation of format as resources permit or the results of the experiments on joint planning and liaison suggest.

Rec 16

iii. In further defining the operational requirements for its new data base and outlining its proposals PSA should maintain close liaison and consultation with our sub-group on information requirements at each stage of development.

8.11 VIABLE VACANT SPACE

8.11.1 As was pointed out in the MDR, the achievement of space savings is dependent on PSA's ability to dispose or reallocate vacant space identified by departments in the course of their occupancy audits. PSA's overall management objectives for the estate have been considered in 6.2 above. In this section we look at the practical considerations which are relevant to a decision by PSA on whether space identified by departments as surplus is or is not a viable unit and the criteria recommended for use by PSA and departments alike.

8.11.2 The present ground rules are given in paragraph 2.8 of DAO/84:

"From 1984/85 PSA will bear the charge (accommodation charge) for all vacant space on its charge as at 30 September in each year, available for re-use, disposal or being refurbished by PSA PSA can only take back on its charge viable units for re-use (whether or not such a re-use is known) or for disposal."

8.11.3 It is most important that any Accommodation Manager who is trying to assemble a package of vacant space should consult the estate surveyor first. This is essential if abortive effort is to be avoided. There are two possible courses of action for PSA in relation to vacant space, to reallocate within government or to dispose of the space from the estate. In terms of reallocation there are limits in practice to the size of an operational staff unit which can be considered as independently viable. In terms of disposal there are physical, security and legal constraints (eg lease conditions) which may limit PSA's freedom of action. There are also cases where departments require PSA to hold space which might otherwise have been disposed of or reallocated, and where new occupations are provided to agreed space requirements which are subsequently found to have been overestimated. In all this a balance needs to be struck between PSA's responsibilities as central estate manager and the need to provide departments with a sufficient incentive to identify and release vacant space.

8.11.4 After due consideration we agreed the criteria set out in Annex 7 to this report (which were promulgated in our interim report to Permanent Secretaries). We recommend that these criteria should be reviewed after they have been in operation for 2 years.

Rec 17

8.12 TRAINING AND GUIDANCE

8.12.1 As noted in our interim report the experiments on internal decoration underlined the need for appropriate guidance to be prepared for use by accommodation managers on contractual procedures and the specification and supervision of works. The increased delegation on maintenance and minor works recommended in 8.3 will also need to be accompanied by appropriate guidance on such matters as fire and safety standards, building regulations, quality assurance and method of building, and the need to observe lease conditions and avoid loss or damage from faulty or neglected work. PSA has set in hand the preparation of the necessary guidance which should in our view be ready in sufficient time to allow departments to consider the internal procedures they will need to set up in order to discharge their new responsibilities effectively. We recommend that PSA should issue comprehensive guidance on the conduct of all delegated functions by 1 April 1986.

Rec 18

8.12.2 There is also a need for training to supplement the guidance. PSA wrote on 18 October to Principal Establishment Officers inviting their co-operation in responding to the MDR recommendation on training.

Rec 19 8.12.3 We recommend that the training programmes agreed with departments should be extended to cover specifically the procedures for dealing with delegated works.

9. THE OPTIONS

9.1 Identifying the Options

9.1.1 We were asked to consider in addition to the PSA's proposals, alternative arrangements both for those departments who might not wish to take on further responsibilities for accommodation and for those departments who might want to contemplate a substantial degree of untying from PSA, the latter to be tested by practical experiments. We have therefore identified three options; a "traditional" option reflecting the status quo, a "standard" option, based on our consideration of PSA's proposals, and a "radical" option, for which we have proposed a range of experiments.

9.1.2 We have set out an analysis of what each option would comprise in Annex 8. This is in summary form with cross references to paragraphs numbers in section 7 where the various functions are described in greater detail. In what follows we give briefly the main features of each option. As will readily be seen it would have been possible to construct a much wider range of options with variations in respect of each of the functions. We were however mindful of the practical and organisational difficulties presented by a multi-option approach (see section 10) and have therefore concentrated on these three. Our recommendations on such matters as information requirements and joint planning and liaison are of course valid for all options and can be regarded as common factors.

9.2 The Traditional Option

9.2.1 This would in effect be the existing system of PRS as set out in section 7. The minor works delegation would remain at its present level, though adjusted periodically for inflation, and departments taking this option would still look to PSA for work on internal decorations exceeding £1,000. The proposals in 8.4 for incorporating buildings served by DEL into PRS would apply but only within the £1,000 limit.

9.2.2 As to the financial arrangements, much would depend on how many client departments remained on the traditional option, and the size of their occupation of the civil estate. The method of financial adjustment for the changes envisaged in the standard option (see section 11) will be an abatement of the Accommodation Charge pro rata to space occupied. The residual funding left to PSA to provide common services for clients on the traditional option may not be sufficient to meet all the works expenditure that may arise, and those departments may therefore need to make provision to commission PSA on repayment terms over and above their pro rata share of the remaining resources; this would particularly be the case with internal decoration where PSA's existing provision is exiguous and which would have very low priority within whatever central funds remained.

9.3 The Standard Option

9.3.1 The main elements of this option have already been considered at greater length in section 8. In brief they comprise an extended minor works delegation of up to £5,000, commissioning PSA on repayment terms for certain minor new works, delegating internal decoration, and the safety valve arrangements for work up to £25,000 whereby departments can go direct to consultants or contractors if it is established that PSA cannot do the minor new works as required.

9.3.2 The financial and manpower implications of this option are set out in section 11. The financial results for each PRS client are shown at Annex 10.

9.4 The Radical Option

Reservations by PSA and by DHSS and DE

9.4.1 PSA has made it clear to us that the proposals for the development of PRS which its Ministers have supported are those contained in the standard option. The proposals we outline below are based on suggestions which PSA made solely with the purpose of fulfilling the remit from Permanent Secretaries. PSA could not itself support these proposals, but has no objections to the proposed experiments which are intended to shed light on the feasibility of such an option.

9.4.2 DHSS and DE for their part have expressed the view that a radical option on the lines suggested below would, if implemented, be only a first step in a direction which they would expect to lead in due course to complete untying of their regional organisation from PSA, including untying on estate management functions (with however suitable provision for consultation with PSA). They are prepared to endorse these proposals as a basis for future development.

9.4.3 We note these reservations, but do not consider that it is necessary at this stage to take any collective view on the desirability or feasibility of moving at a future date to an option on these lines or at a later stage going to the complete untying which DHSS and DE envisage. Such a decision cannot in our view be made until the experiments have been completed and assessed, and until departments have had experience of operating under the standard option.

Main elements of the radical option

9.4.4 The technical exclusions would be removed and departments taking this option would be untied for maintenance, and for minor new works (ie up to £150,000). PSA would only retain major maintenance projects of a size and complexity such as to require central management. Maintenance projects of over £100,000 are already specifically identified as a separate category on PSA's Vote and would represent the threshold. Departments would need to equip themselves with sufficient in-house technical capacity either to instruct consultants or go direct to contractors. Departments would in large measure be responsible for the running and operation of day to day building services within their occupations including heating systems and energy conservation works. Consultation with PSA would however be necessary and PSA would need if appropriate to be able to require departments to carry out works or remedy faulty work where the Secretary of State for the Environment's legal obligations or the structural integrity of the property required such action.

9.4.5 Departments would be expected to co-operate in estate rationalisation schemes, subject to their operational requirements being met and to any necessary financial adjustments (as noted in our interim report guidelines on this latter point are to be developed by Treasury and PSA). Departmental funding of works expenditure would not be regarded as conferring proprietorial rights on the common user estate.

Testing by experiment

9.4.6 We have set up a steering committee to oversee the experiments with representatives from the three departments who have expressed an interest in the radical option (DHSS, Energy and Employment) and from Treasury, MPO and PSA; there will also be representation from those amongst us who are not at present ready to contemplate such a radical degree of untying from PSA. The first two experiments will be in two Unemployment Benefit Offices and will start shortly. They will involve a modest level of improvements and adaptation, including some structural work. Employment are particularly concerned to mount these two experiments which they consider to be typical of the sort of works problem they are often faced with

in their UBOs. We are however agreed that a wider range of experiments will be needed properly to assess the radical option we have outlined. They should consist of a range of offices where Employment and DHSS take over responsibility for the full range of works and services we have defined. The offices chosen should be in a wide range of different locations with a mixture of freehold and leasehold, old and new properties and in particular should include offices in multiple occupation with other departments. There should be controls where PSA provides the services. These should be selected to provide as exact a comparison as possible. Technical consultants will be engaged to assess the results achieved on works and building services. The views of staff in the properties concerned in the experiments should also be elicited.

9.4.7 The aim of the experiments will be to illustrate the advantages or disadvantages of departments either equipping themselves with the necessary in-house technical expertise to go direct to contractors or using consultants to provide the necessary technical advice and specification. The experiments should establish as far as practicable the advantages and disadvantages of further delegation beyond the standard option of some or all of the elements considered at 9.4.4 above.

9.4.8 The steering committee will need to draw up clear guidelines to ensure that in all aspects of the experiments like was compared with like and that the experiments cover the points raised in 9.4.6 and 9.4.7 above. It will also need to consider:

- a. guidelines for estimating the value for money of projects: for example, how projects should be defined so that all elements of the work can be estimated; what costs should be used in estimating; which milestones should be set for assessing the progress of work; how the quality of work should be assessed at the end of the project; how the performance of contractors and consultants will be measured;
- b. how to assess the impact of further delegation on departments' administrative costs taking into account the organisation departments would need in order to run the full range of services delegated to them under the radical option, how they would arrange the distribution of functions, and which resources both financial and manpower they would need to employ bearing in mind that simple extrapolation and aggregation of figures obtained from the experiments may give a misleading view of total costs;
- c. how to assess the impact of untying by some departments only on PSA's residual administration costs, bearing in mind that it might not be feasible to reduce central overheads at the same rate as operational resource costs are reduced. Account should be taken of the possible effect on PSA's organisation and deployment of resources and on its service to departments remaining on the standard option of a pro rata transfer of resources to departments taking the radical option, and of views expressed by other departments sharing accommodation on the estate with the participating departments on the potential implications for their own administration of accommodation functions;
- d. how the timeliness of projects will be assessed both in relation to each other and as compared with timetables drawn up at the beginning of projects;
- e. how problems which might be encountered in jointly occupied buildings should be assessed;
- f. how the satisfaction of staff occupying buildings in the experiments should be assessed;

h. how the departments' success in meeting their operational requirements should be assessed.

9.4.9 The steering committee should seek early advice from the Government Accountancy Service on the appropriate means of assessing the value for money of projects, ensuring that all are assessed on the same basis. Meanwhile, a careful record should be kept of staff time involved in the first experiments.

9.4.10 Some potential effects of untying will not easily be ascertainable by practical experiment. It may be possible to derive some information from those organisations which have recently set themselves up to do work independently of PSA, particularly BT. However, as BT are still in the process of disengagement from PSA, any information derived from this quarter may not be wholly valid, and it would also be useful to see what can be learnt from larger companies in the private sector, and this might be done through the medium of the PSA Advisory Board. PSA will see what can be discovered by exploring this avenue.

Funding and timing of the experiments

9.4.11 The initial two experiments are to be funded by DE. For the main core of experiments the participating departments will be funded by abatement of the Accommodation Charge for the selected offices including abatement of charges in respect of other departments in jointly occupied offices where those departments consent to the work being carried out by DE or DHSS. They would however still have to pay the assessed rents and rates. They will be asked to provide any additional funding required from within their own resources.

9.4.12 In order to allow sufficient time for the chosen sites to be selected, monitoring consultants employed, and proper advance preparation to be made it is proposed that the main core of experiments should start from 1 April 1986. In order to gain a realistic view of the problems departments will have to face in tackling new functions (and in particular given the cyclical nature of works expenditure) the experiments should run for a sufficiently long period. We recommend that a minimum of 2 years is necessary to draw any worthwhile conclusions from the experiments, but that the steering committee should present to us an interim report on progress after the end of the first year.

10. APPLICATION OF THE OPTIONS

10.1 Introduction

10.1.1 There are at present 47 separately billed clients served by PRS (excluding PSA itself). This number may vary with any future machinery of government changes but is on the whole more likely to increase than decrease as the impact of the FMI leads to the identification and emergence of more accountable units of management within departments.

10.1.2 As we pointed out in 9.1.2 it is possible to formulate a large number of options with differing delegations on each accommodation function. If the principle of self election is accepted there is scope potentially for as many variants on the basic PRS regime as there are client departments. Such a result might be understandable in terms of varying perceptions within government of the accommodation function but, as noted at the Permanent Secretaries' meeting on 10 July, a proliferation of differing PRS regimes could present PSA with an unmanageable task as a central agency. Moreover a system in which each department proceeded at its own pace would lead to severe and disproportionate administrative strains at local level since the possible difficulties which we illustrate below and in Annex 9 would be multiplied several fold. For these reasons we have mainly confined our analysis in this section to the effects of operating initially with two options, the standard and traditional, from 1 April 1987, and to identifying possible areas of difficulty in a later move to a three option system which will need to be carefully researched in the course of the experiments we have proposed on the radical option.

10.2 Advantages of a Uniform System

a. Central administration

10.2.1 At present the PRS regime is uniformly applicable to all. This has a number of advantages. For PSA the central administrative processes of establishing, raising and collecting the Accommodation Charge and the locally based work of advising departments' accommodation officers on the detailed application of the existing rules to their particular circumstances can be discharged more easily and effectively with a uniform system. PSA's estimated administrative costs of running PRS, including the advisory services at local level, but exclusive of Estate Surveying work are some £0.75m per annum.

10.2.2 There is a considerable advantage to PSA in uniformity because of the need to have efficient and effective central management of a widely dispersed regional organisation. PSA has some 150 separate district works offices, in 10 UK Regions, and there are also estates offices, area works offices, and the Regional Offices themselves. PSA staff already have to familiarise themselves with other systems than PRS - for example the differing arrangements for their various repayment clients, and with the procedures which apply to the management of the Defence Estate. There are also a few clients eg Parliament and Museums and Art Galleries who remain on allied service terms. PSA have told us that it is not at present the easiest of tasks for their staff to learn the differences in procedures and their correct application to each client, nor for line and central management to devise effective means of supervising the performance of these differing procedures and promoting uniform standards as regards the quality, propriety, and VFM of the actual services undertaken. Their senior management is continually and actively engaged in improving the central management and control of the agency and in rationalising the Agency's organisation and its development of resources. Operating more than one system of PRS will make the task more difficult.

b. Multi-Occupation

10.2.3 There are also problems raised by the degree of multi-occupation on the civil estate. This can be as high as 60% to 70% of local offices shared with one or more other departments. At present the PRS rules require the major occupier to take on certain limited additional tasks in respect of common areas but it is by no means clear what would happen in a local office where the major occupier is for example a traditional option department trying to co-ordinate the activities of departments adopting the standard or radical options. What would happen if one of those departments wanted to do works which were within its delegation but not within those of other occupying departments and which logically ought to cover the property as a whole? Does the major occupier take on the invidious task of effecting a compromise and seeking the appropriate financial contributions or does it fall to PSA? Either way there is a potentially fertile ground for confusion, friction and a not inconsiderable expenditure of scarce staff resources to make sure the machinery works smoothly. At Annex 9 we give some practical examples of the problems which might occur.

c. Legal obligations

10.2.4 Since whatever the variety of departments and PRS options in one jointly occupied building may be, the same lease will apply PSA has the added problem of reconciling a variety of delegations within one building with its legal accountability to the landlord. If landlords become concerned at PSA's ability to deliver on its obligations as a tenant because of the risk of default by occupying departments acting as PSA's agents this may affect the terms PSA is able to negotiate.

d. Efficient deployment of resources

10.2.5 Even with a limited number of options, individual departments' elections would affect other departments. PSA's resources are not infinitely divisible without loss. A progressive departure of responsibilities and funds could leave PSA less equipped and resourced to meet the needs of those departments who may elect to retain its services to an extent which cannot be readily gauged or quantified but should not be underrated. At the extreme departments who did not elect to take on more functions might find that in the event they had little option but to do so because of deficiencies in the residual services PSA was able to supply within the limited central funds remaining to it. Once functions had been dispersed and capacity reduced there would be no guarantee that PSA could readily gear itself up again to resume its former role if experience led departments to wish to revert to greater use of the Agency.

10.3 Advantages of more than one option

10.3.1 It may be that a single-option system would not be the best course of action, when some departments consider that the standard option places upon them more delegation than they feel able to handle, whilst others feel that they have the organisational structure and capacity to go further and are very interested in the radical option.

10.3.2 Small departments may not be able to manage the increased delegation under the standard option. The size of their occupation may not justify a senior or full-time post with accommodation responsibilities, but a junior or part-time officer may well not be able to perform all the duties satisfactorily. There may also be severe limits to their ability to finance increased responsibilities if actual expenditure exceeds their pro rata share of the resources released by abating the accommodation charge.

10.4 Other relevant considerations

10.4.1 It may be necessary to explain to the PAC, the Treasury and Civil Service and other Select Committees the rationale behind any new PRS system, in which there was more than one option. Individual departments might have to account for divergences in their approach to what may be seen as a common function. But equally Ministers might have to acknowledge publicly that a uniform system responds inadequately to departments' needs.

10.4.2 It is not easy to see how objective criteria could be formulated to guide departments' choice of option. DHSS and Employment are both departments with a large local office organisation and both favour the radical approach. Inland Revenue also has a large number of local offices yet favours a more conservative approach. FCO and Energy are departments with a relatively small stake in the civil estate and relatively small administrative budgets. Yet FCO is concerned at the resource implications of some aspects of the standard option while Energy are interested in the radical option. However departments' views, based on their own perceptions of their administrative and financial capacities, while to an extent subjective, should not be lightly dismissed. Departments of similar size and structure are not necessarily identical in other aspects of their internal organisation nor do they necessarily have the same accommodation needs.

10.5 Conclusions on application of the options

10.5.1 We consider that the standard option represents a better balance between PSA's central role and the impetus under the FMI to wider delegations than the present system of PRS. The developments envisaged in the standard option are not however inconsiderable and there may be significant resource implications. It is judged that there will be a considerable learning curve for local management in client departments and PSA alike both before and after they take effect on 1 April 1987.

10.5.2 We accept that PRS is unlikely to remain static and that it may in due course be demonstrated that there are good grounds for further developments after 1987. We would however argue strongly for some degree of stability whilst staff familiarise themselves with new functions and new systems.

10.5.3 We therefore consider that an orderly progression of devolution which minimises inter-departmental frictions and provides a manageable task for PSA would be best achieved if the presumption is that there is a general movement in 1987 onto the standard option. We recognise however that the standard option may not be practicable for all. We recommend that those who are considering the traditional option should open discussions with PSA forthwith. Amongst the factors to be taken into consideration should be their preferences, and capabilities, the possibility of entering into arrangements with other closely-linked departments who would be prepared to take on accommodation functions for them, the degree of joint occupation with other departments sharing the civil estate, and the consequent impact on those departments and on PSA's capacity to provide the necessary services. PSA should report back to the IDC on the outcome of these negotiations by end March 1986.

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10.5.4 The experiments on the radical option should be designed as far as possible to shed light on possible solutions to problems in jointly occupied buildings. The case for proceeding after 1987 with the radical option will need to be considered in the light of the results from the experiments which we have recommended should run for two years from April 1986. Meanwhile experience will be developing through the process of joint planning and liaison of dealing with problems on a more orderly and rational basis and with a better information base. Departments will also be gaining the experience of operating under the wider delegations proposed

er the standard option. Time will also be needed to devise and set up appropriate performance indicators and monitoring systems and to gather sufficient information to form a more considered view of what PRS is actually achieving in terms of value for money. That points to a break-point in 1988 when a view will need to be taken on whether or not to proceed further.

11. FINANCIAL AND MANPOWER EFFECTS OF THE PROPOSALS

11.1 Method of Assessing Financial Effects

11.1.1 We have examined in detail PSA's estimates of the likely financial effects of the standard option and have approved the methodology used to arrive at the figures. No funds would actually be transferred. The necessary adjustments would be achieved by abating PSA's Accommodation Charge to client departments. The difference between the provision departments already hold to pay that charge and the lesser amount they would have to pay once it is abated would be available to assist in funding the new delegated functions. Departments would supplement as appropriate within their overall provision for running costs (but see paragraph 11.7.2 below).

11.1.2 The basis for estimating the extent of the abatement is to take PSA's estimate of its likely expenditure in 1987/8 on the delegated functions and to divide that amount pro rata to the space each client occupies on the Civil Estate. This method of apportionment is inevitably rough and ready and there will be both gainers and losers. Departments like FCO which potentially have higher than average works expenditure because of the nature of the buildings they occupy and a relatively small overall provision for accommodation may have more difficulties than others in managing within their pro rata share of the total funds available. There is however no other feasible method of calculating the necessary abatement.

11.1.3 Any estimates of the extent of the abatement in 1987/8 must be provisional at this stage. In order to advise departments of the provision they will need to make in 1987/8 estimates PSA will recalculate the figures in June 1986 in the light of the most up to date information then available on previous years outturn, provision in 1986/7 and prospective expenditure in 1987/8. However with appropriate caveats it is possible to make a broad assessment now of the likely order of magnitude in respect of each of the main elements of the standard option. The estimates (both of financial and of manpower effects) assume that all departments adopt the standard option in 1987/8.

11.2 Effect of Increasing Minor Works Delegation to £5000

11.2.1 The total amount of works expenditure available for distribution by abatement in 1987/8 (including expenditure by DEL between £1000 and £5000) is estimated at £8.9m. This figure when divided pro rata to space occupied (as at May 1985) gives the figures for each client shown at Annex 10.

11.3 Effects of incorporating DEL buildings into PRS and delegating internal decoration

11.3.1 Under the proposals in 8.4 no further PRS charges will be recovered from departments from 1 April 1987 to fund minor works costing £1000 or less in buildings covered by PSA's DEL. The departments concerned will retain these resources (estimated at £3.8m in 1986/87) to meet the costs of these works, either on a repayment basis from PSA or ordered direct from contractors as appropriate.

11.3.2 The estimated total amount of expenditure on internal decorations available for distribution in 1987/8 is £5.2m which would represent a further abatement of some 55 pence per square metre on the basis of May 1985 areas of occupation. This estimate is particularly susceptible to future amendment in the light of subsequent information on outturn since the present tight pressure on PSA's provision is likely to bear most severely on lower priority expenditure such as internal decoration.

11.3.3 The combined effects of the increased delegation on minor works and of delegating internal decorations are estimated to result in a reduction in the yield of the administration charge made by PSA of some £3.3m. This depends on an assumption that PSA will be able to reduce its overheads in direct proportion to the reduction in its own works expenditure.

11.4 Effect of putting Minor New Work over £5000 on repayment basis

11.4.1 The proposal in 8.6 was that those categories of minor new works specified in Annex 5 should be commissioned by departments from PSA on a repayment basis under which PSA would recover the actual works expenditure for each job plus its departmental expenses. The works element of the Charge and the associated administration charge would be abated accordingly. The extent of the abatement cannot readily be estimated because PSA does not at present record its expenditure on minor new works according to these categories, but it is possible to make a very broad assessment.

11.4.2 PSA's estimated total expenditure in 1987/88 on minor new works (between £5000 and £150,000), excluding expenditure on "collective services" (eg energy conservation, estates rationalisation and certain centrally funded programmes for particular departments) is £15.6m. Of this very roughly two thirds or some £10m might be attributable to categories of work that might be commissioned, as set out in Annex 5. The equivalent abatement of the administration charge would amount to £2.4m, though it can be assumed that this amount would be recovered as departmental expenses within the repayment system.

11.5 Combined financial effect of delegations under standard option

11.5.1 The total estimated amount therefore of the abatements in 1987/88 attributable to the standard option is £29.8m (this excludes the £3.8m for DEL buildings referred to 11.3.1 above, which is common to all options). The estimated amounts for each client department are shown at Annex 10.

11.5.2 The initial PESC transfers (for the first minor works delegation of £500 and the subsequent uplift to £1000) totalled £32.5m at 1987/8 prices. With this further transfer by abatement PSA will in effect have transferred some £62.3m in all by 1987/8, leaving it with an estimated provision for retained expenditure on maintenance and minor new works (excluding collective services) of £78.4m.

11.6 Manpower effect of standard option

11.6.1 The proposed reduction in PSA expenditure under the standard option amounts to some £13.2m at 1985/86 prices. (The transfer of minor new works to a repayment basis should be manpower neutral and is therefore excluded). PSA's best estimate of the corresponding reduction in its 1985/86 manpower complement is some 77 posts. The recruitment position for professional and technical staff has been uncertain, and it cannot be presumed that staff will be available for transfer.

11.6.2 Departments will need to consider what bids if any they would wish to make to Treasury on account of their assessment of additional manpower requirements in consequence of the proposals in this report. We do however note that there are 47 PRS clients in all. In practice individual departments are unlikely to prevail by praying in aid of any manpower bids a notional share of such limited reductions in PSA's overall complement.

11.6.3 The manpower effects on client departments cannot be estimated. The effect will be incremental since the functions are already being discharged albeit at a much lower volume (negligible in the case of internal decoration). Each department will have to form its own assessment and much will depend on how the functions are

to be organised as between central accommodation sections and local offices. It does however seem inevitable that, particularly when taken with the need to implement the action plans arising from the MDR, increasing pressure will be put on existing staff working on accommodation within departments, and that this will bear particularly hard on those departments with limited overall manpower resources, although such is the general tightness of present manpower ceilings that even in larger departments the scope for amelioration is likely to be very limited.

11.6.4 Some relief may be obtained if our proposals on joint planning and liaison and the combined effect of our proposals as a whole succeed in reducing friction and lessening operational losses due to delays and inefficiencies in the present system. However there will also be a significant manpower input in setting up the new arrangements. Overall our judgment is that the manpower resources in departments devoted to accommodation are likely as a result of these proposals to increase by more than the projected reduction in PSA's manpower. The general view of the Committee is that this should not of itself rule out moving ahead with the proposals in 1987/8 since we note that the MDR has already recommended that a higher priority should be given to accommodation. We are however concerned that the manpower effects should be closely monitored (see our recommendations in Section 12).

11.7 Problems of funding

11.7.1 We have already noted that the method of financing the changes we have proposed will produce some gainers and some losers - to what extent we cannot assess since PSA cannot predict what its expenditure would have been on each individual department's occupations. However those of us who represent client departments and PSA itself feel bound to draw attention to our strongly held view that the overall provision made for works services is at present seriously underfunded, as illustrated by PSA's persistent backlog of expenditure on maintenance, and its limited provision for minor new works.

11.7.2 Our proposals will simply transfer PSA's level of funding to client departments. Whilst there may be scope for obtaining better value for money on minor works which will in future be untied from PSA most of us do not expect this to suffice to remedy the overall deficiency in funding, which we consider to be evidenced by the poor condition of many of our offices. Whilst the greater measure of financial responsibility we have proposed will enable departments to assess priorities within their overall running costs and, if they judge it appropriate, to devote more resources to accommodation, we are bound to note that overall running costs are themselves being subjected to progressively tighter restraints, and that the degree of flexibility may therefore in practice be seriously limited for many departments.

11.7.3 Some of us think that it is a likely consequence of our proposals that government expenditure on minor works as a whole will increase, as any overall underfunding is remedied by supplementing from other departmental funds.

11.7.4 An alternative solution would have been to remedy any underfunding by granting greater provision to PSA to continue with its existing central functions. One test of the success or otherwise of our proposals must necessarily be whether in the event departments succeed in obtaining better value for money by achieving a higher volume of output for their delegated expenditure. Such assessments are not easily made, but we make some suggestions in section 12 on possible ways of monitoring the effects of our proposals.

12. REVIEW AND MONITORING

12.1 Ministerial Requirements for Policy Evaluation

12.1.1 Ministers collectively have ruled that new policy proposals or reviews when existing policies are being reassessed should contain appropriate proposals for means whereby their effectiveness can be evaluated.

12.1.2 They have decided that it should be clear what is to be achieved, by when and at what cost, and how this achievement is to be measured. This means that arrangements must be made at the start to set up suitable performance indicators against which the policy can subsequently be assessed.

12.2 Defining What is to be Achieved

12.2.1 Policy evaluation is rarely easy. Much depends on making the initial objectives as clear as possible. This is particularly difficult in the area which this report deals with because we are concerned with what is a support function for departments ancillary to their main operational objectives, but a main function for PSA. Drawing from our analysis of the issues in the preceding sections the following main objectives emerge:

- a. that PSA should be better able with the assistance of departments to discharge its objectives of providing economically and efficiently for the present and planned future needs of clients and reducing the amount of vacant space on the estate to the minimum;
- b. that departments should be better able with the assistance of PSA to discharge their objectives of ensuring that all staff and functions are adequately accommodated in suitable locations with due regard to economy, to the appropriate space standards, and to the need to provide working conditions conducive to the effective discharge of the department's business;
- c. that both PSA and departments should jointly ensure that insofar as funding constraints permit the value and operational fitness of the estate is maintained;
- d. that better value for money should be achieved for expenditure on accommodation whether undertaken by PSA or by departments and coupled with this that the resource costs of operating the new system should be proportionate to the results achieved.

12.3 Measuring Performance

12.3.1 Measurement must necessarily be by a mixture of qualitative assessment and quantitative indicators. Some elements can be quantified - for example the amounts of surplus space identified by departments through their occupation audits and accepted by PSA for reallocation or disposal under the criteria we have proposed, the speed at which PSA is able to dispose or reallocate, and the consequent net reductions in the size of the estate and the net financial savings achieved. Another example would be numbers of staff engaged in PRS work during 1986/87 and in subsequent years from 1987/88 onwards - and similarly with estimated administrative costs. Other elements can be assessed in part by sampling, for example taking an appropriate range of proposed works and assessing time, cost, and standard of work, comparing performance by PSA in 1986/87 with performance by departments after delegation in 1987/88.

12.3.2 Most of the assessment must however be qualitative and we suggest that the proposals we have made for joint planning and liaison provide a suitable mechanism for PSA and departments jointly to assess the success or otherwise of what is being achieved on the ground, for each to report centrally on their findings at least once a year, for an agreed assessment of experience to date to be drawn up subsequently between PSA and each client department at Headquarters level, and for a careful analysis of the overall results to be reviewed by the IDC and reported with their comments to Permanent Secretaries

12.4 Action Needed

12.4.1 The proposals set out in 12.3 above are necessarily outline at this stage and will need careful development before they are adopted since there will be some resource input in setting them up and running them, and there are many obvious pitfalls which need to be avoided in the process of detailed design if valid results are to be obtained. We therefore recommend that if the proposals in this report are accepted PSA, with the assistance of Treasury and MPO, should as a matter of priority develop detailed proposals for appropriate performance indicators, monitoring and review and put them to the IDC by end February with a view to implementation on 1 April 1986.

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13. ACTION PLAN FOR IMPLEMENTATION

Rec 23 13.1 If the proposals in this report are accepted, we suggest that the action needed to enable implementation to take place by 1 April 1987 should be as follows:

CHOICE OF OPTIONS

by end February 1986 any departments electing for traditional option make their case to PSA;
by end March 1986, PSA reports to IDC on outcome of negotiations;
[if needed] further report by IDC to Permanent Secretaries on any outstanding issues.

PREPARATION OF GUIDANCE

by end February 1986 PSA presents to IDC revised draft financial procedures for PRS to replace DAO 4/84;
by end March 1986 revised financial procedures issued;
by end March 1986 PSA issues revised statement of roles and responsibilities under the standard option;
by 1 April 1986 PSA issues guidance for accommodation managers on carrying out delegated works functions;
by end June 1986 departments issue internal guidance on organisation of delegated functions;

TRAINING

by end February 1986 PSA writes to PEOs giving details of new training courses on PRS and inviting nominations;
by end April 1986 first courses start.

JOINT PLANNING AND LIAISON

by end April 1986 sub group reports to IDC on experiments with recommended guidelines;
by end May guidelines issued and departments start to discuss arrangements with PSA;
by end July first full round of joint planning and liaison meetings starts between PSA and all client departments prior to preparation of estimates.

ESTIMATES

by end June 1986 PSA issues to departments provisional forecast of Accommodation Charge for 1987/88 as abated to take account of delegations.

ESTATES RATIONALISATION

by end February 1986 Treasury and PSA present paper to IDC giving guidelines on methods of dealing with financial disincentives to "losing" departments;
by end March 1986 guidelines issued.

MONITORING AND REVIEW

by end February 1986 PSA presents paper to IDC with detailed recommendations for performance measures and monitoring;
by end March 1986 measures set up and monitoring starts.

13.2 As to further development after 1987 we suggest the following:

by end February 1986 steering committee reports to IDC with detailed proposals for experiments on radical option and their monitoring and assessment;
by end March 1986 PSA presents paper to IDC on the relationship between minor works expenditure and the amounts received from departments through PRS, and further analysing the possible alternatives to the present method of recovery;
by 1 April 1986 radical option experiments and monitoring start;
by end April 1987 the steering committee presents its interim report to IDC on progress during the first year of experiments;
by end March 1988 experiments concluded;
by end May 1988 IDC reports to Permanent Secretaries with assessment of experiments and PRS to date and makes recommendations on any further changes needed.

14. SUMMARY OF CONCLUSIONS AND RECOMMENDATIONS

For ease of reference recommendations are numbered and conclusions lettered in the order in which they appear in the report.

THE PRESENT PRS SYSTEMS: ROLES AND RESPONSIBILITIES

(1) By end March 1986 PSA should issue statement of roles and responsibilities along the lines of section 7, amended to take account of whatever changes to the system are agreed, to all departmental Accommodation Managers and circulate it widely within PSA (7.1.2).

MAINTENANCE AND MINOR WORKS

(2) The present delegation for maintenance and minor new works within which departments go direct to contractors should be increased from £1,000 to £5,000, but retaining the present technical exclusions and the need to consult PSA on minor new works. The new limit should be uplifted automatically at appropriate intervals to allow for inflation and PSA should agree an appropriate mechanism with Treasury (8.3.10).

DIRECTLY EMPLOYED LABOUR (DEL)

(3) The present DEL exclusion should be removed with effect from 1 April 1987 to permit accommodation managers to commission work from them on repayment terms within the proposed minor works delegation, and to go direct to contractors where DEL cannot undertake the required work (8.4.6).

INTERNAL DECORATION

(4) Full delegation should take place from 1 April 1987; the intervening period should be used by PSA and departments to prepare fully; those departments who wish to do so and have the necessary funds being enabled to carry out further schemes during 1986/87 (8.5.4).

MINOR NEW WORKS (8.6)

(5) We recommend that the categories of minor new work set out in Annex 5 should be placed on a repayment basis from 1 April 1987 and that the procedures adopted for the safety valve should be those set out in Annex 6.

FUEL AND UTILITIES (8.8.4)

(6) The present system of centralised payment of fuel and utilities accounts by PSA should be left unchanged for the time being; but other means should be sought of making comparable information about cost and consumption available to departments; and the possible benefits and disbenefits of direct billing should be examined further in the context of the proposed experiments on the radical option.

(7) As a first step, PSA should provide to departments quarterly reports of fuel consumption for each property they occupy; the first reports to be circulated in January 1986.

(8) Departments should take steps to distribute improved information on consumption, when available, to local Accommodation Offices or other appropriate points in their organisation; the relevant tariff information should be obtained locally, from the District Works Office.

(9) Departments should be made aware of the specialised tariff - checking exercise being undertaken by PSA's consultants, in order to avoid duplication of effort.

(10) PSA should accord a high priority to work on the development of a more comprehensive system for reporting cost, consumption and tariff information to departments.

(11) Departments should take steps to ensure that all staff concerned with the management of accommodation receive adequate information, advice and training on energy conservation measures.

(12) Departments should consider the feasibility and possible benefits of installing water meters in properties they occupy, where this has not already been done.

JOINT PLANNING AND LIAISON

(13) There should be a fully developed system of joint planning and liaison operating for all departments in time for implementation of the proposed changes to PRS on 1 April 1987. (8.9.4).

INFORMATION REQUIREMENTS (8.10)

(14) PSA should aim as a priority task to develop a new electronic system to include in a uniform way appropriate items from the list of minimum requirements. The aim should be to have this information held electronically in a uniform way no later than 1 April 1988.

(15) In the interim PSA should make available the information in the form in which it exists at present with such manual collation and adaptation of format as resources permit or the results of the experiments on joint planning and liaison suggest.

(16) In further defining the operational requirements for its new data base and outlining its proposals PSA should maintain close liaison and consultation with our sub-group on information requirements at each stage of development.

VIABLE VACANT SPACE

(17) The criteria set out in the Annex to our interim report should be reviewed after they have been in operation for two years (8.11.4).

TRAINING AND GUIDANCE

(18) PSA should issue comprehensive guidance on the conduct of all delegated functions by 1 April 1986 (8.12.1).

(19) The training programmes agreed with departments should be extended to cover specifically the procedures for dealing with delegated works (8.12.3).

THE OPTIONS

(a) Three options have been identified:

The traditional option would be the existing system of PRS as set out in section 7. The minor works delegation would remain at its present level, though adjusted periodically for inflation, and departments taking this option would still look to PSA for work on internal decorations exceeding £1,000. The proposals in 8.4 for incorporating buildings served by DEL into PRS would apply but only within the £1,000 limit (9.2.1).

The standard option comprises an extended minor works delegation of up to £5,000, commissioning PSA on repayment terms for certain minor new works, delegating internal decoration, and the safety valve arrangements for certain minor new works up to £25,000 (9.3.1).

The radical option would involve removing the technical exclusions and departments would be untied for maintenance up to £100,000, and for all minor new works (up to £150,000). Departments would need to equip themselves with sufficient in-house technical capacity either to instruct consultants or go direct to contractors (9.4.4).

(b) Experiments will be needed to assess the radical option (9.4.6 to 9.4.10 set out our proposed criteria).

(20) The main core of experiments should start from 1 April 1986 and should run for a minimum of 2 years, with an interim report after the first year (9.4.12).

APPLICATION OF THE OPTIONS

(21) An orderly progression of devolution which minimises inter-departmental frictions and provides a manageable task for PSA would be best achieved if the presumption is that there is a general movement in 1987 onto the standard option. We recognise however that the standard option may not be practicable for all. Those departments who are considering remaining on the traditional option should open discussions with PSA forthwith. PSA should report back to the IDC on the outcome of the negotiations by end March 1986 (10.5.3).

(c) The case for proceeding after 1987 with the radical option will need to be considered in the light of the results from the experiments which should run for two years from April 1986. That points to a break point in 1988 when a view will need to be taken on whether or not to proceed further (10.5.4).

FINANCIAL AND MANPOWER EFFECTS OF THE PROPOSALS

(d) The necessary financial adjustments would be achieved by abating PSA's Accommodation Charge.

(e) The basis for estimating the extent of the abatement is to take PSA's estimate of its likely expenditure in 1987/88 on the delegated functions and to divide that amount pro rata to the space each client occupies on the civil estate (11.1.2).

(f) The total estimated amount of the abatements in 1987/88 attributable to the standard option is £29.8m. The estimated amounts for each client department are shown at Annex 10 (11.5.1).

(g) PSA's best estimate of the corresponding reduction in its 1985/86 manpower complement is some 77 posts. Departments will need to consider what bids, if any, they would wish to make to Treasury in consequence of the proposals in this report. We do however note that there are 47 PRS clients in all (11.6.1, 11.6.2).

(h) Our judgment is that the manpower resources in departments devoted to accommodation are likely as a result of these proposals to increase by more than the projected reduction in PSA's manpower. We note that the MDR has recommended that higher priority should be given to accommodation. We are however concerned that the manpower effects should be closely monitored (11.6.4).

(i) One test of the success or otherwise of our proposals must necessarily be whether in the event departments succeed in obtaining better value for money by achieving a higher volume of output for their delegated expenditure (11.7.4).

REVIEW AND MONITORING

(22) PSA should present detailed proposals to the IDC for performance indicators, monitoring and review by end February 1986 with a view to implementation from 1 April 1986 (12.4).

ACTION PLAN FOR IMPLEMENTATIONS

(23) If our proposals are accepted, the action plan set out in section 13 should be adopted.

LIST OF PRS CLIENTS
 CIVIL ESTATE - DEPARTMENTAL ACCOMMODATION HOLDINGS
 RECORDED AS AT 30 MAY 1985

DEPARTMENT	AGENTS LETTING AREA - M ²				DEPT TOTAL AS % OF CIVIL ESTATE
	OFFICE	STORAGE	SPECIALISED	TOTAL	
MAFF	186,921	490,257	89,768	766,946	8.11
CAB OFF	11,666	NIL	211	11,877	0.13
COI	15,675	7,493	95	23,263	0.25
CHAR COMM	5,734	NIL	NIL	5,734	0.06
CUST & EXC	378,343	16,510	11,382	406,235	4.30
MOD	573,961	22,823	58,646	655,430	6.94
ED & SC	46,827	NIL	3,368	50,195	0.53
EMPL	546,170	1,470	5,013	552,653	5.85
ENERGY	30,868	NIL	2,706	33,574	0.35
DOE	115,147	14,197	76,355	205,699	2.18
ECGD	31,148	1,798	NIL	32,946	0.35
FCO	88,726	4,161	55,850	148,737	1.57
R F SOCY	2,889	NIL	NIL	2,889	0.03
GOVT ACTY	2,126	NIL	NIL	2,126	0.02
DHSS	1,353,809	63,827	74,451	1,492,087	15.79
HOME OFF	156,621	239,616	124,820	521,057	5.51
OFTEL	2,260	NIL	NIL	2,260	0.03
INL REV	1,319,384	48,451	3,120	1,370,955	14.50
IBAP	6,461	24,104	NIL	30,565	0.32
LCD	144,985	23	316,310	461,318	4.88
MPO	32,080	NIL	17,125	49,205	0.52
N INV & LOAN O	1,344	NIL	NIL	1,344	0.01
DNS	71,491	117	NIL	71,608	0.76
NEDO	4,172	NIL	NIL	4,172	0.04
OFF FAIR TRAD	7,483	NIL	NIL	7,483	0.08
ODA	21,427	6,929	11,755	40,111	0.42

LIST OF PRS CLIENTS
 CIVIL ESTATE - DEPARTMENTAL ACCOMMODATION HOLDINGS
 RECORDED AS AT 30 MAY 1985

DEPARTMENT	AGENTS LETTING AREA - M ²				DEPT TOTAL AS % OF CIVIL ESTATE
	OFFICE	STORAGE	SPECIALISED	TOTAL	
OPCAD	2,120	NIL	NIL	2,120	0.02
PGO	12,886	NIL	NIL	12,886	0.14
OPCS	41,101	9,997	NIL	51,098	0.54
PRIVY CO	1,428	NIL	NIL	1,428	0.01
PSA	262,636	53,390	44,358	360,384	3.81
PRO	1,620	31,019	41,380	74,019	0.78
DT&I	244,761	44,682	127,958	417,401	4.42
DTp	218,531	53,705	171,233	443,469	4.69
TREASURY	50,553	NIL	5,117	55,670	0.59
T. SOL	16,347	417	955	17,719	0.19
WELSH OFF	57,780	4,695	8,348	70,823	0.75
NI OFF	2,940	NIL	8,936	11,876	0.13
NI COURT	53	NIL	NIL	53	0.0005
SCOT OFF	126,751	57,284	34,353	218,388	2.31
CR OFF SCOT	14,987	NIL	4,924	19,911	0.21
D REG SCOT	10,686	NIL	NIL	10,686	0.11
GEN REG SCOT	5,762	1,613	NIL	7,375	0.08
SC CTS AD	5,713	NIL	58,769	64,482	0.68
OAL	1,297	NIL	NIL	1,297	0.01
PSA CONF	3,172	NIL	3,404	6,576	0.07
VACANT	348,724	188,596	118,414	655,734	6.94
TOTALS	6,587,566	1,387,174	1,479,124	9,453,864	100%

SCRUTINY ON THE DISPOSAL OF VACANT ACCOMMODATION AND LAND - TERMS OF REFERENCE

A. To examine PSA's current arrangements for the identification and management of vacant or surplus land and buildings on the civil estate; to examine the criteria used to decide whether land and buildings not in current use should be disposed of or might reasonably continue to be held pending imminent redevelopment or reallocation; to identify any shortcomings; and to make recommendations on how policies and procedures should be revised to make a more effective contribution to reducing the size and cost of the estate.

B. To examine PSA's procedures for the disposal of surplus land and buildings on the Civil and Defence Estates in the UK; to identify any shortcomings; and to make recommendations for improvement.

MINISTERS' POWERS TO ACQUIRE LAND

MINISTER	ENABLING ENACTMENTS	PURPOSES OF ACQUISITION
Secretary of State for the Environment	Commissioners of Works Act 1852 s.2 Town and Country Planning Act 1971 s.113 Courts Act 1971 s.28 Community Land Act 1975 s.37	Land 'for the public service' plus certain lands which could sensibly be acquired with such land and land for certain international bodies
	Ancient Monuments and Archaeological Areas Act 1979 ss. 10, 11, 15 and 16 National Parks and Access to the Countryside Act 1949 s.14 Historic Buildings and Ancient Monuments Act 1953 s.5 Land Commission (Dissolution) Act 1971 S.3(2)	Other purposes implicit in titles of enabling enactments
Minister of Agriculture, Fisheries and Food	Ministry of Agriculture and Fisheries Act 1919 s.1(2) Agriculture Act 1947 ss.82, 83, 84, 86, 88, 89 and 103 Agriculture Act 1967 s.29 Agriculture Act 1970 s.55	Agricultural use (including letting land for such use). Agriculture research, placing land at the disposal of the Forestry Commission for forestry, and small holdings
	Forestry Act 1967 ss.39(1) and 40 and Schedules 4 and 5 Countryside Act 1968 ss.23(3) and 24(2)	Forestry and the provision of tourist, recreational and sporting facilities and (in England and Wales only) land which ought to be used for planting trees in the interest of amenity
Secretary of State for Defence	Various Defence Acts and Military Lands Acts Defence (Transport of Functions) Act 1964	Defence of the Realm
Secretary of State for Energy	Land Powers (Defence) Act 1958 s.13	Construction of oil storage installations essential to the defence of the Realm
Home Secretary	Prisons Act 1952 s.36	Prisons and accommodation for prison officers
Secretary of State	Local Employment Act 1972 S.5(1)(a)	Building factories for provision of jobs
Secretary of State for Scotland	A wide range covering all the purposes mentioned in the next column	Ancient monuments, trunk roads and motorways, offshore petroleum development, taking properties in lieu of death duties, harbours, research, agriculture (including crofts and small holdings), forestry, civil defence, health and prisons

MINISTER**ENABLING ENACTMENTS****PURPOSES OF ACQUISITION**

Secretary of State
for Social Services

National Health Service Act 1977 s.87

The National Health Service

Secretary of State
for Transport

Civil Aviation Act 1949 ss.16 and 23

Aerodromes

Highways Act 1959 Part X
Highways Act 1951 Part III

Trunk roads and motorways

Secretary of State
for Wales

A wide range covering all the
purposes mentioned in the next
column

Health, education, planning,
agriculture, transport, ancient
monuments

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INDIVIDUALLY ASSESSED RENTS

7. The decision to continue to use assessed rather than actual rents has been taken by Ministers. The Secretary of State for the Environment's letter of 8 October 1984 explained the basis for the decision. The purpose of charging rents to departments is to indicate the true cost of the accommodation they use. Departments need to know the true cost of the accommodation they occupy in order to use it efficiently and to take properly informed decisions in relation to changes to their requirements. The true cost of departments using accommodation is the alternative use foregone (the opportunity cost) and this can be measured by the assessed open market rent. If the accommodation was not occupied by the departments PSA might be able to dispose of it or alternatively reallocate it to another department occupying a building on which a higher actual rental is being paid allowing that building to be given up. In general, this opportunity cost can be measured by the rent at which a willing tenant would lease the accommodation from a willing landlord on the open market. Rents actually paid by PSA would not normally reflect the true cost of using the accommodation. This is most obviously seen where departments occupy buildings owned freehold by the Crown: if departments were allowed to occupy these without paying any rent to PSA, just because PSA paid not rent themselves, then the costs to the Exchequer of not being able to dispose of the buildings through sale would not be reflected anywhere in the system. It is true that in some instances even rents based on open market values may not reflect the full opportunity cost, ie where the site could be developed or there could be a change of use. On the other hand such potential is rarely taken into account by commercial landlords in setting their own rents either. It would also be virtually impossible to quantify that potential. What is clear is that rents based on open market valuations are a much better approximation to the true economic costs than the rents (if any) that PSA actually pay themselves.

8. There are also practical considerations. If opportunity costs rents were not charged a department occupying a freehold or a lease with a historically low rent would be faced with a substantial increase in charges for which it would have no provision if for operational or other reasons it moved to a building where a current market rent was payable. Moreover since negotiations over rent reviews in the market are frequently prolonged including possible reference to arbitration, of uncertain duration and uncertain results departments would risk being faced with in-year increases in rents for which no provision had previously been made in estimates. It should be noted that where Management Cost Accounting has been developed in the private sector to take account of the cost of accommodation the general practice is to charge out the market value.

9. Ministers have also accepted that in order to accommodate the staged review of occupations (see paragraph 6) within the PES cycle it will be necessary to make annual adjustments to rents in the years between each quinquennial review (the Secretary of State for the Environment's letter of 11 April 1985 refers). The amount of each annual increase within the five year cycle will be based on the forecast GDP deflator (as discussed earlier this year in the Inter-departmental Committee of the PRS (IDC)). If market rents move ahead faster than this departments will be faced with above average increases when the formal five yearly reviews are carried out. But if market rents increase at a slower pace there will be a correspondingly lower increase (or possibly in some cases a reduction) when the formal review is due.

COMMISSIONING OF PART II WORKS

Not all Part II works will be open for commissioning from PSA. PSA will continue to have financial responsibility for various types of works, chiefly those affecting the nature and structure of the holding.

Departments might commission the following types of work:

Internal partitioning

Fitting of new internal doors

Wiring work associated with partitioning etc including installation of new electrical sockets

Installation of water meters

Occupational and fitting out works for agreed new occupations

General refurbishment

provided that no part of the work fell into the excluded categories below.

Work for which PSA will retain financial responsibility.

Any work the responsibility of the landlord, adjoining landowner, local authority or statutory undertaker.

Any work requiring planning permission under the Town and Country Planning Acts but not work requiring building regulations or listed building consent.

Any other work that would alter the size of the holding.

The creation of new car parking spaces

The creation of new access to the site or building

Roofing

Demolition of any external or load bearing wall

The installation, alteration, replacement or renewal of mechanical and electrical plant, heating and hot water appliances, lifts, lifting appliances, alarms, air conditioning units, window cleaning access equipment, mechanically operated doors etc.

Major rewiring (e.g. of whole building)

Installation of fire fighting equipment

Installation of connection to public utility services (other than water meters)

Installation of sewage treatment plans, septic tanks etc

Major replumbing works and works to install or remove sanitary facilities.

SAFETY VALVE

Introduction

1. These procedures apply only to Part II services. Their aim is to allow departments to dispense with the requirement to commission PSA where they consider, after due investigation, that PSA's proposals will take too long to implement or cost too much. The upper limit will be £25,000 index-linked.
2. Where a department has reservations about the timetable or order of cost offered by PSA, it should seek to resolve these in joint discussion at working level. The aim should be to reach a view within 3 weeks.
3. Both sides in the dialogue should identify and agree upon the precise requirements, the specification and the major components of PSA's timetable (including any constraints imposed by the need to obtain landlord's consent), and estimate for the task, including works and resource costs. PSA must draw the client department's attention to health and safety and legal requirements or lease conditions, to any appropriate technical, design or value for money factors and to any relevant constraints implied by contractual procedures and proprieties.

RESPONSIBILITIES AND DELEGATION

4. The aim should be to reach agreement between the client and PSA on:
 - a. PSA carrying out the scheme to the original timetable and specification, subject to any agreed amendments
 - b. PSA carrying out a scheme to a faster timetable, or at lower cost
 - c. the client department proceeding independently of PSA

5. Agreement to (c) may only be reached after discussion between PSA Regional Director and the client's representative at not less than Grade 6 level.

6. It is open to PSA and the client (as defined in para 5) to agree that the client may proceed independently. In such cases the client should be urged (but cannot be required) to obtain estimates of time and cost from consultants of standing. Responsibility for the project will rest with the client, the PSA exercising only its responsibility as "landlord" to ensure that the building is not affected structurally.

7. If agreement cannot be reached (for example, if the PSA believe that the proposed work will break lease conditions or affect adversely other projects) the client departments representative and the PSA Regional Director will refer the issue to their respective Headquarters (to DCA in the PSA case) with reasons for the conflict.

8. If the conflict cannot be resolved at HQ within 2 weeks of notification the client will be free to proceed without the agreement of PSA, but must take full responsibility for the consequences.

GENERAL

9. Where agreement is reached at Regional level to allow a client to proceed independently, the PSA Regional Director should notify DCA after agreement is reached, and give brief details so that the overall operation of the safety valve can be monitored.

10. The safety valve is to be operated with common sense and discretion. Unreasonable refusal by PSA, or indiscriminate insistence on its use by clients will invalidate the intention of providing for smoother operation of PRS and lead to disproportionate administrative costs.

CRITERIA FOR ACCEPTANCE OF VACANT SPACE AS VIABLE

1. Space of any size will be accepted as viable if it comprises an entire holding in itself or if it comprises a department's entire occupation within a holding.
2. Office and Storage space of more than 350m² which constitutes a single unit will be accepted as viable provided that there are no security or access constraints to prevent reallocation.
3. Office and Storage space of less than 350m² which does not comprise an entire holding in itself or a department's entire occupation within a holding will be accepted as viable if there are no legal constraints to disposal and if the estate surveyor is satisfied that there are realistic prospects for reallocation.
4. Vacant space within a specialised holding will only be accepted as viable if it comprises a department's entire occupation within that holding or if the estate surveyor is satisfied that there are realistic prospects for disposal or reallocation.
5. Space will not be accepted as viable if none of the criteria set out above are met.
6. Space which is not currently viable may however be accepted as such subsequently if and when agreement has been reached between PSA and the departments concerned on a scheme of estate rationalisation.
7. Where a department wishes PSA to hold vacant space in a specific building for a future operational requirement and that space could otherwise have been disposed of or reallocated the department will be required to pay the normal accommodation charge under PRS.

8. Where a new occupation has been provided by PSA on a long-term basis with the consent of the client department and to an agreed space requirement and the department subsequently decides after PSA has incurred the liability that it has overestimated its requirement or no longer has a requirement then the excess space should be notified as vacant to PSA. PSA will show it as such in its returns on vacant space and be required to dispose or reallocate as soon as practicable but the department will be required to pay the accommodation charge until such time as PSA disposes or reallocates or a period of 5 years has elapsed from the date of occupation (or where a department does not in the event occupy, from the date when it was offered for occupation) whichever comes first.

ANALYSIS OF PSA AND DEPARTMENTAL RESPONSIBILITIES UNDER THE THREE OPTIONS

FUNCTION	TRADITIONAL	STANDARD	RADICAL
Accommodation Charge	<u>Departments</u> pay as at present (7.4.1)	<u>Departments</u> pay charge minus pro rata abatements in respect of delegated functions	<u>Departments</u> pay residual charge to PSA in respect of retained works
	<u>PSA</u> calculates and levies charge (7.4.2)	<u>PSA</u> calculates abatements	
Internal decoration	<u>Departments</u> fund and carry out decoration up to £1,000	<u>Departments</u> fund and carry out all internal decoration	As for standard option
Maintenance	<u>Departments</u> fund and carry out works up to £1,000 subject to specified exclusions (7.5.2) and subject to use of DEL	<u>Departments</u> fund and carry out works up to £5,000 subject to specified exclusions and subject to use of DEL	<u>Departments</u> responsible for all maintenance up to £100,000 and for managing associated DEL, subject to consultation with PSA and to agreed phasing of the hand-over
	<u>PSA</u> deals with all other maintenance (7.5.3)	<u>PSA</u> deals with all other maintenance	<u>PSA</u> responsible for major maintenance (over £100,000)
Minor New Works (under £150,000)	<u>Departments</u> fund and carry out works up to £1,000 subject to consultation with PSA (7.5.2) and subject to use of DEL	<u>Departments</u> fund and carry out works up to £5,000 subject to consultation with PSA and subject to use of DEL	<u>Departments</u> responsible for all minor new works (up to £150,000) and for managing associated DEL, subject to consultation with PSA and to agreed phasing of the hand-over

FUNCTION

TRADITIONAL

PSA deals with all
other minor new works
(7.5.3)
and acts on repayment
terms for all minor
new works on
specialised
accommodation

STANDARD

PSA deals with retained
minor new works, and carries
out certain minor new works
for office and storage, and all
minor new works for specialised
accommodation, under commission
on repayment terms (subject to
safety valve).

RADICAL

FUNCTION	TRADITIONAL	STANDARD	RADICAL
Major new works (over £150,000)	Reserved to PSA (7.5.3)	Subject to further consideration by the IDC (8.7)	
Health and Safety	<u>Departments</u> responsible for functions identified in (7.6.1)	No change	<u>Departments</u> responsible for all health, safety and fire functions
	<u>PSA</u> responsible for fire systems and advice as indicated in (7.6.2)	No change	
Other responsibilities (fuel and utilities, estate management, energy conservation)	<u>Departments</u> (see 7.7.1)	No change	<u>Departments</u> responsible for running their own heating systems, and pay bills direct on sole occupations
	<u>PSA</u> (see 7.7.2)	No change	<u>PSA</u> maintains responsibility for energy conservation programme and for estate rationalisation.
Provision of Accommodation	<u>Departments</u> identify needs etc (7.8.1)	No change except that departments commission fitting out works	No further change
	<u>PSA</u> provides (7.8.2)		
Disposal of Accommodation	<u>Departments</u> identify surplus space (4.9.1)	No change	No change

PROBLEMS WITH APPLICATION OF THE OPTIONS:

POSSIBLE SCENARIOS

CASE A

DHSS have a local office shared with Inland Revenue and MSC. Inland Revenue have taken on the standard option, DHSS the radical and MSC is a repayment client with a formal "Memorandum of Terms" (MOT) governing the services provided for it by PSA. MSC in fact has the largest ALA in the property, but IR is the major occupier under PRS. DHSS wishes to renovate the lifts, refurbish toilets and replace the antique boilers with a more efficient heating system. Under their "radical option" agreement with PSA they are entitled to undertake the work. Landlord's consent is needed which PSA must obtain. However the work (estimated cost £60,000) will benefit all occupants, and prima facie DHSS would expect proportional financial contributions.

Questions

What rights do IR and MSC have in respect of DHSS's proposals? What happens if MSC sticks by the letter of its MOT under which works services are to be provided by PSA on repayment terms as commissioned by MSC and not otherwise? Or if MSC consents to the works but refuses to contribute? Or if IR agrees in principle to the works, but then turns to PSA as these are excluded works to find that PSA cannot give the work sufficient priority for the limited funds available? Who is responsible for resolving such dilemmas and at what level do we expect agreement to be reached between the parties after what expenditure of staff time and effort?

Comment

PSA in this scenario has the responsibility of obtaining the landlord's consent and of advising IR on the technical aspects of the proposals. It does not advise DHSS who it is assumed have their own source of technical advice. It also acts as agent for MSC. It has an interest in a solution which satisfies all parties and benefits the property but has no command over the overall funding and no means of enforcing any decisions on the parties. DHSS as the initiator of the proposal might be expected to take on the role of co-ordinating and cajoling, but it too will be unable to enforce agreement other than at the expense of waiving any financial contributions.

CASE B

The same local office but the property is now freehold and DHSS is the major occupier. IR are concerned about a leaking roof which has rendered a number of its offices non-operational. It turns to PSA who advise that temporary patching is not likely to solve the problem, the whole roof needs replacing with attendant work to the guttering. DHSS has delegated powers which would enable it to deal with the roof repair works (at an estimated £20,000). PSA can provide a financial contribution but only proportional to the IR occupation. DHSS is however reluctant to undertake the works since it is correctly advised that its own offices on the lower floors and annex are unaffected by the leaking roof which is causing such concern to IR. MSC are similarly unaffected.

Comment

PSA here has an additional concern to maintain the value of a Crown building. Its responsibilities as property manager and adviser to IR clash with its responsibilities as agent for MSC and with DHSS's delegated powers on maintenance. There is an obvious resolution whereby PSA foots the whole bill, but what of DHSS's obligations as "major occupier" (and remember that MSC does in fact still have the largest floor area)?

CASE C

Same local office but now department x (on the traditional option) is the "major occupier". This time the water penetration is caused by x having omitted to discharge its obligation to clear the gutters of the usual autumn collection of fallen leaves. The DHSS offices in the annexe are inundated, and substantial redecoration and refurbishment is required. DHSS has the power to do all the necessary work but requires a contribution from x. X sees the moral justification for a contribution but has no spare funds left within its exiguous cash limit.

Comment

PSA has no works locus at all in this case. As property manager it is concerned at X's default but cannot impose on it compensation for DHSS. It holds no funds itself to cover the works. DHSS has no redress and no alternative but to foot the bill.

CASE D

Inland Revenue is planning a rationalisation of two local offices into one. The chosen office is operationally preferable and will yield significant PRS savings over and above the ancillary works costs. PSA is in full support since there is an opportunity to dispose of the other holding. However the chosen office has needed Part II works for some time and the IR staff side are insisting that the work should now be done before the move takes place. IR have the powers to commission PSA on repayment terms, but have noted that DHSS is an existing minor occupier and are advised by PSA that the most cost-effective solution which would minimise the works bill to IR would be total refurbishment of the whole office under one contract let by PSA. DHSS welcome the prospect of refurbishment (their staff side has also been agitating) but take a stand in principle that they can get the work done more cheaply without using PSA. IR accept PSA advice and are reluctant to invoke the safety valve. Stalemate.

Comment

Two possible resolutions here. IR can go ahead with a partial refurbishment excluding DHSS - patently uneconomic or invoke the safety valve. Alternatively PSA could submit to the DHSS pressure and advise IR to let DHSS handle the work. But PSA would be chary about the precedent attached to such ad hoc deals, and it would be unlikely to concede without taking the issue to a higher management level.

CASE E

For this case the assumption is that there are only two options, standard and traditional. In the jointly occupied office department x on the traditional option is the major occupier sharing with Customs and Excise, which has elected for the standard option. C&E want to rationalise and refurbish their occupation concentrating their staff on two instead of three floors. Some minor repartitioning and internal redecoration is involved which C&E is able to do itself within its delegation. Department X could with advantage take over the vacated floor to relieve overcrowding. This would enable PSA to accept the vacant space (which is less than 350m²) back from C&E and C&E to reduce its PRS bill, thus helping to

offset its works costs in part. The unit cost would also be lower if the office as a whole was redecorated under the one contract. However department x cannot get its own staff in to the vacated floor without some repartitioning which will take it well beyond its £1,000 delegation, nor can it contemplate either the overall redecoration of its entire occupation or even fund the redecoration of the one floor it hopes to take over. PSA has no funds available to assist department x. C&E are therefore effectively blocked.

Comment

This is a problem of funding, but it is also a problem of scope. A department which chooses the traditional option will by definition be less equipped to participate in joint initiatives than one which takes the standard option, and PSA will risk being in the invidious position of hindering the intent of the wider delegation given under the standard option because its own limited residual funds will have to be reserved for priority works. It will not have the access to additional funds which a standard option department will have by viring from within its overall running costs.

General Comments

These scenarios are imaginary, but experience of the friction within the existing system suggests that they are by no means unrealistic. Whilst joint planning and liaison should certainly help to improve relationships at local level between PSA and each individual client it is nevertheless a fact of life that departments tend to be very much guided by their financial interests and their own internal policies - PSA is no exception - and therefore it would be unrealistic to assume that all these problems will simply be waved away. Similarly although there are supposed to be committees in JOBs in which all occupying departments are represented it should not be assumed that this mechanism - which is basically a low-level consultative forum - will readily cope with potential inter-departmental disputes, particularly when funding is at issue.

EB

EXPENDITURE (1)

ANNEX 10

DEPARTMENT	PART II/III WORKS COSTING £1K-£5K	PART III INTERNAL DECORATIONS	PART II REPAYMENT SERVICES COSTING £5K-£150K (OFFICE & STORAGE ONLY)	ADMINISTRATION	TOTAL
(1)	£ (2)	£ (3)	£ (4)	£ (5)	£ (6)
MAFF	561,747	261,639	513,999	315,011	1,652,396
CAB OFF	12,317	9,277	19,383	9,824	50,801
C O I	20,806	13,491	31,273	15,735	81,305
CHAR COM	5,963	3,712	8,623	4,389	22,687
C & EX	413,119	218,523	532,557	278,668	1,442,867
MOD	661,406	498,393	902,691	473,648	2,536,138
ED & SC	51,630	33,315	69,847	36,901	191,693
EMP	573,245	281,274	733,061	380,775	1,968,355
ENERGY	34,456	25,139	50,186	26,183	135,964
DOE	194,558	135,054	187,348	119,268	636,228
ECGD	33,455	19,398	46,814	23,925	123,592
FCO	144,454	113,556	152,961	85,095	496,066

DEPARTMENT	PART II/III WORKS COSTING £1K-£5K	PART III INTERNAL DECORATIONS	PART II REPAYMENT SERVICES COSTING £5K - £150K (OFFICE & STORAGE ONLY)	ADMINISTRATION	TOTAL
(1)	£ (2)	£ (3)	£ (4)	£ (5)	£ (6)
REG F SOC	3,005	2,260	4,801	2,416	12,482
GOV ACT	2,211	1,663	3,533	1,777	9,184
DHSS	1,510,391	769,924	1,856,552	987,078	5,123,945
HO	412,854	245,292	370,411	238,867	1,267,424
I REV	1,403,461	691,882	1,809,409	937,119	4,841,871
IBAP	20,940	7,149	20,621	11,691	60,401
LCD	406,924	337,288	203,386	206,262	1,153,860
MPO	48,263	35,436	48,391	30,532	162,622
NILO	1,398	1,051	2,233	1,123	5,805
DNS	74,419	33,194	92,282	47,985	247,880
NEDO	4,339	3,264	6,932	3,488	18,023
OAL	1,349	1,015	2,155	1,084	5,603

DEPARTMENT	PART II/III WORKS COSTING £1K-£5K	PART III INTERNAL DECORATIONS	PART II REPAYMENT SERVICES COSTING £5K-£150K (OFFICE & STORAGE ONLY)	ADMINISTRATION	TOTAL
(1)	£ (2)	£ (3)	£ (4)	£ (5)	£ (6)
OFT	7,782	5,854	12,433	6,258	32,327
ODA	36,598	27,317	36,593	23,259	123,767
OOT	2,350	1,768	3,755	1,889	9,762
OPC AD	2,205	1,606	3,462	1,745	9,018
PGO	13,401	5,796	16,404	8,546	44,147
OPCS	48,643	24,779	62,757	32,690	168,869
PCO	1,485	1,117	2,373	1,194	6,169
PSA	343,233	204,113	405,000	225,475	1,177,821
PRO	55,987	51,441	27,234	29,175	163,837
PSA CONF	6,260	6,010	5,270	3,952	21,492
DTI	392,237	287,660	403,929	251,083	1,334,909
DTP	407,931	248,685	326,267	225,026	1,207,909

DEPARTMENT	PART II/III WORKS COSTING £1K-£5K	PART III INTERNAL DECORATIONS	PART II REPAYMENT SERVICES COSTING £5K-£150K (OFFICE & STORAGE ONLY)	ADMINISTRATION	TOTAL
	£ (2)	£ (3)	£ (4)	£ (5)	£ (6)
TRSY	57,028	42,262	80,987	42,888	223,165
T SOL	18,077	13,831	27,437	14,173	73,518
WEL OFF	70,124	33,066	76,310	42,562	222,062
N I O	10,832	8,679	4,885	5,290	29,686
NI CT	55	23	67	33	178
SCOT OFF	195,506	92,317	191,699	112,948	592,470
CR OF SCOT	19,871	10,512	19,337	11,631	61,351
D REG SCOT	11,113	4,807	13,604	7,087	36,611
G REG SCOT	6,944	2,876	8,165	4,316	22,301
SC CT AD	57,071	44,522	7,273	22,416	131,282
PSA VACANT	576,966	338,770	595,310	354,289	1,865,335
TOTAL	8,938,409	5,200,000	10,000,000	5,666,769	29,805,178



CG BG
HOME OFFICE
QUEEN ANNE'S GATE
LONDON SW1H 9AT

28 February 1986

NBPM

DEREGULATION: FIRE SAFETY AND MISC 121

My letter of 13 February to Kenneth Clarke explaining that we are actively considering ways in which the regulatory impact of fire precautions legislation for which the Home Office is responsible on places of work which constitute lesser fire risks can be reduced without detriment to fire safety standards was not, of course, available when MISC 121 last met. I thought it might therefore be helpful if I were to expand upon the letter for the benefit of our colleagues in MISC 121 and to put in perspective some points in which they expressed an interest at our third meeting on 12 February (MISC 121 (86)3rd). *will request if req'd.*

The Home Secretary announced on 16 January that he would be publishing a consultative document proposing ways of achieving the objectives of the Popplewell Inquiry's report, fitting this into the review already under way of the future of the Fire Precautions Act 1971. This Act is in general concerned with fire precautions in hotels and boarding houses and offices, shops and railway premises and factories by requiring fire certificates for such premises. Present indications are that it may be possible to propose removing all places of work which represent lesser fire risks from fire certification controls and instead placing such premises under a statutory obligation to achieve certain reasonable fire safety standards. We estimate - although this needs to be further explored - that in this way more than 25% of places of work can be removed from the need to obtain fire certificates. This should be a significant deregulatory step and will doubtless be recognised as such, even though the "Burdens on Business" scrutiny revealed that very few businessmen mentioned fire precautions as a burden on small firms; I understand only four firms out of the 200 surveyed mentioned it unprompted as being any kind of burden.

The Fire Precautions Act only impinges on existing buildings put to certain uses; it does not operate on buildings which are being planned or constructed. There the Building Regulations operate. District councils enforce building regulations and they are required to consult fire authorities about some new building (but not all and not about private homes) although they retain complete discretion as to the extent they impose any requirement on builders or architects as a result of consulting the fire authority. Building Regulations are a matter for DOE but I understand that they require a fire resistance of $\frac{1}{2}$ hour for a small single storey workshop, not "several hours" as stated in sub paragraph b of the minutes of the 3rd meeting. Businessmen often confuse the standard of fire resistance imposed by Building Regulations and fire regulations with those imposed by insurance companies; the latter are sometimes much higher.

/I confirm

The Rt Hon The Lord Young of Graffham

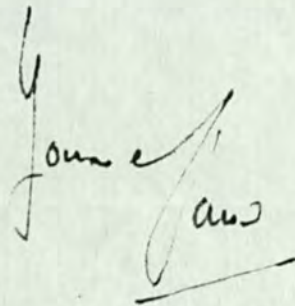
I confirm that we intend to continue in any legislation amending the Fire Precautions Act 1971 the right of appeal to the courts - magistrates courts - for anyone who is aggrieved by anything which is required of him as a condition of being issued with a fire certificate, such as is currently provided by section 9 of the 1971 Act, and we would propose to introduce a similar right of appeal in connection with enforcement of the statutory duty.

I also confirm that the 1971 Act does not extend to private houses in single family occupation (sub paragraph c of the minutes of the 3rd meeting is misleading in this respect) and we have no intention of extending the scope of the Act to include such premises.

Colleagues will also be encouraged to learn that the current Cinema Regulations introduced in 1955 take full account of the difference between flammable film and non flammable safety film which began to be used from the early 1950s. Different requirements are in force for the use of both types of film and, because flammable films are still stored and frequently used even today, the new regulations with which we propose to replace them were drafted in consultation with the Cinema industry (who fully support them) and with the advice of a cinema safety expert from the Health and Safety Executive and the British Film Institute.

I hope that what I have said has further demonstrated the extent of our commitment to deregulate in fire precautions where fire risks are small and where a reduction in controls can be brought about without raising public anxieties about a loss of fire safety standards. The Home Secretary will be circulating to colleagues shortly his recommendations for legislation to replace the Fire Precautions Act, and I know he will hope to be able to count on fully informed support for his proposals.

I am copying this letter to the other Members of MISC 121 and to No 10.

A handwritten signature in dark ink, appearing to read 'David Waddington', with a horizontal line underneath.

(DAVID WADDINGTON)





FROM: CHIEF SECRETARY
DATE: 17 February 1986

PRIME MINISTER

**CONSULTANCY, INSPECTION AND REVIEW (CIR) SERVICES
IN GOVERNMENT DEPARTMENTS**

Richard Luce and I minuted you on 2 December covering a report by the Treasury/Cabinet Office Joint Management Unit about the implementation of the Efficiency Unit's Consultancy, Inspection and Review (CIR) Services Report. We undertook to report further progress in October; and in preparation for that the Joint Management Unit will be seeking further reports from departments by June 1986 on what has been done and with what results.

2 It may be helpful to departments if we set out now the yardsticks by which we shall measure their performance when they send in their further progress reports. I am ... circulating with this minute the criteria we have in mind.

3 I am copying this minute to Ministers in charge of departments, Sir Robin Ibbs and Sir Robert Armstrong.

JOHN MacGREGOR

What can be expected

A in each department

- (1) A clear message to line managers, with the Permanent Secretary's authority, that they are primarily responsible for improving value for the money they control;
- (2) evidence that line managers are initiating and demonstrating improvements in value for money;
- (3) examples of the extent to which CIR assistance is sought by and effectively given to line managers to improve value for money;
- (4) quantification of the costs and benefits of all CIR assignments and checks that the benefits claimed are being realised in practice;
- (5) better direction and focussing of CIR services by top management (this is possibly the single most important result to be looked for in the coming year); some multi-disciplinary work;
- (6) succession plans in place to ensure that senior CIR staff have real line management experience;
- (7) plans for CIR skills to be taught to line managers;

B in some departments

- (8) Treasury/Cabinet Office (MPO) guidance issued about performance indicators for staff inspection and management services;
- (9) One or two departments at least using CIR forces to help managers improve budget disciplines.

GOVT MAIL

RAYNER

P720





EFFICIENCY UNIT

70 WHITEHALL, LONDON SW1A 2AS

Enquiries : 01-233 8412

Direct line : 01-233

MR WICKS

VALUE FOR MONEY SEMINAR WITH DOE - 11/2/86

I have had a word with Sir Robin about action points. We suggest something on the following lines:

X "Questions were raised about improving value for money from funds spent on housing renovation. Sir Robin Ibbs would call on the Secretary of State shortly to settle specific targets in this and other priority areas, and to discuss the Department's scrutinies which would support the Secretary of State's targets." X

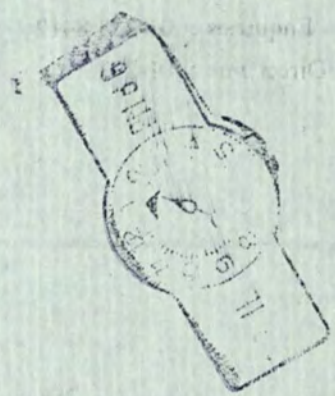
I hope this is helpful.

¹³
IAN B BEESLEY
12 February 1986



STATIONERY UNIT

POSTHALL NORTH BRIDGE



Subject cc Master



D.C. MURPHY BOOTH

10 DOWNING STREET

From the Principal Private Secretary

11 February 1986

Dear Robin,

VALUE FOR MONEY IN THE DEPARTMENT OF THE ENVIRONMENT

Your Secretary of State gave a presentation to the Prime Minister this morning on his Department's initiatives for achieving better value for money. Mr. Heiser and Sir Robin Ibbes were also present.

The Prime Minister began by congratulating the Secretary of State on his Department's good record in controlling running costs. This could not have been achieved without a lot of hard work by all concerned.

Your Secretary of State opened his presentation, which he illustrated with slides, by showing the increasing complexity of the work of the Department of the Environment, the extent of the Department's powers, from direct control in some areas to more influence in others; the achievements in manpower reductions; and the growing success of the various management tools, including MINIS.

The Secretary of State then turned to certain of the Department's functions:

- (1) He described the Department's plans for achieving a further reduction in the time taken to decide planning appeals. Guidance was being issued to inspectors about the taking of evidence, though the Department had not yet proposed a specific time limit on evidence. The Prime Minister urged that this be examined. Sir Robin Ibbes commented that a Scrutiny had been instrumental in securing some of the improvements in the procedures for reducing planning delays.
- (2) After the Secretary of State had discussed the work of the Urban Housing Renewal Unit, the Prime Minister suggested that its targets should not be even better. The Secretary of State explained that the pace of progress here was, in large extent, determined by the availability of DOE money which financed "dowries" needed to facilitate de-municipalisation. The Prime Minister emphasised that if the Government was paying for local authority houses to be privatised, the local authorities concerned should not be allowed to build

more council houses. Sir Robin Ibbs emphasised that the issue here was the need to secure objectives at minimum cost.

- (3) During the discussion of the work of the water authorities, the Prime Minister urged compulsory metering for all new houses. The Secretary of State said that he hoped to achieve this soon. The Prime Minister commended the efforts taken to reduce the water authorities manpower.
- (4) The Secretary of State explained the emphasis placed in the work of the Development Commission on Performance Targets as a means for achieving value for money.
- (5) A similar approach needed to be applied with vigour to the Sports Council. The Prime Minister expressed her surprise that the Sports Council had as many as 580 employees disbursing as little as £32m.
- (6) In answer to a question about the Derelict Land Grant the Secretary of State said that clearance of derelict land was only keeping pace, at best, with the increase in new derelict land. The cost of land clearance was increasing per hectare as the grants were increasingly devoted to difficult urban sites. There needed to be more precise targets for achieving value for money from the urban programme. As with all value for money work, the transformation of performance indicators into precise targets was the key.

The Secretary of State reported that he was considering the creation of a West Midlands Development Corporation. This could be established by Order. For Teesside, the worst area for urban dereliction, he was considering proceeding by way of a private trust. In every area his objective was to use limited public funds to enhance the talents of private developers. The technique was to use public money to lever larger amounts of private money so as to make activities which were marginally viable more viable. Mr. Heiser emphasised the need in this work for high quality civil servants, skilled at identifying opportunities for the effective use of public money in private sector schemes.

The Prime Minister asked about the possibilities of switching money for these purposes from other public sector allocations. The Secretary of State should explore with the Secretary of State for Employment whether MSC resources could be used in these areas. The Department should obtain more publicity from their work in this area and she was glad to learn that projects financed by the DOE were signposted as such. The Secretary of State suggested that the Prime Minister should visit urban renewal sites during her regional tours.

CONFIDENTIAL

- 3 -

For follow up action it was suggested that Sir Robin Ibbs would call on the Secretary of State shortly to settle specific targets for improving value for money from funds spent on housing renovation and for other priority areas. He would also discuss the Department's scrutinies which would support the Secretary of State's targets.

I am sending a copy of this letter to the Private Secretaries to the Chief Secretary, Sir Robin Ibbs and Sir Robert Armstrong.

Yours sincerely
Nigel Wicks.

(N.L. WICKS)

Robin Young, Esq.,
Department of the Environment.

CONFIDENTIAL



Bluf.

10 DOWNING STREET

10 February 1986

From the Private Secretary

Dear Richard

CIR REPORT

Thank you for your letter of 7 February. The Prime Minister is content that Departments should send in their further reports by the end of June 1986, and that the report to her should be submitted by October. She is also content that the Chief Secretary should circulate to Departments the note on yardsticks attached to your earlier letter, making it clear that these are the criteria by which progress will be measured.

I am copying this to Paul Thomas (Management and Personnel Office) and Ian Beesley (Efficiency Unit).

L e

Mark Addison

Mark Addison


Richard Broadbent Esq
HM Treasury.

L

no

PRIME MINISTER

ceBG



VALUE FOR MONEY SEMINAR: DEPARTMENT OF THE ENVIRONMENT
10 - 11AM, 11 FEBRUARY 1986

You are seeing Mr Baker and his first Permanent Secretary, Terry Heiser, on 11 February. The seminar is intended to cover the DOE only, not the PSA.

OBJECTIVES

2. The objectives are:

- (a) to remind Mr Baker and Mr Heiser of the importance you attach to steady improvement in value for money;
- (b) to encourage them to maintain a programme of continuous improvement;
- (c) to encourage them to set ambitious but realistic targets in each of the main areas of public expenditure with which they are concerned.

HANDLING

3. Mr Baker has been invited to speak for about 20 minutes, saying what has been achieved in the last year and what is going to be achieved. Mr Baker will focus on a number of specific areas of DOE. Thereafter there will be 40 minutes for discussion.

4. The DOE has shown substantial improvement particularly on running costs, and this needs to be acknowledged. It will be equally important to emphasise the need to maintain and increase the rate of progress, particularly in those areas of public expenditure where they should be able to exert influence even if they do not have direct control.

MAIN FACTS

5. DOE is relatively small in terms of running costs (£136m pa) and manpower (6,500). Its programme expenditure, however, is substantial (£6.5 billion) - mostly local authority. In addition it is responsible for the allocation of RSG (£9 billion) in England and the approval of local authority capital expenditure (£3 billion).

6. The main areas of programme spending are:

- housing (£2.7 billion net) →
- local authority environmental services (£2.4 billion) →

A note giving key spending and manpower facts is at Annex B.

7. The Audit Commission has an important role in securing better value from local authority spending (you will remember John Banham's presentation to Cabinet last July). But DOE does have influence and some controls. It is particularly important that specific savings identified by the Audit Commission are implemented widely across authorities.



MAIN QUESTIONS

8. How can DOE use its influence/control to secure better value?

- how does DOE ensure that others (eg sponsored bodies and local authorities) set appropriate targets?
- are there areas where the legislative and financial framework should be substantially improved?

How is DOE using value for money targets?

- are they precise and timetabled?
- are they about better value (not just implementing policy)?
- are they sufficiently extending?

What major scrutinies have DOE in mind to help deliver major targets?

9. Specific suggested questions are at Annex A.

FOLLOW UP

10. The Efficiency Unit will follow up specific points from the seminar. I will see Kenneth Baker shortly to talk in detail about his targets for 1986/87 and the scrutinies DOE intends to do.

11. I am copying this to Sir Robert Armstrong.

ROBIN IBBS
7 February 1986

SUGGESTED POINTS TO RAISE

A. DIRECTLY CONTROLLED EXPENDITURE

1. Running Costs. DOE's running costs rose from £132.5m in 1984/85 to £137m in 1985/86 (ie 3.5%). This increase is lower than the level of overall increases across government. DOE manpower has reduced from 12,500 in 1979 to 6,500 now. Half of the 6,000 saving has been as a result of dropping functions or streamlining. This is a real achievement. They deserve congratulation.

2. Scrutiny to speed written planning appeals A high quality scrutiny completed last October. It showed how waiting times for determining written planning appeals could be brought down from 20 weeks to 11 weeks. Although this is a small area of DOE activity, it shows what can be done to improve.

Is DOE planning to do more scrutinies which will deliver results like this?

Are they prepared to commit some of their best quality staff?
(A scrutiny takes only 90 days of a high-flier's time)

B. SPONSORED BODIES

3. Quango reviews All quangos are being subjected to financial management reviews between 1985 and 1988. 6 DOE reviews have started (Housing Corporation, National Heritage Memorial Fund, New Towns, Sports Council, Urban Development Corporations, Development Commission). None has reported yet. The reviews are generally being conducted by the relevant desk officer (although one of them at least has some management consultant help).

What benefits will come out of these reviews and when?
Are they doing more than just going through the motions?

4. Housing Corporation The Housing Corporation funds housing associations (capital expenditure this year £700m). 85% of the cost of projects is met by Government grants.

Is the subsidy going to those who need it?
Is the expenditure giving maximum benefit in terms of the underlying objectives of housing policy?

5. Water Authorities English Water Authorities now have about 47,000 staff (57,000 in 1979). All Water Authorities are meeting their financial targets for return on assets. Privatisation should be another spur to efficiency.

How will DOE ensure that the Water Authorities continue to improve efficiency after privatisation?

6. Development Commission The Development Commission is spending about £25m pa on the economic and social development of rural England. A major activity is investment in factory premises and workshops.

Has the Commission achieved its targets for factories and workshops?
What resulting improvements have there been to the rural economy?

You asked that DOE should aim for 80% should be determined in 8 weeks, at a Saturday Group meeting.



7. Sports Council The Council is spending just over £30m pa with plans to increase this to £37m to take on GLC functions. This will mean about 150% increase in spending since 1979 (Local authorities spend about £700m on sport and recreation as well).

What improved results or activities are there to show for this rise in expenditure?

What steps are taken to ensure that selectively it is used to best advantage?

C. SPECIFIC GRANTS

8. DOE gives local authorities a wide range of specific grants towards activities, eg for housing and urban renewal. Although local authorities are the spenders, DOE should be able to influence how the money is spent.

9. Urban Programme The Urban Programme costs £338m this year. Efforts are being made to ensure better co-ordination between departments on their spending.

What specific improvements have stemmed from the increased resources put into the urban programme in recent years?

How will the DOE ensure that it improves its programmes as part of the work of CATS and of the Urban Task Force in the Department of Employment?

10. Derelict Land Grant Over £70m pa is given to local authorities and private individuals or companies to reclaim derelict land for industrial use or to improve the environment. Priorities have shifted from environmental improvement to industrial reuse.

How are changing priorities reflected in the targets which are set?

11. Housing policy - general Housing policy is a patchwork of different policies, and different grants and schemes. DOE spends much effort in aligning the various elements. The 1985 Cabinet Office review of housing policy recommended a more market oriented approach with clearer objectives and better evaluation.

How is DOE ensuring that value is being attained from public spending on housing despite the patchwork of policies and schemes?

What action has been taken on the Cabinet Office review?

D. LOCAL AUTHORITY BLOCK GRANT

12. DOE is responsible for the financial framework within which local authorities work and for the distribution of RSG. The front line pressure for securing better value comes from the Audit Commission, but the DOE does have the ability to influence how services are provided.

What specific steps is the DOE taking to encourage value for money in local authorities?

Can the DOE hold up as an example (eg in Ministerial speeches) those local authorities where real improvements have been made?

DOE KEY FACTS

MANPOWER AND EXPENDITURE

	1978/79	1985/86	1986/87
<u>Overall PES</u>			
Housing	3,563	2,742	2,752
Other env. services	2,219	3,939	3,622
<u>Running Costs (£m)</u>	- -	137	144
<u>Manpower</u> (thousands)	12.5	6.5	6.4

<u>Main Businesses</u>	% of total (1985/86)
Housing	41
Local env. services	35
Planning	1
Inner cities	4
Countryside	1
Env. protection	0.5
Water	4
Construction industry	0.5
Heritage	1.5
Sport	0.5
Admin etc	1.0

MANAGEMENT SYSTEM

MINIS was the precursor of other top management systems. It has been progressively refined; now in its seventh round it is substantially different to the early versions. It now enables top management to focus on key issues and to concentrate on aims and objectives; it requires improved measurement of performance; and it enables targets to be set.

SCRUTINIES

1984/85	Urban Programme
1985/86	Speeding planning appeals: showed how to cut delays from 20 weeks to 11 weeks Co-ordination of environmental research: still in progress, but there are no signs that the scrutiny will deliver substantial results Slum Clearance Subsidy: just started, a good examining officer looking at a £50m subsidy paid to local authorities on their slum clearance deficit accounts (ie paying for past activity).
1986/87	DOE has mentioned the possibility of a scrutiny of burdens on local authorities. This could be a substantial subject where good results could be delivered.

AJ2/PMDOE

E. R.
PRIME MINISTER

CONSULTANCY INSPECTION AND REVIEW SERVICES

You asked that Mr Luce should bring forward from December to June the date he proposed for Departments to report on the results which had been achieved following the review of CIR services.

The Chief Secretary, Mr Luce and the Efficiency Unit believe that advancing the date of the report to you to June risks encouraging Departments to skimp the exercise. The Chief Secretary proposes instead that Departments should submit their individual reports by June, and that the final report to you should be by October. (The Treasury letter is attached).

The Treasury have also provided, as you asked, a note setting out the specific results which could be expected in a reasonable period, and against which the progress which Departments are making could be judged. A copy is attached.

Agree i) that the deadline for the report to you should be October? *Yes no*

ii) that the Chief Secretary should circulate the note on yardsticks to Departments making it clear that these are the criteria by which progress will be measured when they send in their further progress reports in the end of June? *Yes no*

Catherine Jones

PP MARK ADDISON

7 February 1986

CBH



Treasury Chambers, Parliament Street, SW1P 3AG

Mark Addison Esq
Private Secretary
10 Downing Street
London
SW1

7 February 1986

Dear Mark

CIR REPORT

Thank you for your letter of 31 January, in which you asked for my advice on whether it would be possible to meet a June deadline for a further report to the Prime Minister.

The position is that departments have already been asked to send in their further reports by the end of June 1986, and we should stick to this in order to ensure that departments have adequate time to be able to make real progress. Thereafter, we think there is considerable advantage in allowing a period of about 3 months (bearing in mind the leave season) for the Joint Management Unit to discuss the reports with them and, if necessary, push them to improve their efforts. On the last round these discussions led to some useful improvements. It was this which led the Chief Secretary to offer the further report by October. The Minister of State, Privy Council Office and the Efficiency Unit both agree that this would be the most sensible timetable.

I am copying this letter to Paul Thomas (MPO) and Ian Beesley (Efficiency Unit).

Yours ever
Richard Broadbent

RICHARD BROADBENT

Rayner: Gov MACH Pt 20.



COMPRESSOR



10 DOWNING STREET

From the Private Secretary

31 January 1986

CIR REPORT

Thank you for your letter of 30 January. Looking again at my letter of 17 December I see that it is badly phrased. What it should have made clear is that the Prime Minister wished to have a note on the yardsticks for departments as soon as possible and that she was seeking a report on how far departments had managed to achieve them by June, rather than December or October.

BF | I should be grateful for your advice, on whether it will in fact be possible to meet the June deadline. When I have this, I will submit the draft yardsticks to the Prime Minister for her approval.

I am copying this letter to Paul Thomas (Management and Personnel Office) and Ian Beasley (Efficiency Unit).

Richard Broadbent, Esq.,
Chief Secretary to the Treasury's Office

MARK ADDISON

File [initials]
(72)
CC BG -

ceko

Treasury Chambers, Parliament Street, SW1P 3AG

Mark Addison Esq
Private Secretary
10 Downing Street
London
SW1

30 January 1986

Dear Mark

CIR REPORT

The Chief Secretary has seen your letter of 17 December asking for a note setting out the specific results which could be expected in a reasonable period as Departments organise to deliver the results identified in the CIR report. You suggested that this note might be prepared by June. The Chief Secretary has commented that it might be helpful to provide the note now as a benchmark for the next regular report, which is due in October 1986. *at 11.00*

... The yardsticks that the Chief Secretary and Mr Luce have in mind are set out in the attached note. If the Prime Minister is content, the Chief Secretary proposes to circulate these yardsticks to Departments (by means of a circular minute to the Prime Minister) making it clear that these are the criteria by which their performance will be measured when they send in their further progress reports by the end of June. The Chief Secretary will report to the Prime Minister on his assessment of these departmental returns by October.

I am copying this minute to Paul Thomas (MPO) and to Ian Beasley. (Efficiency Unit).

*Yours sincerely
Richard Broadbent*

RICHARD BROADBENT
Private Secretary

What can be expected

A in each department

- (1) A clear message to line managers, with the Permanent Secretary's authority, that they are primarily responsible for improving value for the money they control;
- (2) evidence that line managers are initiating and demonstrating improvements in value for money;
- (3) examples of the extent to which CIR assistance is sought by and effectively given to line managers to improve value for money;
- (4) quantification of the costs and benefits of all CIR assignments and checks that the benefits claimed are being realised in practice;
- (5) better direction and focussing of CIR services by top management (this is possibly the single most important result to be looked for in the coming year); some multi-disciplinary work;
- (6) succession plans in place to ensure that senior CIR staff have real line management experience;
- (7) plans for CIR skills to be taught to line managers;

B in some departments

- (8) Treasury/Cabinet Office (MPO) guidance issued about performance indicators for staff inspection and management services;
- (9) One or two departments at least using CIR forces to help managers improve budget disciplines.



GOVT MACH PT20

Rayner

CONFIDENTIAL

No 10.

csl



Department of Employment
 Caxton House Tothill Street London SW1H 9NF
 Telephone Direct Line 01-213.....5949.....
 Switchboard 01-213 3000

Rt Hon John Moore Esq MP
 Financial Secretary
 HM Treasury
 Parliament Street
 LONDON SW1

27 January 1986

Dear Minister

N BPN.

BILATERAL ON DEREGULATION

We are meeting to discuss deregulation in both Inland Revenue and Customs and Excise on 29 January I thought it might be helpful if I indicated some of the subjects which I would like to cover at that meeting.

My main purpose is to discuss the issues to be covered in your MISC 121 papers, which will form the basis of your contribution to the forthcoming White Paper. The recent outline of the White Paper, agreed at MISC 121, indicates that each Department will review the implementation of deregulation within the Department, the progress on "Lifting the Burden" and new proposals which can be included or opened up for review.

I am sure you will have your own targets for deregulation in mind, even though Budget secrecy may prevent you exploring them at present, but you might find it helpful to see the attached issues which we have identified as possibilities. I would like to discuss these at the meeting. You may also be able to identify ways of lifting the burden on employers which are the responsibility of other Departments but which you believe are important.

I look forward to seeing you on 29 January.

Yours sincerely

Susan Chappell

for

KENNETH CLARKE
 (Approved by the Minister and
 signed in his absence)

CONFIDENTIAL

New proposals or reviews for White Paper

1. Customs and Excise

- (i) VAT penalties and surcharges - extend time period for payment and make surcharges discretionary.
- (ii) VAT treatment of motoring expenses - (as in consultation document) - consider collecting VAT element with Inland Revenue tax assessment or apportion scale benefits.
- (iii) Freeports - remove VAT from transactions within freeports.
- (iv) Consider a system of monthly "budget payments" for VAT.
- (v) Eliminate VAT on credit transactions between registered traders.
- (vi) Consider reducing the number of retail schemes.
- (vii) Consult on cash basis for VAT as an option for traders.

2. Inland Revenue

- (i) P11D - simplify definition of the threshold
 - allow dispensations for entertaining expenses
 - any alternative to P11D?

- (ii) 714 certificate - simplify application procedure and speed up bureaucracy.
- (iii) Extend simplified PAYE system used for domestic servants to employers with less than five employees.
- (iv) Merge Inland Revenue PAYE and DHSS National Insurance audit inspectorates.

3. Both Departments

- (i) Treatment of appeals - wide coverage of an independent appeals procedure [On VAT, Tribunal appeals should proceed even if arrears of VAT are outstanding and if hardship is involved].
- (ii) Limits should be placed on the reconsideration of tax cases especially where approval of one official has been given to a particular set of accounts or way of proceeding eg in VAT control visits.
- (iii) Review the length of periods for record keeping.
- (iv) Training and enforcement - a case study?



EFFICIENCY UNIT

JB4:MR16/1

70 WHITEHALL, LONDON SW1A 2AS

Enquiries : 01-233 8412

Direct line : 01-233 7359

23 January 1986

The Rt Hon Malcolm Rifkind MP
Secretary of State for Scotland

Dear Malcolm,

I hesitate to trouble you so soon after your appointment but as you know, the Prime Minister attaches great importance to Government getting best value out of the taxpayer's money. And she has asked me to help Ministers do that.

I should welcome an opportunity for us to meet soon to discuss your plans on value for money targets and scrutinies, and to consider how the Efficiency Unit and I may be able to help. The Prime Minister asked me to see new Secretaries of State appointed last autumn and I have had a useful series of meetings. Perhaps my office could be in touch with yours to fix a time.

I am sending a copy of this letter to Nigel Wicks.

yours ever

ROBIN IBBS





From the
Minister of State

Ministry of Agriculture, Fisheries and Food
Whitehall Place London SW1A 2HH

ccBG

WBFN

The Rt Hon Kenneth Clarke QC MP
Paymaster General
Department of Employment
Caxton House
Tothill Street
London
SW1H 9NF

14 January 1986

Dear Kenneth,

DEREGULATION

FILE WITH DEN

You copied to Michael Jopling your letter of 16 December to Leon Brittan.

Within MAFF, we are setting up a small DDU and will be ensuring that the DDU is aware of all proposed regulations. Where the DDU is satisfied that a regulation will have no or only minimal impact on business, we will not call for any written impact assessment: therefore in those cases there will not be an assessment to pass on to the EDU. I think our DDU must concentrate, at least in the first instance, on existing and proposed regulations which have or are likely to have a significant impact on business, if we are to make the best use of our limited resources.

I have made arrangements to monitor very closely the execution of our policy on deregulation. This will involve my setting priorities for our own Departmental Unit. I am sure that the EDU can be relied upon to work with rather than across these priorities.

I am copying this to those who had copies of your letter.

Yours sincerely,

BELSTEAD

GOLT MACHT

RAYNER

PT 20

0704





Treasury Chambers, Parliament Street, SW1P 3AG

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

NBP7

Dear Nick,

14 January 1986

CAPITAL EXPENDITURE CONTRACTS

at Nap.

Thank you for your letter of 24 December to Nigel Lawson. I agree that our officials should discuss how Sir Robin Ibbs' four recommendations on capital expenditure projects should operate in the particular circumstances of the road programme.

I am copying this letter to the Prime Minister, Sir Robert Armstrong and Sir Robin Ibbs.

Yours,
JH

JOHN MacGREGOR

GOUT. MACH P20

RATNER





NBPM

DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB
01-212 3434

CCBG

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

24 December 1985

Dear Nigel

CAPITAL EXPENDITURE CONTRACTS

FLAPPT 19

I have been considering how best to give effect to the recommendations in Sir Robin Ibbs' note to the Prime Minister on the approval of capital projects, which was circulated to colleagues on 21 November.

Most of the recommendations are already standard practice for the road programme. We do however need to consider how the recommendation that projects over, say, £25m, should be subject to examination by Ministers should be interpreted in relation to the road programme. The report by the Efficiency Unit, on which the recommendations are based, identifies "approval in principle" as the key stage of project approval. Road schemes are however subject to scrutiny at a number of stages from their entry into the programme to the clearance to invite tenders for construction. The whole planning process is geared to the statutory procedures including public inquiries, which on average takes 10-12 years.

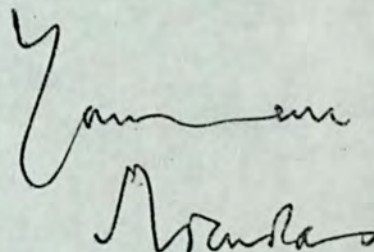
Major reviews of the road programme are normally carried out biennially. Ministers here decide which schemes to add to the programme, and which to defer or abandon. These decisions are announced in Roads Reports or White Papers, which are cleared with Treasury colleagues. However entry to the programme does not involve approval of a specific scheme, but only recognition of a problem needing a solution. Even if some options have been identified at that stage, they can only be costed in broad terms.

Once schemes are included in the national programme, a number of options are worked up for public consultation, using an agreed cost/benefit system (COBA) to evaluate

the economic return, and a structured statement of environmental and other costs and benefits which cannot be evaluated in money terms. Ministers here decide on the option to be selected following public consultation as the basis for statutory orders to be considered at public inquiry, and on any modifications to be made to the scheme following public inquiry. All schemes in the programme have to be referred to the Treasury for specific approval if at any stage they fail to show a positive return, using a 7% test discount rate, or if it is proposed to select an option which, even though the return is still positive, is significantly less than economically optimal. Our officials have recently carried out a joint review of the financial management of the road programme and have made recommendations for increasing levels of delegation and improving the monitoring and control of the programme as a whole, over and above the existing arrangements for Treasury review of a number of schemes in the programme each year.

I believe that our system of appraisal is generally recognised to be very rigorous and ensures that the costs and benefits are fully assessed at every stage. It provides a standard method of identifying schemes on which difficult judgements need to be made. I hope you will agree that we should continue to use this test in applying the procedures proposed by the Efficiency Unit. I therefore suggest that our officials should discuss how these procedures should operate in the particular circumstances of the road programme.

I am copying this letter to the Prime Minister and Ministers in charge of Departments and to Sir Robert Armstrong and Sir Robin Ibbs.

A handwritten signature in dark ink, appearing to read 'Nicholas Ridley', written in a cursive style.

NICHOLAS RIDLEY

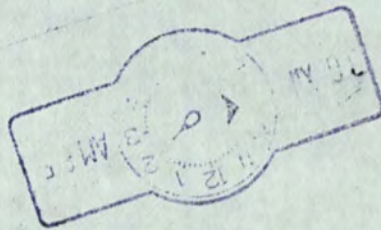
Ministers in charge of Departments

The Rt Hon Michael Jopling, MP	-	MAFF
Richard Luce Esq MP	-	Arts and Libraries
The Rt Hon Norman Tebbit, MP	-	Chancellor of the Duchy of Lancaster
The Rt Hon Michael Heseltine, MP	-	MOD
The Rt Hon Sir Keith Joseph, Bt MP	-	DES
The Rt Hon The Lord Young of Graffham	-	DEm
The Rt Hon Peter Walker, MBE MP	-	DEn
The Rt Hon Kenneth Baker, MP	-	DOE
The Rt Hon Sir Geoffrey Howe, QC MP	-	FCO
The Rt Hon Norman Fowler MP	-	DHSS
The Rt Hon Douglas Hurd CBE MP	-	HO
The Rt Hon Sir Michael Havers QC MP	-	Law Officers' Dept
The Rt Hon The Lord Cameron of Lochbroom QC	-	Lord Advocate's Dept
The Rt Hon Lord Hailsham of St Marylebone CH	-	Lord Chancellor
The Rt Hon Tom King MP	-	NIO
The Rt Hon Kenneth Clarke QC MP	-	PGO
The Rt Hon Viscount Whitelaw CH MC	-	Privy Council Office
The Rt Hon George Younger TD MP	-	Scottish Office
The Rt Hon Leon Brittan QC MP	-	DTI
The Rt Hon Nicholas Edwards MP	-	Welsh Office

GOUT MACH

RAYNER

PT 20





DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

01-212 3434

The Rt Hon Kenneth Clarke QC MP
Paymaster General
Department of Employment
Caxton House
Tothill Street
LONDON SW1H 9NF

20 December 1985

NBRN

Dear Kenneth

Thank you for copying to me your letter of 16 December to Leon Brittan about the working arrangements for deregulation.

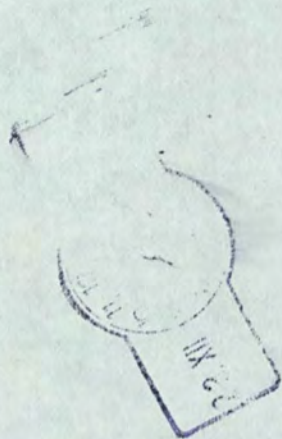
As I said in my letter of 5 December to David Young I shall be happy to go along with these arrangements and to offer the EDU the opportunity to look at all regulations which have a significant impact on business. But I really do not see much point in my Department sending to the EDU appraisals of regulations where I and my colleagues here are satisfied that the impact on business is not significant.

My Department will now be starting work on Compliance Cost Assessments of new regulations with significant impact on business.

I am copying this letter to the Prime Minister, Geoffrey Howe, Leon Brittan, Nigel Lawson, Douglas Hurd, Peter Walker, Norman Fowler, Norman Tebbit, Michael Jopling, Kenneth Baker, Richard Luce and Sir Robert Armstrong.

NICHOLAS RIDLEY

Got Much: Royer
8620





SRWAMJ

10 DOWNING STREET

From the Private Secretary

17 December 1985

CIR REPORT

The Prime Minister was grateful for the Chief Secretary's and Mr. Luce's minutes covering the report on the first year's implementation of the Efficiency Unit CIR Report.

The Prime Minister was encouraged to see the evidence in the report that departments are beginning to use their central Consultancy Inspection and Review staff in a more coordinated way. But she is strongly of the view that considerably more real and sustained progress needs to be made in using these organisational changes to deliver the results identified in the original report.

The Prime Minister found it difficult to discover from the report precisely what will have been achieved by the end of the implementation period in December 1986. She would be grateful to have a note setting out the specific results which she can expect to see in a reasonable period and, in particular, what targets departments have for ensuring that by then their CIR staff will be used to help line management achieve results from increased delegation. She has suggested that this report should reach her by June next year.

I am copying this to Paul Thomas in Mr. Luce's office, to Michael Stark (in Sir Robert Armstrong's office) and to Sir Robin Ibbs.

MARK ADDISON

Richard Broadbent, Esq.,
Chief Secretary's Office
HM Treasury.

GA

MR. WICKS

CONSULTANCY INSPECTION AND REVIEW SERVICES

You ought to see the Prime Minister's comments on the minute attached.

In my letter to the Chief Secretary and Mr. Luce, I will use firm language to indicate that the Prime Minister thinks there is a long way to go yet. I am, meanwhile, alerting OAL to the June deadline. I do not, however, think we should set up a meeting at this stage with Sir Robin Ibbs and Sir Robert Armstrong. The right moment to do that might be after the June report.

Content?

TM Addison

I agree no special meeting. She should mention it when she next sees

RTA, which may be this week.

Mark Addison
16 December 1985

BM2AAC

N.L.W

17.12



cc BA

Department of Employment
 Caxton House Tothill Street London SW1H 9NF
 5949
 Telephone Direct Line 01-213.....
 Switchboard 01-213 3000

The Rt Hon Leon Brittan QC MP
 Secretary of State
 Department of Trade and Industry
 1 Victoria Street
 LONDON SW1

16 December 1985

Dear Secretary of State,

NBPT.

DEREGULATION

AT FLAP PT 19

We have now had replies from you and others to David Young's letter of 29 November enclosing a final draft of the concordat on new working arrangements for deregulation. David and I are grateful for the support our proposals have received and general agreement that they represent a sensible way forward. We were also encouraged by the positive approach adopted by MISC 121 at its first meeting earlier this week.

I am sure it is right that the arrangements proposed in the concordat should be operated on a common sense basis, so as to avoid any unnecessary bureaucracy. On the other hand I do think that for an exercise of this kind involving a large number of departments to work effectively there have to be some ground rules that are firm and clearly understood. The concordat makes clear (para 5) that the amount of work needed to produce compliance cost assessments will vary from case to case. Unless some assessment is made of each regulatory proposal, however, I think it will be difficult for Ministers to be satisfied that their departments have in fact considered their impact on business, and passing on this material to the EDU should not generally impose any significant additional burden. I entirely accept of course that the EDU will need to be selective in identifying proposals which it wishes to follow up if it is not to be overwhelmed by the weight of paper.

I take your own point about needing to pick up proposals that are already in the pipeline. Where policy decisions have already been taken, I suggest officials responsible for implementing them should either undertake modified CCA procedures, or consult with their departmental deregulation unit, or if necessary the EDU, about handling and presentation in relation to deregulation policy. There may clearly be alternative ways of approaching specific regulations and instructions, for example, even though the major policy



decisions have already been taken. This emphasises to my mind the value of departments having some kind of internal coordinating machinery able to offer advice in cases of this kind.

The Council of Ministers meeting on 2/3 December agreed to proposals by the European Commission for applying to proposed EC regulations broadly similar procedures to those which we are adopting here. The Council also agreed to review existing regulations with a view to identifying areas where these might be simplified. This should help significantly in resisting proposals which are likely to have a damaging effect on competitiveness, and in challenging existing regulations which can be shown to be harmful. The EDU will be in touch with departments shortly about identifying useful areas for taking up with the Commission.

We shall of course wish to review the operation of the concordat arrangements in due course in the light of experience. Meanwhile our priority must now be to bring them into effect as soon as possible. Departments have been aware for some time of the general lines of the intended procedures and I hope there should be no difficulty therefore in bringing them into effect from, say, 16 December by which date departments have been asked to prepare a "forward look" at forthcoming regulations. I should be grateful if you and our other colleagues could arrange for the procedures set out in the concordat, including of course undertaking compliance cost assessments of new regulations, to be applied within your departments from that date. I understand that the Enterprise and Deregulation Unit recently consulted departments about the first stage cost compliance assessments and have taken on board a number of helpful comments.

As before copies of this letter go to the Prime Minister, Geoffrey Howe, Nigel Lawson, Douglas Hurd, Peter Walker, Kenneth Baker, Norman Fowler, Michael Jopling, Nicholas Ridley, Norman Tebbit, Richard Luce and Sir Robert Armstrong.

Yours sincerely

Susan Crappell

for

KENNETH CLARKE

[Approved by the Paymaster General and signed in his absence]

GOUT MACH
RAWRER
P120





CF

Could I have
the file pl;1

10 DOWNING STREET

~~mea.~~

write and 15
copies &
terminin
Dipty.

11 Feb 60

ex viro net MGA 13/12

a

17 June 60
Home Office.

CR.

13/12.

PRIME MINISTER

CONSULTANCY INSPECTION AND REVIEW SERVICES

Sir Robin Ibbs' Efficiency Unit published their report on CIR services in Government Departments about a year ago. The Treasury/Cabinet Office Joint Management Unit has now reported on the work which has been done to follow up Sir Robin's recommendations. A copy of the Joint Management Unit report is attached at flag A, under cover of a minute jointly signed by the Chief Secretary and Mr Luce at flag B. The report and the note have now gone round Departments.

The Chief Secretary has written separately (flag C) stressing that it is practical results which matter, and suggesting that the report on progress so far is not very impressive. Robin Ibbs agrees (flag D). Unless and until devolved budgetting and more effective staffing reviews have a practical impact on management down the line, there will be no real pay off.

Yes
Agree that I should ask Mr Luce for a ^{note} setting out the specific results to be expected by ~~this time next year~~ ^{June}, so that a proper judgement can be made on whether the new regime is having an impact? A ^{Secretary} Private letter for you to approve is at flag E

MEA

MARK ADDISON

11 December 1985

This won't do - Unless
we get better results - a still
speedy Sir Robin will be
replied. But we
could do well with
Sir Robert's Sir Ben



2 MARSHAM STREET
LONDON SW1P 3EB

My ref: B/PSO/19562/85

Your ref:

11 December 1985

Dear Mark,

VALUE FOR MONEY IN GOVERNMENT

Thank you for your letter of 25 November inviting my Secretary of State to take part in a seminar with the Prime Minister and Sir Robin Ibbes on "Value for Money".

Mr Baker will be happy to describe the Department's achievements and plans. He would like to be accompanied by Terry Heiser, the First Permanent Secretary.

Yours sincerely,

R U Young

R U YOUNG
Private Secretary

1. ~~NW~~ - to see
2. ~~CR~~ - you are
being det^{er} for
the VFM seminars.

NWA 11/12

Mark Addison Esq

Got mach; Rayner ft 20;



cc/SG D

RI6/12

PRIME MINISTER

CIR REPORT

Richard Luce and John MacGregor have now sent you the report of the first year's work on the implementation of the Consultancy Inspection and Review Services study which the Efficiency Unit did in 1984.

I have seen the report and was not impressed by it. It is a detailed and solid record of some progress in organisational change but as the Chief Secretary has rightly pointed out it does not yet establish that we are getting practical results on the ground.

My own view is that unless the Treasury/MPO Joint Management Unit has a very clear idea of the specific results it wants to achieve by the time next year's report is due, it will be extremely difficult to tell whether the improvements foreshadowed in the original report have actually been achieved.

I am attaching a draft of a letter which you may wish to ask your Private Secretary to send to the ministers responsible.

ROBIN IBBS
9 December 1985



E

RI6/12

OK.
M type for my sig.

DRAFT PRIVATE SECRETARY LETTER TO THE CHIEF SECRETARY

SRWAMJ

CIR REPORT

The Prime Minister was grateful for the Chief Secretary's and Mr Luce's minutes covering the report on the first year's implementation of the Efficiency Unit CIR Report.

The Prime Minister was encouraged to see the evidence in the report that departments are beginning to use their central Consultancy Inspection and Review staff in a more coordinated way. But she agrees with the Chief Secretary that there needs to be real and sustained progress in using these organisational changes to deliver the results identified in the original report.

is strongly felt view that certainly more real and sustained progress needs to be made in

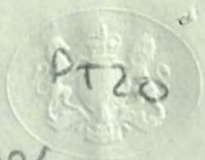
The Prime Minister found it difficult to discover from the report precisely what will have been achieved by the end of the implementation period in December 1986. She would be grateful to have a note setting out the specific results which she can expect to see by December 1986, and, in particular, what targets departments have for ensuring that by that date their CIR staff will be used to help line management achieve results from increased delegation. She has suggested that the CIR report should reach her by June next year.

in a reasonable period

I am copying this to Paul Thomas in Mr Luce's office,

~~and she has suggested June next year as an appropriate period~~
to Michael Hale (in Robert Amuly's office) and to Sir Robin Ibbot.

Govt Mach



Rayne



RECEIVED

MINISTRY OF AGRICULTURE, FISHERIES AND FOOD
WHITEHALL PLACE, LONDON SW1A 2HH



From the Minister
CONFIDENTIAL

Rt Hon Lord Young of Graffham
Secretary of State for Employment
Caxton House
Tothill Street
LONDON SW1H 9NF

MBM
9 December 1985

Der David
DEREGULATION

FLAP PT 19

Thank you for copying to me your letter of 29 November to Leon Brittan.

Reducing the burdens on business must clearly be a high priority. I have always been anxious that my Department's regulatory activities should be kept to a minimum and that those regulations we do make should be as simple as possible. My Department has developed very close relations with the industries it sponsors and has, I believe, a very good reputation with those industries for not imposing unnecessary burdens. However, John Belstead and I intend to review whether there may nevertheless be areas where the Department's regulations are imposing unnecessary burdens. We will be inviting views from the industries affected. There are also areas where other Departments' regulations and procedures cause problems for farming and other industries we sponsor: we also want to be looking at these.

However, I think it is essential to be selective. We cannot hope to tackle everything at once. In my Department I will be trying to identify specific problem areas and then to apply our deregulation strategy to those areas.

I do feel that the procedures set out in the attachment to your letter also need to be looked at from that point of view. It seems to me very ambitious to envisage a comprehensive system which requires a full schedule to be prepared every 3 months of all regulations expected to be made in the next 6 months and compliance cost assessments to be prepared on every proposed regulation "which could affect business" and which expects every such assessment to be sent to your central Unit "in good time for the latter to take a considered view of the proposals" (except for specially urgent cases). As Nicholas Ridley has said in his letter to you, I do think that, if it is to be effective, your central Unit is going to have to be a lot more selective. Moreover, if the system is not selective, it could entail Departments in producing a huge amount of not very useful paper; and that is liable to impede rather than promote the cause of deregulation.

/At the same

GOUT MACH
RAYNER
PT 20



CONFIDENTIAL

At the same time, I was glad to see that the attachment to your letter recognised that the problems of EC agricultural regulations have to be looked at separately. EC regulations account for a very large part of my Department's regulatory activities; and there certainly is a need to try and curb the Commission's regulatory enthusiasm. However, we must tackle this at a Community level following through the Prime Minister's initiative and the progress made at the European Council this week.

I also welcome your acceptance that it must be for Departments to decide whether a regulation has an impact on business and so requires a compliance cost assessment. Clearly it is Departmental Ministers who must be responsible for seeing that their Departments apply the deregulation strategy; and, as I have indicated above, I think that Departmental Ministers as well as your central Unit will need to proceed selectively, tackling their major problem areas first and then moving on to the less serious areas rather than attempting an across the board approach from the start.

I am copying this letter to the Prime Minister, Geoffrey Howe, Leon Brittan, Nigel Lawson, Douglas Hurd, Peter Walker, Kenneth Baker, Norman Fowler, Nicholas Ridley, Norman Tebbit, Richard Luce and Sir Robert Armstrong.

James Evans
Michael

MICHAEL JOPLING



C.C.C.

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
TELEPHONE DIRECT LINE 01-215 5422
SWITCHBOARD 01-215 7877

Secretary of State for Trade and Industry

6 December 1985

The Rt Hon The Lord Young of Graffham
Secretary of State for Employment
Department of Employment
Caxton House
Tothill Street
LONDON
SW14 9NF

V.S.M.

D. Davis

PT 19

Thank you for your letter of 29 November enclosing a "concordat" setting out the new arrangements for implementing the deregulation initiative. I know that it was not easy to draw up but I believe that it strikes about the right balance between ensuring that unduly burdensome proposals do not reach the statute book and keeping bureaucracy to the minimum achievable.

2 I am very aware that our two Departments need to be seen to be setting a good example in leading the fight against over regulation of industry. My Department will therefore do all that it can to comply with the arrangements outlined in the concordat. You will understand that it is also important to us that as far as your own Department (including bodies which report to it such as the Health and Safety Executive) is concerned, the new arrangements will operate so far as possible as if the Enterprise and Deregulation Unit were wholly independent of the regulator. As you know some of these regulations can be burdensome to industry and the point will be important to them. It would be helpful to know in due course what arrangements you are making in this regard.

3 As you know, the DTI already has a close relationship with the regulatory parts of several Departments, including your own, and regularly comments on proposals for new regulations with implications for business costs. I believe that the Concordat, if it works properly, will not interfere with existing arrangements but will, on the contrary, serve to reinforce and extend them. We must try to ensure that this is the case.

DW4AGY



4 At the moment there is no clear agreement about the date on which the Concordat comes into force. If the new arrangements are to make any impact in the short term then I believe that proposals in the pipeline must certainly be subject to them unless it is patently too late ie. if Ministers collectively have already agreed that a regulation should be introduced. I hope that this is the general understanding but perhaps this could be clarified at the first meeting of MISC 121.

5 I am copying this letter to the **Prime Minister**, Geoffrey Howe, Nigel Lawson, Douglas Hurd, Peter Walker, Kenneth Baker, Norman Fowler, Michael Jopling, Nicholas Ridley, Norman Tebbit, Richard Luce and Sir Robert Armstrong.

L. Cur,

L. Cur

LEON BRITTAN

DW4AGY

Got Madh PT20

Rayner



POST OFFICE



10 DOWNING STREET

CF

The Efficiency Unit are
providing me with a draft
to send Dept.

Chase it not by approx
a 12/12.

MGA 6/12

CC BG



DEPARTMENT OF HEALTH AND SOCIAL SECURITY
 Alexander Fleming House, Elephant & Castle, London SE1 6BY
 Telephone 01-407 5522

From the Parliamentary Under Secretary of State for Health

The Rt Hon Lord Young of Graffham
 Secretary of State for Employment
 Caxton House
 Tothill Street
 LONDON
 SW1H 9NF

- 6 DEC 85

N B B M

Dear David,

DEREGULATION

R 19 att

Norman Fowler has asked me to respond to your letter of 29 November to Leon Brittan about deregulation arrangements.

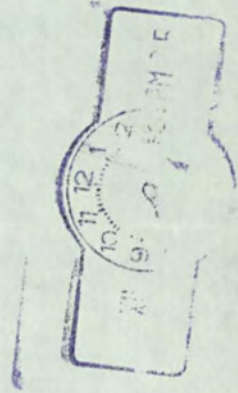
We are broadly content with the text of the "concordat" describing how the Enterprise and Deregulation Unit would operate. ~~We~~ do wonder, however, whether it is really necessary for Departments to seek the Unit's permission before they can forego a full assessment of minor proposals (paragraph five of the concordat). Surely it is in everyone's interest to prevent the unit from becoming bogged down in a mass of applications from Departments seeking permission to pass over items which are de minimis?

I am copying this letter to the Prime Minister, Geoffrey Howe, Nigel Lawson, Douglas Hurd, Peter Walker, Kenneth Baker, Michael Jopling, Nicholas Ridley, Norman Tebbit, Richard Luce and Sir Robert Armstrong.

Yours sincerely,

RAY WHITNEY

GOVT. MACHINERY: Rayner; Pt 20





DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

01-212 3434

The Rt Hon Lord Young of Graffham
Secretary of State for Employment
Department of Employment
Caxton House
Tothill Street
LONDON SW1H 9NF

CCB
NBA
5 December 1985

Dear David

DEREGULATION

KLAP PT 17
You copied to me your letter of 29 November to Leon Brittan with the documents setting out the proposed working level arrangements. I look forward to the discussions with Kenneth Clarke: we have long been very careful here to minimise the effect of regulation on business.

I shall be happy to go along with these arrangements, and to offer the EDU the opportunity to look at all regulations which have a significant impact on business. I do however think it is important that the EDU should be selective from the start, and not try to cover everything. (I do not think there ever was a question of the EDU having a role in scrutinising regulations which do not affect business at all, as has earlier been suggested.)

How this work is organised within the Department must be a matter for me. I shall certainly see that there is a specific official responsible for all the contacts with the EDU, and responsible to me and my colleagues in the Department for the arrangements for compliance cost assessments. But the major policies I am carrying through for deregulation in various fields go very wide in my Department, and I do not propose in addition to have something called a "Deregulation Unit".

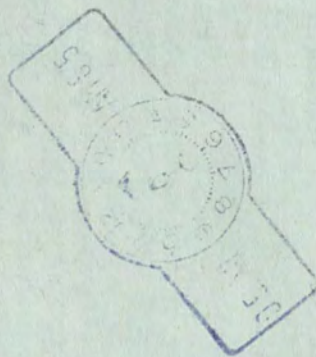
I am copying this letter to the Prime Minister and Leon Brittan and to the others to whom you have sent copies of your letter.

Yours faithfully
Nicholas Ridley
NICHOLAS RIDLEY

GOUT MACH

RAYNER

PT 20



CONFIDENTIAL

CC BGA



DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

01-212 3434

The Rt Hon Lord Young of Graffham
Secretary of State for Employment
Department of Employment
Caxton House
Tothill Street
LONDON SW1H 9NF

NBN

5 December 1985

Dem Davi

DEREGULATION

KLAP PT19

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I am copying this letter to the Prime Minister and Leon Brittan and to the others to whom you have sent copies of your letter.

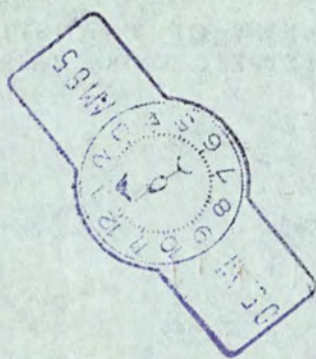
NICHOLAS RIDLEY

CONFIDENTIAL

GOUT MACH

RAYNER

PT 20



cc BG

01 211 6402

The Rt Hon Lord Young of Graffham
Secretary of State for Employment
Caxton House
Tothill Street
SW1H 9NF

NBM

5 December 1985

DEREGULATION

Thank you for sending me a copy of your letter of 29 November to Leon Brittan.

I share your concern to reduce burdens on business and my Department will do all it can to support your proposed concordat.

We have in fact few regulations and they are largely essential to ensure the orderly and safe development of the UK's oil and gas resources and also pipelines, to impose safety requirements, to protect the public or to meet European Community requirements. Where regulations result from international requirements, we already aim to keep them to the minimum consistent with those requirements. The review of existing regulations and scrutiny of new regulations is thus unlikely to result in a significant decrease in the number of regulations for which my Department is responsible. I am therefore, pleased that the idea of numerical targets is not being pressed, but we shall nevertheless continue to be guided by the spirit of the deregulation initiative.

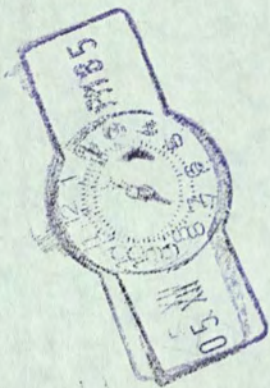
I am copying this letter to the Prime Minister, Geoffrey Howe, Nigel Lawson, Leon Brittan, Douglas Hurd, Kenneth Baker, Norman Fowler, Michael Jopling, Nicholas Ridley, Norman Tebbit, Richard Luce and Sir Robert Armstrong.

At 19 with DENY New

PETER WALKER

Govt Mach PT 20

Raynes.



CONFIDENTIAL

CC 30



QUEEN ANNE'S GATE LONDON SW1H 9AT

5 December 1985

NBPW

Dear David,

FLAP PT 19

Thank you for your letter of 29 November with which you enclosed a revised version of the concordat on inter-departmental arrangements on deregulation.

I hope we can make rapid progress in following up our objectives on deregulation. At the same time we need to guard against creating an unnecessary bureaucracy. I am therefore glad to see that the new version of the concordat makes it clear that a compliance cost assessment will be required only for regulations which affect business. This seems to me to be sensible. It will ensure that our resources are directed to those areas where they are likely to be of most benefit.

So far as existing regulations are concerned, I understand that it has been agreed with your officials that the Home Office will aim to review those regulations which are known to have caused difficulty for business; and that the EDU will shortly be providing us with details of them.

As you say, special arrangements have been agreed for those areas of Home Office work concerned with law and order and public safety (although they are not referred to specifically in the concordat). In accordance with the earlier agreement, the EDU will not concern itself with policy decisions in these areas. My understanding of what this will mean in practice is that we shall not aim to carry out an assessment of compliance costs or to bring in the unit at the stage when policy is being formulated. But once the policy has been agreed (assuming that it affects businesses) we would carry out a CCA in the usual way on the proposed Bill or regulations. It is fair to say that in some cases the prior policy decision will be bound to limit the room for choice as regards the content of the Bill on regulations.

My only other comment concerns the Annex to the concordat, which suggests how deregulation units might operate in individual Departments. My proposals for the Home Office, which have been discussed with officials in the EDU, are that we will provide a point of contact in the Home Office for this exercise, which will be responsible for disseminating information to Home Office divisions and will also prepare reports on Home Office activities as outlined in the concordat. We would leave it to the EDU to deal direct with Home Office divisions on the substance of

/particular proposals

The Rt Hon the Lord Young of Graffham

CONFIDENTIAL

particular proposals for regulations. I believe that these arrangements provide the most cost effective way of overseeing the disparate work of this Department. They will avoid duplication of effort between the deregulation unit here and the EDU.

I am copying this letter to the Prime Minister

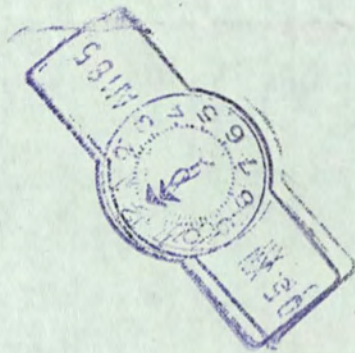
Lawrence,

Douglas.

GOLT MACH

RAYNER

PT 20



CCB 5



Prime Minister 2

This tiff may be brought to
your attention by Lord Young
at your next bilateral

DLW
6/12

2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref:

Your ref:

4 December 1985

Sam Durrant,

DEREGULATION

Thank you for your letter of 29 November about progress on
deregulation. *attached.*

I find it very surprising that you should write in terms that imply that this Department is not fully committed to the objective of deregulation. Not only did we make a substantial contribution to the White Paper "Lifting the Burden" but we have made rapid progress towards implementing those commitments, notably on planning.

We have already designated a focal point to act as liaison with your Unit and Rodney Elton is monitoring progress closely. The reports you have asked for have been prepared and will be coming to you on time.

However, both the concordat and, if I may say so, your letter continue to miss the point that regulations are not an end in themselves but are a means of implementing policy. Policies do sometimes lead to the need for rules and regulations, some applicable to the community at large and some to business specifically. We have well developed arrangements for seeking and taking into account the views of all those affected, whether business or other interests. We are certainly not in thrall to the environmental or local authority lobbies as you seem to imply but we are responsible in this Department for policies that concern public health and safety; environmental pollution, conservation and local amenity for which there is widespread public support. Our aim should be to ensure that any associated regulations are strictly necessary to implement those policies effectively while imposing no unnecessary burden on business.

It is surely essential that the new arrangements that you propose should not themselves be a source of unnecessary work and delay. My officials have therefore been seeking to get the procedures clarified and kept as simple as possible while ensuring that they work effectively.

I am quite prepared to agree to the substance of the Concordat on the understanding that our officials subsequently discuss and agree:

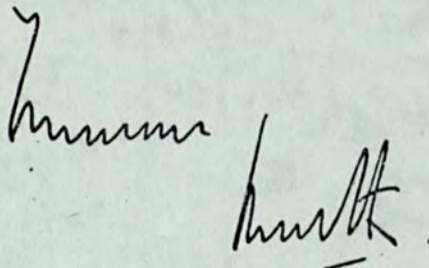
- (i) working arrangements that make clear the points at which it is required to consult the EDU and the purpose of doing so;

(ii) the details of the full compliance cost assessments.

My officials are already keeping yours up to date with progress on various items of business and we will be able to report very positive progress in the White Paper that you are planning to publish next May.

I would be happy to discuss these points further with you if that would be helpful. I am as anxious as you are to get on with the job of reducing the burden on business. I think we can best do that by ensuring that the new arrangements do not add a further tier of bureaucracy and regulation to Whitehall's own working methods.

I am copying this letter to the Prime Minister.

A handwritten signature in dark ink, appearing to read 'Kenneth Baker', written in a cursive style. The signature is positioned above the typed name.

KENNETH BAKER

GOVT MACH: Rayner : PE 20



B

PRIME MINISTER

CONSULTANCY, INSPECTION AND REVIEW SERVICES IN GOVERNMENT DEPARTMENTS: IMPLEMENTATION REPORT

We attach a report by the Treasury/Cabinet Office Joint Management Unit on the Efficiency Unit's Consultancy, Inspection and Review (CIR) Services Report.

The Report describes some valuable work being done by departments in improving the coordination and organisation of their CIR services. This is aimed at ensuring that these services:

- (a) are responsive to the needs of line managers in controlling resources and achieving better value for money, and
- (b) provide a service to top management by way of quality assurance and in investigating particular matters which give them cause for concern.

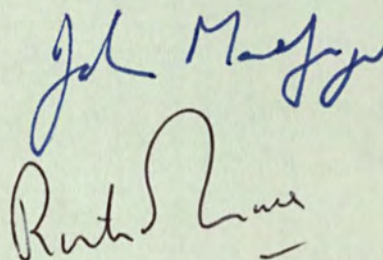
Departments are less advanced in the transition to resource control by budget, on which most of the CIR Report is based. This is a more ambitious undertaking and although all departments have made a start many are still at the early stages. More work needs to be done in this area and the current review of budgeting systems by the Head of the Government Accountancy Service should lead to useful progress.

The Report also makes proposals for improved coordination of the central CIR services. This is in response to Recommendation 7 of the CIR Report which said that the organisation and roles of the central CIR services should be reviewed. The JMU are not recommending organisational change but concentrate instead on improved arrangements for coordination and liaison.

We are glad to report that we can accept the action for the central departments recommended in paragraph 1.13. Action is already in hand to improve the coordination of the central CIR services; and one of the first topics to be considered will be the implications of the move towards running costs control for the work of the CIR services. The Treasury agree with the proposal to increase further the flexibility given to departments in the use of Staff Inspection, when the staff inspection guidance is next revised. The Treasury's intention is to produce the revised guidance in 1987, taking account of developments in departments between now and then. The PAC will be keenly interested in any changes to the existing Treasury guidance.

A further report on progress will be made next year, focussing on the points covered in paragraph 1.12 of the Report. It will be particularly important to gauge whether the action Departments have taken is effective in improving the contribution made by CIR services.

Copies of this go to all Ministers in charge of Departments, and to Sir Robin Ibs.

Handwritten signatures of John Macgregor and Richard Luce. The signature of John Macgregor is written in blue ink and is positioned above the signature of Richard Luce, which is written in black ink.

JOHN MACGREGOR
Chief Secretary to the
Treasury

RICHARD LUCE
Minister of State,
Privy Council Office

25 December 1985



FROM: CHIEF SECRETARY

DATE: 2nd December 1985

PRIME MINISTER

**CONSULTANCY, INSPECTION AND REVIEW (CIR)
SERVICES IN GOVERNMENT DEPARTMENTS: IMPLEMENTATION REPORT**

*due to minute
on key to info*

Richard Luce and I have sent you today a report on the implementation of the CIR Review. I would like to add two points which I personally feel strongly about.

2 First, this exercise has made a start in showing how CIR services can be made more directly relevant to line managers. The essential thing now is to get it working in practice. Six monthly reviews of the impact on Departments are proposed. I want to make sure that we are getting practical results reflected in the performance of line management on the ground.

3 Second, paragraph 3 of the covering minute to the report refers to progress in the transition to resource control by budget where much remains to be done. I think this is an absolutely key area. Almost everything else in this field depends on getting budgetary control methods understood and put into practice. ~~There is a review of budgetary systems under way and Robin Ibbs and I are going to hear first hand about some of the results next week.~~ This is an area which I intend to focus on sharply in the coming months.

4 I am copying this minute to Richard Luce and to Sir Robin Ibbs.

jm

JOHN MacGREGOR

A

CONSULTANCY, INSPECTION AND REVIEW SERVICES IN GOVERNMENT DEPARTMENTS

**First Report by the Joint Management Unit
on the Implementation of the
Efficiency Unit's Report**

October 1985

CONSULTANCY, INSPECTION AND REVIEW
SERVICES IN GOVERNMENT DEPARTMENTS

IMPLEMENTATION REPORT BY THE
JOINT MANAGEMENT UNIT

OCTOBER 1985

CONSULTANCY, INSPECTION AND REVIEW SERVICES

IMPLEMENTATION REPORT

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REPORT TO MINISTERS ON DEPARTMENTAL PROGRESS IN IMPLEMENTING THE RECOMMENDATIONS OF THE CONSULTANCY, INSPECTION, AND REVIEW SERVICES REPORT

CHAPTER 1

Introduction

1.1 The Efficiency Unit published their report on Consultancy, Inspection and Review (CIR) Services in Government Departments on 5 December 1984.

1.2 The report was approved by the Prime Minister; and Sir Robert Armstrong and Sir Peter Middleton wrote to departments on the day of publication seeking action plans on the report's recommendations within 6 months.

1.3 The Treasury/Cabinet Office Joint Management Unit (JMU) were asked to help departments plan and implement their responses to the report's recommendations. All departments have now responded; the JMU has discussed the response with each department, and the 2nd Permanent Secretaries of the Treasury and the Cabinet Office (MPO) have written to departments outlining their view of the response and indicating the areas which they hope to see covered in a further progress report next year.

1.4 The JMU were also asked to make a report to Ministers by October 1985 on departments' progress; and to review the organisation and roles of the CIR services in the central departments and to make recommendations to Ministers on their future organisation by the same date. This report fulfils these two remits.

Chapter 2 deals with Departments' action plans and considers what further progress might be expected between now and October 1986 when a second progress report is to be made to Ministers.

Chapter 3 deals with the organisation and roles of CIR services in the central departments.

Summary of Where We Are Now

1.5 The report was a wide-ranging one. It looked at the work of the CIR services (primarily staff inspection, management services, internal audit, and computer services) in the context of the changes which are being implemented under the Financial Management Initiative. Its central proposition was that under the FMI it is the line manager who has the primary responsibility for achieving value for money; and that top management's control over the line management should be exercised through the budgetary process. The CIR services, argued the report, should be used as a consultancy service for line management and should be judged by how far they have helped line management improve its performance; top management should also use CIR to look at problem areas of wide significance, and to sample the position on particular management issues; and the services should be grouped together and work in a co-ordinated and cohesive way.

1.6 Central to this line of argument is that departments must have a robust system of setting, monitoring and controlling line managers' budgets and their performance against targets. This is now being reviewed in depth in a multi-department review (MDR) of Budgetary Control led by the Head of the Government Accountancy Service.

1.7 The area in which most departments have made progress is in the organisation and co-ordination of the CIR services themselves. All departments have re-examined their organisational arrangements and many have changed them to improve their co-ordination. Departments are arranging for work programmes to be looked at together; many report that the programmes are now being submitted for approval by top management; there are encouraging signs of the beginning of multi-disciplinary working.

1.8 Departments are less advanced in the transition to resource control by budget, on which much of the CIR report's argument is based. All departments have started on the process of delegating budgets; but many are still at the early stages. All plan to move further; but very few of them expect to have gone over to a fully budget-based system of control within the next two years. There is some doubt whether, particularly in headquarters areas, it will ever be possible to rely totally on the budgetary system as the means of challenging line management (a point on which further guidance will be given in the MDR of Budgetary Control). What all this implies is that, for some time at least, the CIR services will be needed by departments as a regular instrument of top management control to a rather greater extent than the CIR report envisaged.

1.9 This is particularly relevant in the case of staff inspection. The Treasury paper issued shortly after the CIR report gave some extra flexibility to departments in the way they deployed staff inspection effort. Some departments consider that they now have enough discretion for practical purposes. Others would prefer more. Given the current and prospective progress on budgetary control systems, it is clear that staff inspection will remain a necessary tool of top management for some years yet. Furthermore, judging from results we would see no good reason to argue at present for a reduction in the total amount of staff inspection in departments: indeed some should do more. Nevertheless there is scope to give top managers of departments full responsibility for deploying their staff inspectors' effort as they judge best within that total.

1.10 There is widespread acceptance of the supporting recommendations in the report, concerning the role of internal audit; career planning for the CIR services; and the need to quantify the costs and benefits of CIR assignments, though this last is by no means easy and departments still have much work to do.

1.11 The JMU was also asked to review the organisation and roles of the central CIR services to ensure that they are able to reflect developments in departments. The role of the central CIR services

is different from that of their departmental counterparts; in particular, they are responsible for monitoring CIR activities in departments and for providing professional guidance and leadership. The organisation of departmental CIR is not necessarily the right answer for central CIR. The existing organisation, however, is by no means ideal, with the CIR services split between two departments and five Grade 3 or above commands. Reorganising the CIR services at the centre would have repercussions on the organisation of both departments which would be well beyond the scope of this report. But when next the organisation of the two central departments is under review, it would be desirable to reduce so far as possible the number of separate CIR commands. Meanwhile, despite this handicap, the services manage a good deal of co-operation, including some multi-disciplinary working. Matters have further improved with new arrangements under which the expenditure divisions are to hold twice yearly meetings of all central intervention staffs dealing with a single department. What is not yet in place is a satisfactory way for the top management of the central departments to direct and focus the totality of central CIR effort on the subjects they consider important. We are proposing arrangements for the central CIR services to meet twice yearly to discuss their programmes and for the programmes to be submitted to the top management of the two departments for them to approve and to consider broader issues (such as the scale of resources, the balance between the different specialisms and training) affecting the CIR services.

What remains to be done

1.12 By Departments

(Recommendation 1)

(i) continuing to put across the message that line managers are responsible for value for money and where possible, monitoring the results;

(ii) continuing to delegate authority from finance and establishment divisions to line management and then down the line management chain, taking account of the recommendations of the MDR on Budgetary Control;

(iii) monitoring how far line managers take the initiative in seeking CIR assistance;

(iv) further work on measuring the cost effectiveness of CIR staff.

(Recommendation 2 and 6)

(v) monitoring the effects of changes in organisation, in working methods including multi-disciplinary working, and in co-ordination arrangements on top management's ability to direct CIR services and on the results achieved by CIR staff.

(Recommendation 3)

(vi) monitoring the extent and effects of joint working involving internal audit.

(Recommendation 4)

(vii) monitoring the duration of postings in CIR services.

(Recommendation 5)

(viii) using their CIR staff to pass on relevant skills to line managers.

We will seek further reports from departments by June 1986 on what has been done and with what results.

1.13 By the central departments

(Recommendation 6)

(i) when revising the guidelines for staff inspection, incorporate in them full responsibility for top management of departments to deploy their staff inspection effort as they judge best, while delivering the recommended volume.

(Recommendation 7)

(ii) improve the arrangements for co-ordinating and focussing the efforts of the central CIR services.

1.14 By the Joint Management Unit

(i) continue to work with departments on implementation of the CIR report;

(ii) disseminate examples of good practice, particularly in work done by departments on performance measures for CIR staff;

(iii) report again in October 1986 on progress and results achieved by departments and by the centre.

CHAPTER 2 DEPARTMENTAL RESPONSES

2.1 Annex A sets out in tabular form departments' action plans for each of the report's six recommendations about the organisation and roles of their internal CIR services. (The seventh recommendation on the role of central CIR is covered in Chapter 3.) This chapter sets out the overall picture of departments' responses to each of the recommendations.

RECOMMENDATION 1

"Ministers in charge of departments with their Permanent Secretaries should ensure that line managers throughout their department understand that:

(a) the primary responsibility for resource management and control and for achieving improvements in value for money lies with line managers;

(b) the cycle of budget and target setting and review through the year will become the main method of monitoring, assessing and controlling line management's performance;

(c) line managers will be given the authority they need to discharge their responsibilities, in the expectation that their activities may be audited but that the control mechanism is the budget;

(d) there will be arrangements for line managers to be helped by specialists, within their own organisation, or within the department, or from outside;

(e) CIR staff (except for Internal Audit) will be accountable primarily for how far they have helped line management improve its performance."

2.2 This recommendation propounds messages fundamental to the approach to management encouraged by the FMI. It assumes the existence of fully developed systems of line management budgeting, control and assessment; the wide variety of responses to it reflects the progress departments have made in developing their management systems. Most departments are still some way from realising the model system postulated in the recommendation, although most have made good progress. Some departments have expressed doubt whether, given the intangible nature of their output, they will ever be able to rely primarily on the process of budget-setting and review as the method of monitoring line management's performance.

2.3 Taking each part of the recommendation in turn:-

(a) Departments recognise that this message is central to the FMI and is implicit in the management changes they have already effected and those planned for the future. Some have relied on the introduction of budgetary control and management information systems with the accompanying guidance to get the message across. Other departments have gone further. The Home Office have issued a "Guide to Line Managers" stressing among other things their role in achieving

value for money and the Inland Revenue had a similar objective for an issue of their Chairman's Newsletter. The Paymaster General's Office (PGO) issued the pamphlet "Helping Managers Manage" to Senior Executive Officers (SEO) and above and other departments also used this document produced by the Efficiency Unit. Departments make a point of reinforcing the message at seminars and training courses. About a quarter of departments, mainly the smaller ones, appeared reluctant to state this message explicitly.

(b+c) Most departments have given a combined response to these related recommendations. It is these recommendations which look forward to a model FMI system and departments' responses reflect the progress they have made and the prospects for the future. Many departments have made encouraging progress. For example, in the Department of Employment budgeting provides a basis for top management review and target setting and is the main means of monitoring, planning and controlling expenditure. They have also made substantial progress in delegating responsibility for personnel management and expenditure.

Most departments report progress on "monitoring and control by target setting and review". This is generally through their management information systems rather than through budgetary control. Although most departments have some sort of management information system in place, this is not always linked to their budgetary control systems. In some departments the latter is at the early developmental stage of identifying resource cost centres. The Efficiency Unit's scrutiny of value for money targets will show how departments are developing and using targets to improve performance.

Departments are all in the course of devolving authority for resource control. For example, in the Ministry of Defence (MOD), Staff Responsibility Budget holders have complementing authority up to SEO level; in the Department of Health and Social Security (DHSS), local office managers are budget holders for non manpower costs and in some cases have delegated complementing authority; in the Department of Trade and Industry (DTI), Deputy Secretaries will have delegated complementing authority up to SEO level by 1 April 1986; other departments had undertaken such delegations some time ago. Departments are generally committed to further devolution of authority.

(d) Several departments have now taken steps to ensure that their line managers are more aware of the availability of CIR services; and some have streamlined the procedures by which appeals for assistance were handled. For example, the Inland Revenue are issuing a pamphlet to line managers on the availability of CIR services and are encouraging their new Budgetary Liaison Officers to ensure that line managers are aware of what help is available. The Home Office are also issuing a guide on the use of outside consultants. The Property Services Agency (PSA) have accepted in principle the recommendation of their internal CIR report which proposed that a specified HQ unit should receive line management's proposals for assignments to assess the skills and disciplines required, the problem's priority and the length of

assignments to assess the skills and disciplines required, the problem's priority and the length of assignment justified. About a half of all departments are issuing some form of guidance on CIR availability while three are strengthening their CIR forces.

(e) A number of departments found this recommendation difficult to interpret; two of them pointed out that it was line management's responsibility to implement recommendations arising from CIR work and that CIR staff could not be held directly accountable for how line management improved their performance. We understand, however, that the authors of the CIR report had in mind a narrower definition of accountability. The point of the recommendation was that CIR staff should quantify the cost of an assignment and the benefits arising from their recommendations and should obtain line management's agreement to their quantification of benefits. Most departments attempt to quantify the benefits of at least some CIR work and some of them are doing further work to improve their methods of measurement. One quarter do not appear to have systematic measures of CIR contributions to performance improvement but accept the recommendation.

An essential, but in some ways the most difficult, element of the recommendation is that there needs to be an authoritative view of the actual (not just the claimed) results of an assignment. This implies either that line management and the CIR staff must agree on the results or that, if they cannot, the disagreement has to be referred up and resolved. There also needs to be some subsequent evaluation of whether the expected results of the assignment occurred in practice, and what were the effects on overall performance. The Departments of the Environment and Transport (DOE/DTP) do this by reviewing the outcome of Organisation and Methods (O&M) assignments one year after the report was made. Staff Inspection and Evaluation Division (SIED) in the Treasury are working to produce better performance indicators for staff inspection; and the Management and Efficiency Group (ME) in the Management and Personnel Office (MPO) are working similarly on performance indicators for management services.

Meanwhile, some departments are doing further work. Examples are:-

- DTI are undertaking a department-wide review of performance measures: this will include CIR forces;
- in common with other areas, CIR services are being set performance targets by Central Office of Information (COI);
- Management Services Unit in Customs and Excise has in hand a study of its performance measures;
- DHSS are exploring the feasibility of a common methodology for determining the cost effectiveness

Further Progress to be sought by October 1986

2.4(a) There is evidence (see for example, the report of Phase I of the MDR on Budgetary Control) that delegating budgets of itself induces greater cost consciousness on the part of managers. Departments' reports of their progress in delegating budgets are therefore encouraging. If, however, departments rely entirely on the introduction and operation of FMI systems to instil the need for line managers to take responsibility for seeking value for money, they may not get the best results. Changes in attitude are as important as a change in systems and system change alone may not effect the change in attitude. We should seek to establish by next year that departments have put this message across directly as well as through the change in systems and with what results.

(b/c) The current MDR of Budgetary Control being carried out by the Head of the Government Accountancy Service should point the way forward on these recommendations. We shall need to await the final report before pressing departments for further progress; mainly because it is likely to give guidance on how far down the management chain it is sensible to delegate. However, most departments will probably find that there is further progress to make, at a rate which takes into account their individual circumstances; some of them are still some way from having a system of resource control by budget.

(d) Departments should monitor the extent to which line managers have availed themselves of assistance in those departments which have undertaken to advertise CIR availability.

(e) We shall monitor the experience of those departments undertaking further work on measuring the cost effectiveness of CIR staff, with a view to disseminating any general lessons which emerge.

RECOMMENDATION 2

"Ministers should seek proposals from their Permanent Secretaries, within the next six months, for action to re-organise their CIR services. Options to be considered should include:

(a) regrouping the existing specialists to create a multi-disciplinary management support group, including staff inspection, management services, operational research and computer experts, and with access to other specialists; this support group should provide expert advice to both line management and to the top management group;

(b) developing a small top management secretariat which works directly for the senior management group and can co-ordinate the investigations and scrutinies commissioned or authorised by that group. The secretariat should draw on whatever source of expertise, within or outside the department, is most appropriate for the work it commissions.

2.5 The CIR report recognised that detailed organisational structures could not be set from the centre. In recommending the consideration of options to form a multi-disciplinary management

support group or of a top management secretariat in respect of CIR services, it acknowledged that departments should design structures to suit their particular circumstances. Not all Departments have felt the need to carry out major organisational restructuring in response to this recommendation but many have taken positive steps to improve the joint working and co-ordination of CIR services.

2.6 All departments have re-examined the organisation of their CIR services. Most or all of the main services (staff inspection, management services, computer services, and Operational Research (OR) are already brigaded together in some departments, such as the MOD, Health and Safety Executive, Department of Energy, Inland Revenue, and Customs and Excise. Several other departments have re-organised their services. The DHSS has brought together its main management services, the staff inspectors and its Efficiency Unit. A few small departments (for example the PGO and the Royal Mint) consider that their small size makes it unnecessary to re-organise because the benefits which are expected to flow from brigading the services together (co-ordinated planning, co-operation on assignments) exist under the present organisation through the frequent contacts between the few staff involved.

2.7 Few departments included in their CIR reviews the role in departmental management of the more strongly programme-expenditure-oriented specialist services, such as those of economists, statisticians and research officers. These specialisms contribute in some departments to aspects of internal management support, and some CIR services, such as OR, are in some departments brigaded with them, but practice varies widely between departments.

2.8 Some departments (such as the MOD) already have a unit which acts as a top management secretariat in respect of CIR services in the way described in the report. The PSA has augmented the role of its existing secretariat to encompass the role recommended in the CIR report. Some small departments, including Her Majesty's Stationery Office (HMSO) and the Ordnance Survey, argue that they do not need a top management secretariat. Overall about 85% of departments have brigaded or mostly brigaded their CIR services and about a third of them are taking extra measures to improve co-ordination. About a third of departments have a top management secretariat to deal with CIR matters. A small number of departments felt that the recommendation had little to offer them and they have not taken any action to meet it.

2.9 Whatever their organisational arrangements, departments are attempting to co-ordinate CIR activity and to carry out multi-disciplinary working where appropriate. For example, the Department of Employment CIR Co-ordinating Committee takes an overview of work programmes, presents a co-ordinated annual programme to top management, reviews proposals for the use of outside consultants and assesses the need for multi-disciplinary working. The MOD has a technique of Management Audit which entails a multi-disciplinary approach to studies: one recent example used staff from management services, Internal Audit, staff inspectors and outside consultants. The Inland Revenue investigate specific management problems in the round through Operational Reviews which

are carried out by specially assembled multi-disciplinary teams. Review work in DTI is typically multi-disciplinary, for example efficiency scrutiny or staff inspection working in harness with O&M and OR.

Further Progress to be sought by 1986

2.10 For next year's report, we ought to find out the effects of the changes in organisation (in those cases where there have been changes) and of the arrangements for co-ordinating and bringing together the work of CIR staff. In particular, we should check with departments on the extent of multi-disciplinary working and how successful it has been; whether departments believe the balance of resources between the services is right; and on departments' views on whether CIR work is now more effectively planned, and on how far it reflects top management concerns. If, as we expect, the indications are that closer co-operation, co-ordinated planning and multi-disciplinary working are easier to achieve and yield greater benefits than under the previous structures, we shall discuss the matter again with those few departments which have taken no action in respect of this recommendation.

RECOMMENDATION 3

"Internal audit should be maintained as an independent function, but internal auditors should work in close co-operation with the management support group. How best to organise this co-operation will vary from department to department. Hitherto a majority of departments have emphasised the independence of internal audit by keeping a separate unit. That has obvious merit, provided that co-ordination with work to improve value for money is satisfactory and there are no artificial barriers which hinder joint working with other services where this is appropriate. On the other hand, departments should be free to group internal audit with other functions where the Accounting Officer is satisfied that there are advantages in this and that the independence and central standards of internal audit will be maintained. These organisational arrangements should be further reviewed in three years time."

2.11 The essence of this recommendation was that internal audit, while maintaining its necessary independence, should work closely with other CIR forces. This causes little problem for departments: they all agree with the need to maintain the independence of audit whilst encouraging co-operation. Many departments, for example the Department of Energy, group internal audit with other CIR services but keep it as a separate unit with a right of access to the accounting officer.

2.12 Many departments propose the establishment of better co-ordination between internal audit and other CIR services, normally through the general arrangements for CIR services under Recommendation 2. Where internal audit is separate from the main CIR group, departments have made a special effort to improve co-ordination, as in the Welsh Office and DTI where prospective work programmes and reports are exchanged. Predictably it was often the larger departments who saw the greatest need for closer liaison.

2.13 The Head of the Government Accountancy Service has welcomed the idea of joint working. He has commented: "Participation in such reviews would have a twofold benefit; it will help to develop and widen the experience and skills of the individual internal auditors concerned with them, as well as bringing to bear the specific internal audit skills in the area of appraisal of internal control. This co-operation must be arranged so that the objectivity of the internal audit unit is not prejudiced and it is therefore still free to appraise properly any work done by the team of which it is a part".

2.14 We have been given examples of joint working between internal audit and CIR forces; for example, in the Manpower Services Commission Internal Audit has carried out reviews with Staff Inspectors. Generally however, joint working involving audit is not as common as that involving other CIR forces.

Further Progress to be sought by October 1986

2.15 The report recommends that the organisational arrangements for internal audit should be further reviewed in three years time (ie at the beginning of 1988). For next year, it will be useful to check with departments on the extent of joint working, and on the arrangements this has involved to maintain the independence of audit.

RECOMMENDATION 4

"Career planning for internal audit and management support staff, outside the functional specialisms, should aim to ensure that spells of continuous service are no more than five years, and that senior staff have real line management experience in addition to experience in their specialism."

2.16 Departments are aware of the need to make sure that people working in non-specialist CIR functions do not spend too long in one posting and that they should have a proper balance of experience of CIR work, training and line management. The DHSS are carrying out a study of the quality and balance of skills needed by CIR staff and aim to produce plans for improvement to be sent to Ministers by early 1986. Departments generally consider that five years is a sensible upper limit to the amount of time spent in continuous service in a CIR post although many make the point that it cannot be a rigid limit. Inland Revenue, like others, wish to maintain flexibility where extensive or expensive training is involved and the Intervention Board for Agricultural Produce point out that the small size of their department limits their flexibility in moving people as frequently as larger departments.

2.17 Most departments find that in practice their problem is in attracting and retaining staff in the CIR services rather than in moving them out. These departments have not, therefore, needed to take any action to meet this recommendation; but they have found it useful to have the need to monitor length of postings highlighted. Examples of specific action are the Cabinet Office, who intend to draw up career development plans for CIR staff and

to consider their general training needs, and the Department for National Savings who propose to monitor the duration of postings in CIR work.

Further Progress to be sought by October 1986

2.18 The main points to check next year on this recommendation are that departments are aware of the duration of postings in their CIR services, and that in practice postings do not normally exceed approximately five years.

RECOMMENDATION 5

"For the next two years at least, the principal task of the management support group should be to handle the difficult period of change to resource control by budget. They will need to work directly with line managers and with training divisions to ensure that line managers have the resource control systems and the skills that they will need. Once the new budget structure is in place, the management support group should have the resources to develop as an expert advisory service for line management."

2.19 Departments initially had difficulty in interpreting this recommendation. While they realised the strategic importance of managing the period of change to resource control by budget they saw this as being the primary duty of their finance division or of their FMI team. On the whole, they agreed, either in their written responses or in subsequent discussion with the JMU, that CIR forces would have an important role to play in helping facilitate the change. However, DHSS and DTI, among others, stress that CIR forces will also continue to have a significant workload of more general tasks and normal assignments. Of the departments who had not fully developed resource control by budget (some quasi commercial departments have operated under such a system for some time), about three quarters stressed the role of the finance divisions, FMI teams and management support group. Of the remainder, most said their management support groups were in the lead.

2.20 We interpret the recommendation "that CIR forces should work directly with line managers and training divisions to ensure that line managers have the resource control systems and the skills they need" to mean that, as budgetary control develops, there will be an increasing need for line managers to acquire some of the skills traditionally associated with management services, management accountants and staff inspection. This might include employing Management Services people and Management Accountants as part of the line command. These groups might usefully try to pass on to line managers some of their own skills and methods of approach. The latter possibility was a fairly new idea to most departments, perhaps in many cases because budgetary control has not yet developed sufficiently to make the demand apparent. Some departments have made progress. The DHSS already have short training courses on "do-it-yourself" CIR and they intend to introduce a similar element into their management training courses. Inland Revenue have developed a Technical Resource Allocation Guide which

sets out for line managers the workload factors for types of work done by Inspectors of Taxes. In the Office of Population Censuses and Surveys (OPCS), Management Services have attempted to pass on some of their skills in the course of their assignments; and as in other departments senior line managers hold copies of Treasury Grading Guidance. All departments cover basic resource management in training courses.

2.21 Those departments which have commented on the recommendation "that once the new budget structure is in place, the management support group should have the resources to develop as an expert advisory service to line management" say that this is essentially what happens now. In some cases they foresee the demand by line managers for advice increasing as budgetary control develops. The Home Office, for example, expects an increasing demand for CIR consultancy, although they stress the need to ensure that their CIR forces are adequately trained to respond. Similarly, the Treasury expect CIR consultancy to adapt itself to the demand of line managers as budgetary control develops. Other departments take a similar view.

Further Progress to be sought by October 1986

2.22 Taking the recommendation as a whole, the most important issue is that departments press ahead with the development of resource control by budget. It is up to departments to make progress in the way best suited to them drawing upon whatever advice from the centre or outside that they find useful. The results of the MDR of Budgetary Control should provide some useful pointers. CIR forces can help them and perhaps one of the most useful ways is by helping to pass on relevant skills to line managers at an appropriate stage. Next year we should check that departments have considered this in combination with the results of the MDR and have made appropriate plans.

RECOMMENDATION 6

"Work programmes for the services covered by this report should be approved by the senior management group. Investigations sponsored by senior management itself should concentrate on problem areas of wide significance. Although from time to time the senior management group may want to sample the position on a particular management issue, for example grading standards in one organisation of the department, it should not use its assignment staff for detailed second-guessing. These issues should be resolved as part of the budget-setting process and the responsibility for putting any deficiencies right should lie within the line."

2.23 There are two elements to this recommendation. Firstly, approval of CIR programmes by senior management. Ninety percent of departments accepted this, although some feel it is less appropriate to approve the work programmes of consultancy forces such as OR and O&M than inspection forces, as the former's work programme has to remain flexible to cope with the demand from customers. The DOE argues this although they are aware that their top management need to be able to indicate priority areas for consultancy. They are considering this further. Similarly the DTp only approve annual work programmes for inspection services, such as Internal

Audit and Staff Inspection, but they are considering ways of systematically reviewing their consultancy capability and how it was used by line managers.

2.24 Several departments have extended their senior management approval arrangements in response to the report. The Welsh Office are now proposing that their top management approve Management Services plans as well as Staff Inspection plans, and the COI intend to approve plans six monthly instead of annually. Some departments, for example the OPCS and HMSO have arranged for the approval of Information Technology strategies by a separate senior management group.

2.25 Secondly, the report also recommended that top management CIR services look at problem areas of wide significance and should not be used for second guessing. Those departments which commented accepted the recommendation; but there has been very little substantive comment on the point. One reason may be that the departments are awaiting further guidance on the relationship between the CIR recommendation and the Treasury guidance on staff inspection.

2.26 We have discussed the question of staff inspection further with the Treasury. The central issue is how far, and how soon, we shall be able to rely on the cycle of budget and target setting and review through the year to become the main method of monitoring, assessing and controlling line management's performance. It seems clear that most departments have a long way to go before Ministers can be confident that budgetary control systems can bear the weight of being the main mechanism of managing the department. A key message of the MDR of Budgetary Control is likely to be that a further substantial amount of effort is needed by departments in order to achieve a fully articulated budgetary control system. For planning purposes, however, we might take a working assumption that budgetary control systems will have made substantial progress by 1988, and consider the future role of staff inspection against that background.

2.27 The Treasury issued guidance earlier this year to departments which introduced substantially more flexibility into the method of use of staff inspection. Given the present state of development of budgetary control, this guidance recognises the different stages that departments have reached, and may well give the more advanced departments much of the flexibility that they need for quite a time to come.

2.28 For the longer term, however, it would be desirable, and should be possible, to build yet more flexibility into the guidance while still preserving the concept of regulating grading standards and numbers through the Civil Service (regulating grading being essential for the purposes of central pay negotiations based on a common grading structure). The Treasury agree that their longer term aim will be to place on the head of the Department as Accounting Officer the responsibility of assuring himself, his Minister, the Treasury and Parliament that he has satisfactory control over numbers and grading throughout his department. Against that background, staff inspection will then be used in the following ways:-

i. by top managers to look at whatever areas or functions need to be reviewed in the judgement of top management;

ii. by line managers, to help them seek value for money in their staffing arrangements;

iii. by the Treasury which will retain its right of audit of the department's control of numbers and grading by sending in Treasury Staff Inspectors either as members of or to lead a team in any area of the department's work.

2.29 The aim will be to deliver a total amount of staff inspection at least as great as that indicated by the current guideline; to achieve this departments will need to take appropriate action, including maintaining their staff inspection complements at their current strength, and setting targets which ensure that no fewer posts are inspected each year on average than is consistent with the guideline. The aim will, however, be to give top management of departments full responsibility for determining the direction of staff inspection effort, subject only to the Treasury's right of access for its own staff inspectors.

Further Progress to be sought by October 1986

2.30 The most important progress which should be sought from departments is on top management using CIR services. The improved ability to co-ordinate CIR should give senior management a greater ability to direct CIR services in order to reflect their concerns more closely, but we ought to check with departments whether they have achieved better co-ordination and direction. From the Treasury, the action needed is the further revision of the Staff Inspection Guidelines.

CHAPTER 3 Central CIR Services

RECOMMENDATION 7

"Treasury Ministers and the Minister of State (Privy Council Office) should jointly ensure that their departments:

".....

(b) review by 31 December 1984 the organisation and roles of their central CIR services to ensure that they are able to reflect developments in departments and, in particular, development of the multi-disciplinary approach recommended for departmental management support units; this will include their role in training, practical support and co-ordination, monitoring effectiveness and participation in individual assignments."

General

3.1 First, what is meant by "the central CIR services"? For present purposes we take it as meaning those activities of central departments providing a direct consultancy/inspection/reviewing function to or in other departments, or providing guidance to a network of specialists/professionals in departments, in relation to the internal management of those departments' own resources.

3.2 This includes part of the work of Treasury expenditure divisions, Personnel Management (PM) Division in MPO, and of all the Treasury's and MPO's supporting specialists. However the main focus of this report is on those parts of the central departments which are wholly or mainly dedicated to CIR work. In the Treasury this is mainly Staff Inspection, Management Accountancy, part of Central Computer and Telecommunications Agency (CCTA), and Internal Audit, although some CIR services are provided by other divisions such as Operational Research and Public Services Economics and, occasionally, Financial Management Division and the JMU. Within the MPO the main CIR services are in the Management and Efficiency Divisions, but there are others, for example the Job Satisfaction Team in the PM Group. The Efficiency Unit is not part of the two central departments; but it too is heavily involved in value for money reviewing.

Role of Central CIR

3.3 The primary function of the central CIR services is to support the Treasury and the Cabinet Office (MPO) in discharging their general responsibilities for controlling public expenditure and for Civil Service management. Along with other specialists, such as the economists and statisticians, they provide advice to expenditure divisions to assist them in their scrutiny of departments' plans and performance.

In addition, they

(a) carry out specific assignments in departments (SIED, ME2(C);

(b) set standards (for example, for Internal Audit and the grading of staff) and monitoring their observance by departments (Internal Audit Development Branch (IADB), ME2(C), SIED);

(c) conduct or lead service-wide reviews of specific functions (ME1, ME2(C), Accountancy and Financial Audit (AFA); and

(d) disseminate guidance on good management practices to departments (all services);

(e) provide consultancy advice to departments (for example, CCTA on the application of information technology, Management Accounting Advisory Branch on management accountancy, ME2(C) on Information Management and a range of management subjects.) A certain amount of CIR work is also undertaken directly on behalf of small departments which do not command the requisite skills within their own resources.

A fuller note on the main central CIR services is attached at Annex B.

3.4 As paragraph 3.3 shows, the central CIR forces have a wider range of responsibilities and tasks than departmental CIR. Their extra duties with respect to departments' internal management include the leadership role taken in organising and managing inter-departmental studies and in seeking widespread application of the findings; the development of policy; and the professional leadership role with regard to standards and training.

3.5 These wider responsibilities apart, some of the work of the central CIR services can be compared with that of CIR services within departments. For example the role of helping the Treasury and Cabinet Office (MPO) to discharge its general responsibilities for controlling public expenditure and for Civil Service management and efficiency can be compared with help for top management. The consultancy advice functions may be considered to be equivalent to department CIR help to line managers. In practice, the line between inspection and consultancy is sometimes blurred, as for example when a CIR body offers a department consultancy in support of a central initiative. There is, however, a clearer similarity between departmental CIR and the limited assistance provided by central CIR to departments which are too small to maintain their own expertise.

3.6 The variety of tasks being carried out by the CIR services can open up the danger of a department's being unclear about the basis on which a service is being offered or provided. The CIR services recognise the potential problem. Where the central CIR staffs are invited to help in a purely consultative capacity, or directly with departments to develop professional practice, it will be understood that reports produced are the property of the department and should not normally be passed to the Treasury expenditure division without the consent of the department. Similar confidentiality would be accorded by IADB to information acquired indirectly, for example when examining internal audit documentation.

Organisation of CIR services

3.7 The central CIR services are split between the Treasury and the Cabinet Office (MPO) and, within the Treasury, between several commands. Staff inspection, management services, CCTA, OR, management accountancy, and internal audit are spread across five reporting lines to Under Secretary or above. An obvious question is whether that organisation is the best that can be achieved, particularly given the thrust in departments towards brigading the main CIR services together.

3.8 There are various possible ways of reordering the organisation. One possibility would be to put all the services in one or other of the Treasury or the Cabinet Office (MPO). This would no doubt ease the problem of co-ordinating the efforts of the services, though it would not of itself solve it, and could create other co-ordination problems. It would in any case have repercussions on the organisation of the two departments, which would be well beyond the scope of this report.

3.9 Putting all the services in one department would in any case not solve the co-ordination problem completely. In order to do that, the services would all need to report through a single reporting line; and, because of the staff numbers and variety of tasks involved, it would be a large and cumbersome command. It would also fail to take account of an essential feature of the central services: that they are not only providing CIR services along the lines provided by departments' CIR services, but some of them are also a direct extension of the responsibilities of divisions in the Treasury or Cabinet Office (MPO). For example, SIED is part of the Running Costs and Manpower Division, and any gain from brigading it with, say, ME, would be at least offset by the loss from no longer having it directly associated with the policy divisions dealing with manpower questions.

3.10 Furthermore, while there have been many organisational changes in departments to improve the cohesion of the management of their CIR forces, the changes have not followed a consistent pattern. Thus there remains a multiplicity of organisational arrangements reflecting departmental needs and preferences. There is thus no model organisation which the central CIR forces ought to reflect.

3.11 Having said all that, the existing organisation, within the Treasury as well as between the two central departments, is obviously not ideal. When the organisation of the central departments is next under review, it would be desirable to reduce as far as possible the number of separate CIR commands.

Multi-Disciplinary Working

3.12 The spread of central CIR services over several commands does not seem to have inhibited multi-disciplinary working. The major multi-department reviews, such as on accommodation, budgetary control, the typing and secretarial grades, have usually involved a mixture of specialisms, and all the services, except for IADB, report that they have done some multi-disciplinary work, both in departments and in advising the central departments, in the last year.

Training

3.13 (a) Some central CIR training is done by the central CIR services, and some is provided by the Civil Service College. For example:-

- SIED runs its own courses for staff inspectors
- AFA, IADB, CCTA and ME co-operate with the College (with varying balance of input as between College and CIR staff) in mounting courses for internal auditors, computer specialists and Management Services staff.

(b) The College is at present preparing a short course on "O&M for Managers" which will be designed specifically for line managers at HEO/SEO level to do their own simple O&M work, with the aim of launching a pilot course early in 1986/87. One possibility to be explored is that of departments using this as a "core" course, with their departmental instructors then mounting similar courses in their own organisations.

(c) The main example of a multi-disciplinary course is the Basic Assignment Skills and Strategy (BASS) course, also run by the College. It caters for new entrants to all the CIR disciplines and in three days puts over the common elements of assignment training. In addition, the College is now presenting the multi-disciplinary "approach" on all its assignment officer courses, especially the courses for O&M and related IT staff.

There is going to be a continuing need for specialist courses to teach CIR staff particular skills. But the new courses for line managers and the multi-disciplinary BASS course (which was introduced in 1983) are examples of the kind of broader-based training which will be increasingly needed by line managers and CIR staff. Some of that training will be best provided by departments (and departments are already doing so); but the training provided by the centre could usefully be developed further.

Monitoring Effectiveness

3.14 The question, which is similar to that confronted by departments, is how to develop reliable performance indicators for CIR staff. In some areas, the central CIR bodies have already developed and issued guidance on appropriate measures and indicators for use by departmental CIR staffs (and are applying them internally where appropriate). This is, however, an area where further exchange of information and experience between the CIR services would be helpful.

Co-ordination

3.15 If reorganisation is ruled out for the time being, the question is how best to direct and co-ordinate central CIR activity. Two forms of co-ordination are needed: first, co-ordination of activity

directed at individual departments, and secondly, co-ordination of work on particular subjects.

3.16 As to the first, departments can reasonably expect that intervention by central CIR staffs should be co-ordinated. At the very least intervention should be timed so as to minimise the burden on departments. The new guidance to Expenditure Divisions in the Treasury is intended to secure this co-ordination. As a first step, a meeting will be held twice a year of all central intervention staffs dealing with a single department. The meeting, which will be under the chairmanship of the Treasury Expenditure Division with responsibility for the department, should help to ensure that future plans are co-ordinated and coherent, while leaving enough flexibility to respond promptly to specific requests from the department concerned. It would also remit to the meetings described in paragraph 3.18 any issues which seem to require broader co-ordination.

3.17 In considering how best to co-ordinate work on particular subjects, the starting point is that ideally the central CIR staffs involved should be looked at as a co-ordinated resource under the control of top management. Top management would consider the scale of resources, training, the programme of work, the effectiveness, and the balance between the different specialisations. Since the staff are split between two departments, active co-operation is needed to ensure that this co-ordination is achieved.

3.18 Much central CIR work is carried out as assignments of staff to specific tasks in or for departments and a list is maintained of assignments in progress or planned. This is useful, but the idea needs to be developed. We suggest that the JMU should chair twice-yearly meetings with the heads of CIR staff in the Treasury and the Cabinet Office (MPO), to look at the work programmes for all the CIR services together. The aim would be to eliminate any overlaps in programmes, to see where joint working would be helpful, and to identify gaps. These meetings would seek to identify issues of wider significance. The programmes would then be submitted, with a commentary by the JMU, to the Joint Management Meeting, (JMM) augmented by the Head of the Government Accountancy Service. The JMM would in effect represent the top management boards of the two departments. The aim of this meeting would be to take a strategic view of the overall effort.

3.19 One of the theme issues which will involve a number of interests in the central CIR services is the scrutiny of running costs. With the shift in emphasis towards control of total running costs, departments will be required to deploy their CIR services to ensure effective scrutiny of running costs and to advise on further changes to continue the drive for efficiency and effectiveness (which the move to running costs control will support). Central CIR services will be behind this effort, both in support of departments and in support of expenditure divisions in their role of monitoring the systems for financial control in departments. Action to take this forward will be taken by the lead division on running costs (RCM) which will initiate work on running costs with the expenditure divisions, in conjunction with all other CIR interests (SIED, AFA, ME etc).

3.20 The mechanisms for ensuring that running cost controls operate effectively will need to be flexible to meet different circumstances. In some cases it may mean using staff inspectors or accountants to look at a department's systems or a particular aspect of running costs, possibly leading to the deployment of other experts. In others it may involve the use of multi-disciplinary teams, considering the whole range of the components in a departments' running cost limit. The first of the proposed 6-monthly meetings of central CIR will consider current activities to review running costs; will consider what changes of emphasis are needed in work programmes and training for the CIR services involved; and will recommend the necessary action to JMM.

DEPARTMENT	RECOMMENDATION 1	RECOMMENDATION 2
	<p>Ministers in charge of departments with their Permanent Secretaries should ensure that line managers throughout their department understand that:</p> <ul style="list-style-type: none"> (a) the primary responsibility for resource management and control and for achieving improvement in value for money lies with line managers; (b) the cycle of budget and target setting and review through the year will become the main method of monitoring, assessing and controlling line management's performance; (c) line managers will be given the authority they need to discharge their responsibilities, in the expectation that their activities may be audited but that the control mechanism is the budget; (d) there will be arrangements for line managers to be helped by specialists, within their own organisation, or within the department, or from outside; (e) CIR staff (except for Internal Audit) will be accountable primarily for how far they have helped line management improve its performance. 	<p>Ministers should seek proposals from their Permanent Secretaries, within the next six months, for action to reorganise their CIR services. Options to be considered should include:</p> <ul style="list-style-type: none"> (a) regrouping the existing specialists to create a <u>multi-disciplinary management support group</u>, including staff inspection, management services, operational research and computer experts, and with access to other specialists; this support group should provide expert advice to both line management and to the top management group; (b) developing a small <u>top management secretariat</u> which works directly for the senior management group and can co-ordinate the investigations and scrutinies commissioned or authorised by that group. The secretariat should draw on whatever source of expertise, within or outside the department, is most appropriate for the work it commissions. <p>The heads of large executive organisations which have their own CIR services should also review them on the lines of sub-paragraph (a).</p>
<p>MINISTRY OF AGRICULTURE, FISHERIES AND FOOD</p>	<ul style="list-style-type: none"> (a) Message promulgated through Ministerial circular on FMI, Permanent Secretary's seminars, office notices on delegated budgeting and in general training. (b) Management information system supports top management planning by record-in objectives, resource use, measures of achievement and plans for each area of work. (c) Budget responsibility for programme expenditure rests with line managers. Decentralised budgetary control of running costs being introduced in 1986/7. Significant blocks of personnel work decentralised and more planned. (d) CIR services available to line managers. (e) Recommendation accepted in principle. General awareness on the part of senior management of where CIR staff could be most effective. 	<p>Management services, staff inspection, information and computer services brigaded into Management Services Group. Management Board establishes joint programme for CIR work and bi-monthly reports are submitted to Ministers. Through the Board's work, the activity of its Secretariat and the close collaboration of MSG, establishment and finance groups, a means exists of co-ordinating investigations, staff inspections and scrutinies.</p>
<p>CABINET OFFICE</p>	<ul style="list-style-type: none"> (a) Fully recognised and accepted by line managers. Message will be restated when further authority delegated. (b) Strategic planning exercise and end year review of achievement against plans in MPO. Aim to extend to other parts of departments. (c) Considerable financial authority already rests with line managers. Authority to be extended, in particular to include personnel, complementing and grading matters. (d) Arrangements already exist. Line managers to be reminded of the availability of specialist assistance when extending their authority. (e) Measures of performance to be extended and additional indicators devised. 	<p>Staff Inspection/O&M and IT grouped in the same Division and planning and financial support is available. Committee chaired by PEFO and comprising Heads of CIR units carry out joint planning of work programmes and maintain general overview.</p>
<p>CENTRAL OFFICE OF INFORMATION</p>	<ul style="list-style-type: none"> (a) Role of management stressed at seminars and training courses. (b) Resource management by budget system is well developed alongside the management accountancy system. Continuing devolution of responsibility to line managers. (d) CIR briefing paper distributed to managers at Principal level. (e) Costs and benefits of CIR work quantified where practical. CIR services are developing performance indicators and targets are being set by the management group. 	<p>CIR services presently dispersed but this will be reviewed by the Director General with the aim of considering the feasibility of a multi-disciplinary support group. Target date is late 1986.</p>
<p>CUSTOMS AND EXCISE</p>	<ul style="list-style-type: none"> (a) Message stressed in complementing instructions. (b) Systems of management planning, objective and target setting and delegated budget responsibility have been introduced in headquarters and outfield. Performance against objectives is reviewed by top management. (d) Improvements being considered. (e) Management services and staff inspection identify benefits in reports. 	<p>Management Services, Operational Research, Staff Inspection and computer services report to the Director of Organisation. Together with Internal Audit they have co-ordinated programmes and carry out multi-disciplinary working.</p>

	<u>RECOMMENDATION 3</u>	ANNEX A <u>RECOMMENDATION 4</u>	<u>RECOMMENDATION 5</u>	<u>RECOMMENDATION 6</u>
	Internal audit should be maintained as an independent function, but internal auditors should work in close cooperation with the management support group. How best to organise this co-operation will vary from department to department. Hitherto a majority of departments have emphasised the independence of internal audit by keeping a separate unit. On the other hand, departments should be free to group internal audit with other functions where the Accounting Officer is satisfied that there are advantages in this and that the independence and central standards of internal audit will be maintained. These organisational arrangements should be further reviewed in three years time.	(a) Career planning for internal audit and management support staff, outside the functional specialism, should aim to ensure that spells of continuous service are no more than five years, and (b) that senior staff have real line management experience in addition to experience in their specialism.	For the next two years at least, the principal task of the management support group should be to handle the difficult period of change to resource control by budget. They will need to work directly with line managers and with training divisions to ensure that line managers have the resource control systems and the skills that they will need. Once the new budget structure is in place, the management support group should have the resources to develop as an expert advisory service for line management.	Work programmes for the services covered by this report should be approved by the senior management group. Investigations sponsored by senior management itself should concentrate on problem areas of wide significance. Although from time to time the senior management group may want to sample the position on a particular management issue, for example grading standards in one organisation of the department, it should not use its assignment staff for detailed second-guessing. These issues should be resolved as part of the budget-setting process and the responsibility for putting any deficiencies right should lie within the line.
MAFF	Internal Audit is independent function with good links with other CIR services. Arrangements will be reviewed in 1988.	(a/b) Accepted.	The Financial Management Team is developing the necessary control systems and providing training. Further thought will be given to the organisation of support for line managers, for the routine processing and monitoring of information as well as the provision of expert consultancy.	Management Board annually approves co-ordinated programme of Staff Inspection, audit and scrutiny. Work sponsored by senior management concentrates on areas of wide significance.
CO	Internal Audit is independent function reporting to the PFO. Internal Audit will play a full part in multi-disciplinary reviews and its head will sit on the CIR Co-ordinating Committee.	(a) Accepted, drawing up career development plans. (b) Accepted, considering general training needs.	Transition to resource control by budget is being handled by Finance Division.	Work programme for CIR services will be approved by senior management.
COI	Internal Audit separate. Audit and Staff Inspection consult on programmes and exchange reports. Arrangements to be reviewed by October 1987.	(a/b) Accepted.	Department already operates as a system of resource control by budget. CIR services aim to extend their existing consultancy role.	Senior management approval of work programme for Staff Inspections and reviews are now carried out 6 monthly instead of yearly. Audit plans are submitted to PFO who is a member of the Management Group. Second guessing on line management budgets will be avoided by commissioning studies on department wide issues.
C&E	Internal Audit is independent but works in close co-operation with other CIR services.	(a/b) Accepted.	Department is considering improvements in training and consultancy awareness. Recommendations are being considered to encourage line managers to seek support. The FMI Team also supply support to line managers.	Current departmental practice.

	<u>RECOMMENDATION 1</u>	<u>RECOMMENDATION 2</u>
DEPARTMENT OF EDUCATION & SCIENCE	<p>(a) Line management responsibility for resource management and control and for achieving improvements in value for money are promoted through the Trident system of top management. Training seminars promoted by the Permanent Secretary for all grades from EO upwards have a strong FMI slant. FMI response to date was circulated to all staff in July 1985.</p> <p>(b/c) "Hands off" nature of most DES programme expenditure (£13bn) means that the delegation of budgetary and management responsibility is concentrated on administrative expenditure (£50m). Discrete units (UGC, HMI, Darlington) are now cost centres with responsibility for a wide range of costs. 5 units in London have been given control of budgets on limited range of costs (staff costs including overtime, travel and subsistence - UK and foreign, hospitality, some training costs, computing services and publications). This experiment is now being evaluated.</p> <p>(d) Line managers have access to specialist advisers on computers and IT, to accountants and economists, and to a financial modelling team of operational researchers. DES CIR review proposes extending the consultancy role of staff inspectors.</p> <p>(e) Time spent by CIR service is managed and benefits arising from recommendations are quantified where possible.</p>	A full scale internal scrutiny of CIR services has been undertaken and an action plan prepared for submission to Ministers. There will be an emphasis on coordination but the changes suggested will not follow precisely the recommendations in the central report.
DEPARTMENT OF EMPLOYMENT	<p>(a) Line manager's role stressed in guidance notes on devolved budgeting and throughout FMI systems generally.</p> <p>(b/c) Budgeting provides a basis for top management review and target setting and is the main means of monitoring, planning and controlling expenditure. Moving to devolved budgeting in 1986/7 following trials in 1985/6.</p> <p>(d) Managers have specialist help available where budgeted for. Guide to CIR services planned.</p> <p>(e) Costs of CIR work identified and effects are measured by impact on line managers' performance indicators.</p>	Establishment of the Senior Management Support Unit attached to the Permanent Secretary's Office. CIR Co-ordinating Committee to take an overview of work programmes, present a co-ordinated annual programme to top management, review proposals for use of outside consultants and assesses needs for multi-disciplinary reviews. Survey Unit presently mainly engaged on cyclical Staff Inspection to be renamed Management Services Unit and develop into a fully demand led consultancy and advisory service for senior and line management. Unemployment Benefit Service branch to create a small central Management Services Unit.
DEPARTMENT OF ENERGY	<p>(a) Role of line management emphasised in annual management exercises.</p> <p>(b/c) Department operates a decentralised system of financial responsibility. Line divisions are responsible for controlling their programme expenditure, and for seeking the best value for money. Important aspects of running costs have also been delegated to divisions.</p> <p>(d/e) Senior management look to CIR staff both to provide reassurance to central management and assistance to line divisions as necessary. The value of staff inspection and computer services is judged by the extent to which they enable line managers to perform their functions with greater efficiency.</p>	Staff Inspection, Internal Audit and Computer Group all in one divisions reporting to the PEFO. Steps are in hand to improve co-ordination and liaison between these groups.
DEPARTMENT OF THE ENVIRONMENT	<p>(a) Line responsibility and accountability well established under MINIS and other management information systems.</p> <p>(b) Top management information systems streamlined to concentrate on performance review, resource and policy options.</p> <p>(c) Two systems distinguished so that line systems supports and feeds the top management system.</p> <p>(d) Extra resources devoted to CIR services. Guide to management services to be issued.</p> <p>(e) Costs of CIR work quantified and expected savings agreed with line managers. Follow up reviews carried out on OM consultancies to measure outcomes after one year.</p>	Directorate of Administrative Resources contains O&M, Operational Research and computing expertise (all under the Head of Business Efficiency Services) and Staff Inspection. Good links exist between Staff Inspection and other CIR services. Joint planning of CIR work programmes is being improved. Central Policy and Planning Unit provide an effective top management secretariat capable of co-ordination where necessary.
FOREIGN AND COMMONWEALTH OFFICE/ OVERSEAS DEVELOPMENT ADMINISTRATION	<p>(a) Message promulgated through various channels.</p> <p>(b/c) Limited delegation and budgetary control especially in overseas posts.</p> <p>(d) Management Review staff to be reinforced.</p> <p>(e) Views to be sought on the utility of CIR work. Time spent on different phases of review work to be analysed to assist planning.</p>	Management Services and Staff Inspection brought together in new Management Review Staff. Close links exist between MRS, Internal Audit Unit and IT Department. Senior Management Committee in the FCO and ODA will oversee the work of all CIR services. Management reviews of wider scope than hitherto carried out will be encouraged for the study of problem areas of wide significance.

	<u>RECOMMENDATION 3</u>	<u>RECOMMENDATION 4</u>	<u>RECOMMENDATION 5</u>	<u>RECOMMENDATION 6</u>
DES	Departmental scrutiny proposes to retain the independence of internal audit but envisage more joint reviews with Staff Inspection teams. The use of internal audit as consultants to line managers will be considered further.	Limited length of careers in internal audit are constrained in DES by the need identified by the PAC to improve professionalism with consequent commitment to lengthy and costly training. Seven years in Internal Audit will be the aim.	The shift to resource control by budget is being handled by a Financial Management Unit in the PEOs command. Computerised financial management system has been introduced for running expenses. It serves about 150 cost centres. Pilot scheme in operation in 5 branches with delegated responsibility for running costs, estimating, monitoring and control. In addition the Department has been instrumental in establishing efficiency reviews in the main areas of its programme expenditure.	The internal audit work programme is already subject to approval by top Management Group. It is proposed that the Staff Inspection programme should be similarly approved. The information technology programme for the longer term is also approved and reviewed by the Management Group
DEmp	Internal Audit separate reporting through Accountant General to Permanent Secretary. Representative on CIR Co-ordinating Committee.	(a/b) Accepted .	Task of handling transfer to resource control by budget borne by Finance Division and the Senior Management Support Unit. They both provide expert advisory services to line management.	Senior Management Group approves combined annual programmes for CIR services.
DEng	Internal Audit grouped with other CIR services under PEFO but with right of direct access to Accounting Officer. Improved links being established between internal audit and other CIR services.	(a/b) Accepted within the constraints imposed by small size of the Department.	Senior Management look at CIR staff to provide assistance to line divisions as necessary, within a financial system that is already largely decentralised.	Permanent Under-Secretary will approve Staff Inspection and Internal Audit programmes.
DOE	Internal Audit is a separate independent function. Cannot be brigaded with other CIR services as they are jointly operated with DTp whereas there is a separate internal audit function in each Department. Organisation will be kept under review.	(a) Accepted in principle subject only to the need to retain a cadre of "semi-specialist" skills such as operational research and and computer support services.	Accept that assisting line management implement the shift to resource control by budget will be of major importance over the coming years. Department is considering scope for expanding its established arrangements whereby CIR staff pass on their skills to line management.	Senior management approves annual work programmes for Staff Inspection, Internal Audit and Rayner scrutinies. Does not currently consider forward programmes for O&M, OR, computer services and external management consultancies as they tend to be fairly short term and need to be able to respond flexibly to consumer demand. Further consideration to be given to how top management can indicate priority areas for consultancy assignments. Accept that senior management should concentrate on problems of wide significance.
FCO/ ODA	Internal Audit separate. Close links with other CIR services.	(a/b) Accepted.	Budget holders do not at present require more CIR input on budgets management. Department presently considering the issues of Staff Inspection guidance to line managers.	Work programmes approved by senior management who sponsor scrutinies of wide significance.

	<u>RECOMMENDATION 1</u>	<u>RECOMMENDATION 2</u>
FORESTRY COMMISSION	<p>(a) The responsibility for resource management and control, as well as the achievement of improvements in value for money is communicated through budget setting and control procedures. Department is organised on commercial lines with a high degree of autonomy granted to the seven conservators (Regional Managers).</p> <p>(b) Operating substantially in department but is currently subject to review. Aims over next 2 years to improve financial accounting and management information systems mainly by establishment of new communication links within the department to speed up the flow of information.</p> <p>(c) Budgetary control is devolved for all forest operations. The report of a committee set up to make recommendations on further delegation is now being studied.</p> <p>(d) Line managers have well established contacts which help them to make effective use of CIR services, eg regional Work Study teams, outstationed from HQ maintain regular contact with Conservators and Forest District Managers.</p> <p>(e) Each CIR service produces an annual report to the Executive Board which summarises the cost of providing the service and the achievements and cost savings over the previous year.</p>	All CIR units now in same HQ location but not brigaded. No plans for further changes following review of Conservancies and HQ in April 1985. Work of CIR units subject to annual review and approval by Executive Board.
GOVERNMENT COMMUNICATIONS HEADQUARTERS	<p>(a) Responsibility for management and control of resources to achieve value for money in changing operational circumstances is understood as an essential part of the line manager's role.</p> <p>(b/c) Measures consistent with these principles including target setting are being introduced as appropriate to department's budgeting arrangements and organisation.</p> <p>(d) Line managers are well aware of the specialised assistance of CIR services available to them and make regular use of them in considering measures to improve efficiency.</p> <p>(e) Helping line management improve its performance is an increasing part of the function of CIR units and therefore in their accountability. Costs of CIR work being increasingly quantified.</p>	CIR Units are colocated in the Management and General Services Division. This enables them to carry out multi-disciplinary working where it is required. Work programmes are exchanged and informal contacts are good, with exchange of appropriate reports.
HEALTH AND SAFETY EXECUTIVE	<p>(a) Budget holders are aware of their responsibility for resource control.</p> <p>(b/c) Improved accounting systems should allow for greater devolution of budgetary responsibility in the future.</p> <p>(d) Satisfactory arrangements exist for providing CIR services.</p> <p>(e) Costs of CIR work quantified and benefits noted where possible.</p>	Main CIR forces grouped in one division. Enhancement of support role for Executive as regards the divisional planning system. Good informal liaison.
DEPARTMENT OF HEALTH AND SOCIAL SECURITY	<p>(a) Message promulgated at every available opportunity including management meetings, seminars, training courses and in guidance on management information system.</p> <p>(b/c) Budgets for non manpower costs delegated to local office managers. About one fifth of local offices taking part in pilot projects of fully developed budgetary control involving manpower costs. HQ Grade 3's are budget holders for some nonmanpower costs. Manpower budgeting being piloted in HQ. Both central offices have introduced budgetary control of costs including manpower.</p> <p>(d) Pamphlet describing CIR services to be issued.</p> <p>(e) Common methodology for determining the cost effectiveness of CIR being explored.</p>	Limited brigading of CIR including Management Services, Staff Inspection, Efficiency Unit and Central Secretariat. Separate CIR outfit for the NHS Management Board. Good links with Operation Strategy Directorate and Internal Audit. CIR Co-ordinating Committee set up to oversee CIR work in order to ensure that gaps and overlaps are avoided.
HER MAJESTY'S STATIONERY OFFICE	<p>(a) Message implicit in budgetary system and financial target setting.</p> <p>(b/c) HMSO is a Trading Fund and has a system of delegated budgetary control with Directors of the businesses and the corporate support services controlling an agreed budget and manpower allocation within which they have full authority to help them meet department's financial targets.</p> <p>(d) Guide to CIR services to be issued to line managers.</p> <p>(e) Cost of O&M and Staff Inspection to be compared with overall benefits. Annual report rendered to top management.</p>	O&M branch, Office Technology, Staff Inspection and Internal Audit report to Director General Corporate Services. Due to its size and Department does not require a special top management secretariat beyond that which is already in place. Formal liaison arrangements between CIR services not necessary as their schedules of objectives are approved quarterly by Management Board.

	<u>RECOMMENDATION 3</u>	<u>RECOMMENDATION 4</u>	<u>RECOMMENDATION 5</u>	<u>RECOMMENDATION 6</u>
FC	Internal Audit although based on Finance Division operates as an independent function with the Chief Auditor reporting directly to the Director General. Liaison is maintained with the other relevant CIR functions.	a. Normal tours of duty are 5 years. b. Normally CIR specialists are recruited from line management and return to line management.	Budget based controls already in operation.	Annual programmes approved by the Executive Board.
GCHQ	Internal Audit is independent function. with good links with other CIR services.	(a/b) Accepted.	Financial budgets have been delegated to line management control where this is consistent with GCHQ's operational and technical circumstances as has some manpower and grading control previously wholly centralised. The Management Support Group is developing a financial information system to provide line managers with detailed costs of the resources which they control.	The PEFO approves CIR units' work programmes, which include assignments requested by line managers and wide ranging investigations sponsored by senior management.
HSE	Internal Audit part of Planning Branch which acts as secretariat to top management to oversee the operation of systems for setting objectives, review and priorities, obtaining allocated resources and for planning, monitoring and evaluating the work performed by the Department.	(a/b) Accepted in principle Given the small number of CIR staff in the Department, some may have to stay in post more than 5 years at a stretch.	Budget responsibility has been devolved to Under Secretary/Chief Inspector level, with some further devolution as appropriate. No further changes are immediately prospect. Resource management covered in training.	Joint annual programme for financial, manpower, management and systems audit are put to the Executive for approval.
DHSS	Internal Audit separate division reporting to PFO. Coordination with CIR units to be improved. Representative on CIR Co-ordinating Committee. Position to be reconsidered in 1988.	(a) Accepted, although Department retains flexibility in the case of Internal Audit. (b) Quality and balance of skills of CIR staff to be considered by Co-ordinating Committee and Establishments Division. A plan for improvement will be put to Ministers in early 1986.	Developing assistance to line management to handle shift to resource control by budget is a top priority task to which CIR resources should be deployed as appropriate.	CIR work programmes approved by senior management and the Coordinating Committee will ensure that gaps and overlaps are avoided. Work programmes are largely derived from suggestions put forward by line management and therefore welcome to them and free from the implication of second guessing.
HMSO	Head of Internal Audit is also responsible for Staff Inspection. Arrangements will be reviewed in 1988.	(a) Accepted, career planning arrangements being amended. (b) Accepted.	Department has completed transition to resource control by budget.	Internal Audit work programme approved annually by Management Group, Staff Inspection programme seen by Management Group. Office technology strategy would be subject to approval by IT Committee. O&M programme only scheduled for 3 months ahead since service to line manager is the primary concern. Top management sponsor investigations of wide significance.

RECOMMENDATION 1

RECOMMENDATION 2

HOME OFFICE

- (a) Message promulgated through FMI systems, in "Guide to Line Managers" and in training courses.
- (b) Allocation of resources subject to challenge against background of stated objectives and performance indicators. Performance target set and monitored through management information system. Inputs and outputs are increasingly being related.
- (c) Delegation of budgetary and other responsibilities seen as a means of sharpening the accountability of line managers and increasing ability to control use of resources to best effect. Central effort will be devoted to challenging, probing and reviewing areas of delegated authority including the negotiations of actual budgets.
- (d) Guidance to be issued on the use of outside consultants and arrangements made for monitoring their performance more effectively. Guide on the roles and capabilities of CIR services to be issued. "Bedding out" of CIR staff to be kept under review.
- (e) Annual review by the PEO of the performance of CIR services covering cost effectiveness.

Internal Audit, O&M, Work Study, Staff Inspection, Central Accountancy and economic advice brigaded under the Head of Finance and Manpower Department who is also the PFO. Management Services Liaison Group consisting of heads of main CIR units co-ordinates programmes at the planning stage and promotes multi-disciplinary working. Statisticians and operational researchers are separate. Permanent Secretary receives advice on all aspects of resource management from PFO.

INLAND REVENUE

- (a) Seminars held for all line managers. Document on "Direction of Change" setting out, amongst other things, departments FMI strategy made available to all staff. Chairmen's Newsletter reinforced message.
- (b/c) Department pressing ahead with development of budgetary control. Results encouraging.
- (d) Booklet on CIR services to be produced. Post of Budgetary Liaison Officer to be set up in each region to help introduce budgeting.
- (e) Costs and benefits of CIR assignments are normally spelt out.

Operational Research, Staff Inspection, work measurement, Management Services and Internal Audit are grouped under one Under Secretary. Joint planning of work programmes. Multi-disciplinary Operational Reviews are carried out. Finance Division provides secretariat to the Board in pointing out the main issues arising out of management information system. No need for separate top management secretariat function but this will be kept under review.

INTERVENTION BOARD FOR AGRICULTURAL PRODUCE

- (a) Line managers aware of their role although value for money means above all things avoiding disallowance of expenditure by European Commission auditors.
- (b) Cycle of budget and target setting of limited value in assessing line management performance (see 1a).
- (c) Authority delegated to line managers is commensurate with their responsibility. Use of budget as a control mechanism is limited by the constraints mentioned under 1a.
- (d) Internal and external specialist support is available.
- (e) Particular account will be taken of the extent to which CIR activities have helped improve line management performance.

Management Services, Staff Inspection, computer services, Financial Management Services and Internal Audit report to the Director of Management Services. Senior Management Groups secretariat provide co-ordination.

LAND REGISTRY

- (a) Managers are aware of what is expected of them and they are held accountable.
- (b/c) Management accounting information systems in operation since 1975 incorporating techniques of budgetary control and standard costing, comparing actual resources used with planned resources for the equivalent output. Budget bids made by line managers are vetted and approved by the Budget Committee.
- (d) Extra O&M staff being made available to help line managers and additional specialist support staff will be made available if required.
- (e) CIR staff to be held accountable. Staff will be judged on effectiveness of recommendations, timeliness and interpersonal skills.

New Management Support Unit being set up to be manned by people trained in O&M skills. Unit will work in close liaison with Internal Audit. Additional specialist support staff will be seconded to the Unit as required. Unit will provide expert advice to line managers and top management.

LORD CHANCELLOR'S DEPARTMENT

- (a) Message stressed in series of seminars and discussions led by senior management.
- (b/c) Department setting targets for management, monitoring achievements and delegating budgets for manpower and money. Budgets delegated to Grade 3 level.
- (d) Seminars help increase awareness of CIR availability.
- (e) Costs of CIR work quantified and benefits noted where possible.

Staff Inspection, management scrutiny and top management secretariat brigaded in one Division.

	<u>RECOMMENDATION 3</u>	<u>RECOMMENDATION 4</u>	<u>RECOMMENDATION 5</u>	<u>RECOMMENDATION 6</u>
HO	Internal Audit is an independent function brigaded under PFO with other CIR services/ Head sits on the Management Services Liaison Group.	(a/b) Present practice although sometimes difficult to achieve in the case of Work Study because of degree of specialism and reluctance of officers to move.	Assistance to line managers in establishing budgetary control systems is being provided by dedicated units attached to those parts of the Department which need them rather than by centrally organised CIR services. CIR services will need to be ready to meet demands for support in the future. There is an immediate need to ensure that CIR services are themselves adequately trained to do this.	Work programmes of CIR units approved by various senior management groups. Management Services Liaison Group, consisting of the Heads of CIR, provides forum for Liaison in preparation of programmes. PEO's annual review of CIR will be an opportunity to sort out problems. Top management considers proposals for important efficiency related reviews and takes decisions. Audit and Staff Inspection continue to have a strong cyclical element but with increased emphasis on setting priorities and directing resources at where the perceived need for independent scrutiny is greatest.
IR	Internal Audit grouped with other CIR services but independent. Good coordination between Internal Audit and other CIR services. Multi-disciplinary working through Operational Reviews.	(a) Generally accepted, flexibility to be retained in cases where extensive or expensive training is involved. (b) Accepted.	Shift to resource control by budget will be a major issue for the Management Support Group over the next 2 years. Budgetary Liaison Officers are providing support to line management. Comprehensive training programme being implemented. Methods are being developed by the OR unit to help tax managers interpret information from management systems. A technical resource allocation guide is in use and enables line managers in the tax inspectorate to plan and monitor the use of resources more effectively.	The work programmes of the CIR services are endorsed by the Board through the annual SMS review process. Investigations sponsored by senior management concentrate on areas of wide significance. Avoidance of second guessing accepted in principle although there will continue to be a need for appropriate systems for central control on overall manpower numbers.
IBAP	Internal Audit reports to Finance Officer and Director of Management Services alongside CIR services. Independence is assured while cooperation is encouraged.	(a) Accepted. (b) Accepted within limited flexibility available to small department.	Support for transition to budget based controls is provided by Finance staff responsible directly to the Finance Officer and Director of Management Services.	Work programmes for CIR services are controls approved by the Chief Executive after discussion with senior management. Problems of second guessing do not arise.
LR	Internal Audit is an independent function but will work in close liaison with the Management Support Unit.	(a/b) Accepted.	Resource control by budget implemented since 1975.	CIR services work directly to the Management Coordinating Committee which is the Senior Management Group responsible for authorising investigations and scrutinies, some of which will be initiated at the request of senior line managers.
LCD	Internal Audit is independent function reporting to the PEFO.	(a/b) Accepted.	Series of seminars held to spread the message of management change. Grading guidance had been issued to line managers.	Work programmes approved by top management. Staff Inspection partly at the disposal of line management.

	<u>RECOMMENDATION 1</u>	<u>RECOMMENDATION 2</u>
MANPOWER SERVICES COMMISSION	<p>(a) FMI Coordinating Committee stressing role of line management. Significant commitment to training to increase line managers' awareness of principles of FML. FMI bulletin goes to all offices.</p> <p>(b/c) Managers have substantial delegated authority on grading and deployment of staff resources. Limited discretion on programme expenditure within budget. Senior Management Committee receives monthly reports on expenditure and outputs.</p> <p>(d) Further consideration being given to additional needs for specialism within CIR. Line managers are generally aware of CIR help available.</p> <p>(e) Management objective to improve information on performance of Management Services and Staff Inspection. Assignment work costed. Follow up work carried out to test quality of Management Services work.</p>	<p>Consideration of the organisation aspects of the CIR Report are being postponed until the conclusion of a major organisational review of MSC.</p>
MINISTRY OF DEFENCE	<p>(a) Paper issued reiterating Secretary of State's management principles.</p> <p>(b) Executive responsibility budgets (ERBs) are being introduced in the support areas. Extensions of the scheme are being pursued with a view to their introduction once their initial 3 year programme is complete. Staff responsibility budgets (SRBs) for civilian staff have been operating since 1 April 1984 and similar budgets covering Servicemen were introduced in many areas on 1 April 1985.</p> <p>(c) SRB holders have delegated complementing authority up to SEO level.</p> <p>(d) Document publicising CIR arrangements is being distributed.</p> <p>(e) Accepted.</p>	<p>Management Services, Staff Inspection and Internal Audit are grouped under the Director General of Management Audit. Administrative computing reports to a separate Under Secretary. Economists, Operational Researchers and Statisticians are separate. The Department has a Management Audit Board which oversees the work of the CIR units and the development of efficiency strategies. It is chaired by the Permanent Secretary. The DGMA has frequent meetings of the CIR Unit Heads. Top management secretariat role fulfilled by branch co-ordinating and developing the MOD efficiency programme.</p>
DEPARTMENT FOR NATIONAL SAVINGS	<p>(a) Budget holders (AS level) have considerable authority to manage resources and are aware of their duties to secure value for money.</p> <p>(b/c) Budgets delegated to AS level. Further delegation to be considered as experience of present system is gained.</p> <p>(d) Availability of CIR services will be more widely publicised.</p> <p>(e) CIR services, with the exception of internal audit and staff inspection report to line management and their performance is judged on that basis. Staff inspection instructions will be altered to make clear the importance of helping line management improve its performance.</p>	<p>The Department does not believe that either of the recommended options suits their management structure and scattered organisation. The Department is mainly composed of 3 large outstationed Executive Divisions. Department is working towards joint consideration of all future work programmes for CIR services.</p>
OFFICE OF POPULATION CENSUSES AND SURVEYS	<p>(a) Message made clear in training and through the setting of objectives, targets and budgets. FMI newsletter sent periodically to all staff down to EO level. New annual reporting system will reinforce these attitudes.</p> <p>(b) Integrated cycle of target setting and resource allocation being introduced. Targets and objectives set yearly and published. Performance reviews will also be published.</p> <p>(c) Further flexibility within divisional cash and manpower limits is being explored. Management information system detailing use of manpower and money is being further developed.</p> <p>(d) Internal and external assistance is available to line managers.</p> <p>(e) Department will explore measurement of output and performance by line managers and this will contribute to the development of performance measures for CIR staff.</p>	<p>CIR services provided by 2 Divisions, Management Services (Staff Inspection, O&M and general efficiency scrutinies) by Establishment and Finance Division and ADP advisory services by Computer Division. It is intended that Staff Inspection and O&M should become a fully integrated service with participants trained in both disciplines and working in multi-disciplinary teams where necessary. Working contacts are good and joint project teams are set up where necessary. Work programmes are jointly planned.</p>
ORDNANCE SURVEY	<p>(a) Role of management will be restated.</p> <p>(b/c) Budgetary control system has been in existence since the early 1970's. Devolution to line managers is continuing.</p> <p>(d) Support is available.</p> <p>(e) Formulation of measures of accountability for CIR staff is a priority.</p>	<p>Multi-disciplinary Management Support Group consisting of Staff Inspection and O&M to be set up. Additional expertise such as ADP will be made available from operational areas as required. Principal heading unit will report to PEO. This and the small size of department obviates the need for a top management secretariat.</p>
PAYMASTER GENERAL'S OFFICE	<p>(a) Training courses in financial management arranged for staff. All cost centre managers (SEO) and their deputies have received training. Ongoing programme of awareness training.</p> <p>(b/c) Financial Management Development Team developing system for financial management throughout PGO. Computerised vote and management accounts and detailed breakdown of expenditure and, wherever practicable, budgets to SEO cost centre levels.</p> <p>(d) Arrangements exist for specialist help. Services publicised in staff handbook.</p> <p>(e) CIR staff will be accountable primarily for how far they have helped line managers improve its performance. Costs and benefits of CIR work quantified.</p>	<p>Staff Inspection, O&M, and Office Technology brigaded together although they have split reporting. Due to small size of Department, only 9 officers above Principal level, it is not necessary to have a top management secretariat as all senior management meet regularly.</p>

	<u>RECOMMENDATION 3</u>	<u>RECOMMENDATION 4</u>	<u>RECOMMENDATION 5</u>	<u>RECOMMENDATION 6</u>
MSC	Internal Audit separate. Importance of audit working to support management decision making stressed. Staff Inspection and internal auditors have worked together.	(a/b) Accepted.	Department has mainly attained resource control by budget. The training needs of Management Services and Staff Inspection are being reviewed.	Internal Audit work programme is subject to the approval by the Chairman's Management Committee. Six monthly programme of Staff Inspection and Management Services assignments are sent to the CMC for approval. Top management sponsors investigations of wide significance. It is hoped that in the future all CIR programmes will be jointly approved.
MOD	Internal Audit has for some time been grouped with other CIR services but independent. Multi-disciplinary working carried out. Coordination of Internal Audit and Manpower Audit will be kept under review and the further development of special audit programmes will continue.	(a/b) Existing departmental policy.	Shift to resource control by budget is the responsibility of the PFO and the Director General of Management Audit is closely associated with carrying forward this work.	Existing departmental policy.
DNS	Internal Audit follows independent work programme. Cooperation with other CIR services will be maintained and arrangements will be reviewed in 1988.	(a) Accepted - length of service in specialism will be monitored. (b) Accepted.	Introduction of new resource management systems being handled by separate unit with other CIR services assisting with this work as necessary. The budget structure is already in place, the cost centres are operational, and information requirements will be completed by 1986.	Approval arrangements being extended to cover all management support services. Action being taken to ensure that investigations sponsored by top management concentrate on problem areas of wide significance.
OPCS	Internal Audit is separate. Head of Management Services Branch is a member of the Internal Audit Committee. Regular consultation with other CIR services. Possibility of joint working being considered.	(a/b) Accepted.	Financial Management Advisory Group is developing budgetary control and management information systems. Management Services staff have supported the FMAG on project work and it is planned to have one Management Services officer assigned full time to FMI work. Staff Inspection grading guidance held by senior line managers. Management Services trying to pass on skills to line managers.	Work programme for Internal Audit, Staff Inspection and Financial Management branch are submitted annually to senior management. It is intended that O&M work programmes will be integrated with that of Staff Inspection to form a unified programme. Information technology programmes approved by Information Processing Policy Committee.
OS	Internal Audit is independent separate function. Heads of Internal Audit and other CIR units to hold regular mutual briefing meetings. Internal Audit resources and expertise are available to CIR teams as required.	(a/b) Accepted.	Resource control by budget already implemented. CIR teams will in future be reviewing specific aspects of planning, budgeting, targeting and monitoring activity with a view to improving accountability.	Approval of work programmes being extended to cover all CIR services.
PGO	Internal Audit separate. Close cooperation with other CIR services.	(a/b) Accepted.	Financial Management Development team and Finance Division are handling the shift to resource control by budget. Management Services Team will assist cost centre managers in their staff budgeting by producing indicators and the FM Development Team will also consider the use that may be made of performance indicators.	All work programmes are approved by the Senior Management Group or in the case of information technology by the IT Steering Committee.

	<u>RECOMMENDATION 1</u>	<u>RECOMMENDATION 2</u>
PROPERTY SERVICES AGENCY	<p>(a) Although Department feels the need for a period of strong central management, line managers' responsibility for securing better value for money is being strongly emphasised and initiatives to devolve responsibility for managing resources are being pursued as improvements in information systems permit.</p> <p>(b/c) Pilot systems in three organisational units are being set up. A full 12 months trial is planned in those units during 1986/87.</p> <p>(d) Guidance to be issued to inform line managers how to obtain consultancy help. Where demand cannot be met from in-house resources guidance will be given on how to get specialist help from outside the Department.</p> <p>(e) Accepted in principle. Preliminary work has started on setting up a pilot information system in the IT Directorate to aid planning and control of its resources.</p>	Internal Audit, Management Accounting, and manpower allocation are under the PFO; Staff Inspection and gradings are under the PEO; Information Technology and Management Services are with the IT Directorate which also reports to the PEO. The top management secretariat already exists and has assumed the responsibilities recommended including co-ordination of all CIR programmes.
ROYAL MINT	<p>(a) Exists in practice.</p> <p>(b/c) Delegated budgetary control system implemented for some years.</p> <p>(d) Exists in practice.</p> <p>(e) Exists in practice.</p>	Staff Inspection, Operational Research and Information Technology are multi-disciplinary in practice and effectively operate largely within a top management secretariat.
SCOTTISH OFFICE	<p>(a) Message stressed throughout the preparation of management budgets.</p> <p>(b/c) Budget mainly divided up to Dep. Sec. level although some aspects, eg travel and subsistence, devolved to AS level. Pilot experiment under way to allow greater delegation to Grade 3's and a few outstations. Department is committed to further delegation.</p> <p>(d) Circular issued publicising new arrangements for CIR services.</p> <p>(e) Savings expected from Staff Inspection and O&M studies quantified.</p>	Staff Inspectors and Management Services staff have been merged in an Efficiency Unit. Steps taken to improve co-ordination between Internal Audit and Efficiency Unit. New Information Technology Development Unit to be set up to promote use of IT and strong links with the Efficiency Unit will be encouraged. Review Activity Coordinating Committee will play a role in joint planning of CIR work programmes.
DEPARTMENT OF TRADE AND INDUSTRY	<p>(a) Message is communicated throughout the system for devolved resource budgets and top management information systems.</p> <p>(b/c) Responsibility cost centres presently include over half DTI staff. Dep. Sec. commands will become cost centres with delegated complementing authority by 1 April 1986. Top management group will set budgets and supervise progress.</p> <p>(d) Improved awareness of CIR services being promoted during the annual ARM round and also sought through Divisional Finance Officers network and through closer involvement of the top management group with the CIR services.</p> <p>(e) Benefits of CIR work are quantified where possible. Further thought being given to the methodology of evaluation of major computerisation projects.</p>	C&M, Staff Inspection, Operational Research and Computer Services are grouped in one Division (MSM). Economists and statisticians are separate. Finance Resource Management Division provides the secretariat to top management, with MSM involvement in management matters and the Policy Planning Unit having a general overview.
DEPARTMENT OF TRANSPORT	<p>(a) Message is promulgated through FMI systems generally.</p> <p>(b/c) Budget for administrative expenditure delegated to cost centres. Major review of department's central management capability and its own response to the FMI recently completed (the Instone Report). Now being considered.</p> <p>(d) Internal and external resources are available to line managers.</p> <p>(e) CIR staff set out expected benefits and carry out a "value for money" follow up study after the report.</p>	Directorate of Administrative Resources contains O&M, Operational Research and computing expertise (all under the Head of Business Efficiency Services) and Staff Inspection. Finance Management Division provide secretariat for Permanent Secretary's Resource Management Committee. Transport Policy Review Unit bring this and other management work together for the Permanent Secretary's Policy Management Board and Ministers Review of Objectives and Costs. Further changes being considered in the light of the recommendations of the Instone Report.
HER MAJESTY'S TREASURY	<p>(a) Message promulgated at every available opportunity including guidance on planning system.</p> <p>(b/c) Budgeting and programming round is the focus for reviewing and planning work and resources.</p> <p>(d) CIR staff available to assist line managers at all levels as required. Line managers have shown an awareness of what help is available and a willingness to ask for help.</p> <p>(e) Costs of Staff Inspection and Management Services assignments quantified.</p>	Management Services, Internal Audit, FMI/Planning Board Secretariat and Office Services are brigaded together under one Grade 5 command. The work programme for the command is agreed jointly, and regular coordination meetings are held. Frequent consultation takes place between the different CIR services on individual projects.
WELSH OFFICE	<p>(a) Value for money target set for the majority of functional commands. New Finance Systems Adviser advising line management on how they can improve their financial systems.</p> <p>(b/c) Further delegation to budget holders being taken forward.</p> <p>(d) Line managers alert to help available from CIR services. Further thought being given to informing outstationed staff.</p> <p>(e) Accepted. Costs and benefits of staff inspection quantified and consideration being given to extending this to other CIR work.</p>	Management Services, Staff Inspection and computer services in the same Division. Economists and Statisticians in a separate Division although under the same Under Secretary. A Steering Group supervises the Department's application of advanced technology. Work programmes of CIR services to be exchanged.

	RECOMMENDATION 3	RECOMMENDATION 4	RECOMMENDATION 5	RECOMMENDATION
PSA	Internal Audit has been retained as an independent function but close formal links with other CIR services have been established to coordinate planning.	(a) Accepted in principle. except those in audit and functional specialisms, have only been engaged on CIR work for less than two years.	Pilot system of budgetary control being trialled in three organisational units will be manually based but the experience gained will enable the requirements of the computer assisted system to be determined. The management support group will be involved in developing the full system.	All CIR work programmes are coordinated by the top management secretariat and approved by the Executive Board. Current investigations are concentrating on the fundamental problems facing the Agency.
RM	Internal Auditors are external commercial accountants.	(a/b) Accepted.	Resource control by budget already implemented.	Accepted.
SO	Internal Audit separate. Coordination with CIR units to be improved.	(a) Accepted although flexibility will need to be retained in cases where extensive or expensive training was involved. (b) Accepted.	Support for line management during the transitional period before the implementation of resource control by budget, will be supplied by the Financial Management Review Team working in tandem with the Central Budget Unit and from an augmented departmental training effort. CIR services have contributed to designing budgetary control systems.	Work programmes of CIR units approved by senior management group.
DTI	Internal Audit separate. Arrangements made to improve cooperation with other CIR services by consultation on work programmes and liaison on assignment work. Arrangements to be reviewed in 1987/88.	(a/b) Accepted as a general guideline.	Work on the shift to budgetary control will have a high priority for the Management Support Group but it also has a heavy continuing work programme on other relevant tasks.	Staff Inspection, Internal Audit and the major elements of Management Services work programmes are submitted to the Resource Management Group. RMG satisfies itself that CIR resources use corresponds with departmental priorities and reflects top management's wishes and needs.
DTp	Internal Audit is a separate independent function reporting to the Permanent Secretaries' Audit Committee. Instone Report has made recommendations for closer cooperation with CIR.	(a/b) Accepted in principle. Already departmental practice subject only to the need to retain a cadre of 'semi-specialist' skills such as operational research and computer support services.	Development of budgetary control, management accounting systems and other management information systems will continue to be the main priority of all Divisions concerned with the implementation of the FMI. In time a consultancy role will develop for those Divisions not currently providing such a service through their CIR duties.	Senior management approve annual work programme for inspection and concern themselves with the strategic deployment of consultancy services. Senior management currently considering how to more systematically review use of consultancy and management use of the services. Accept that senior management should concentrate on problem areas of wide significance.
HMT	Internal Audit is an independent function grouped with other CIR services. It has an independent reporting line to the PEFO and the Accounting Officers, which is reinforced by the presentation of an Annual Report to top management.	(a/b) Present practice.	The establishment of the budgeting is a major task of the Planning Board Secretary (although the other Principal commands have also been involved). Other CIR staff are mainly involved in providing advice to line managers so that they have the support they need as their budgeting responsibilities develop.	The work programme for CIR services systems is approved by senior management.
WO	Internal Audit separate. Improved arrangements for cooperation with other CIR services. Prospective work programme and reports exchanged.	(a) Accepted as a general guide but flexibility is necessary. (b) Accepted.	Shift to resource control by budget will be a main preoccupation of both Finance and Establishments Groups over the next few years, including newly appointed Finance Systems Adviser and an accountant to be recruited shortly. CIR services will provide help as necessary.	Senior management approval of work programme being extended to cover Management Services as well as Staff Inspection.

MAIN CENTRAL CIR SERVICES

<u>Service</u>	<u>Staff (exc. clerical support)</u>	<u>1985-86 budget</u> <u>£'000</u>	<u>Results</u>
<u>Staff Inspection</u>			
The Staff Inspection and Evaluation Division of the Treasury (SIED) pre-scribes and advises on policy and techniques of staff inspection and work measurement (including productivity and efficiency schemes). It provides a fieldforce in support of Expenditure Divisions' running costs control responsibilities. For each Department, there is also a nominated specialist who provides advice to and monitors performance of the departmental inspectorate by taking regular part in the inspection programme. In addition, SIED trains departments' staff inspectors.	28	526	The majority of assignments are selected by Expenditure Divisions to support their responsibilities for scrutiny of departmental running costs, including manpower. Outputs are included in departmental inspection figures. Other outputs for sponsors cannot command numeric values. To a degree, the service-wide staff inspection performance figures are relevant, although SIED has no direct control over these. Departmental staff inspectors attendance of SIED courses is monitored.
<u>Management Services</u>			
The Management and Efficiency Group of the Cabinet Office (MPO) is concerned with promoting best management practices throughout the Civil Service with emphasis on the most economic and efficient use of resources.			
ME1 leads multi-departmental reviews using the scrutiny techniques and monitors the action taken after reviews have been approved. It is also responsible for policy and practice on certain incentives to improve efficiency; departmental staff suggestion schemes; awards to inventors; and group incentive schemes; and on the Government's dispersal programme and location of Government work.	8	287	
ME2(C) is responsible for policy and practice on information management, management services and employment of management consultants. It undertakes reviews of activities common to several Government departments and disseminates guidance on good management practices on a wide range of subjects such as stores and stockholding, the management of office services, and record management. It also aims to develop the capacity to undertake consultancy work in support of central initiatives both at the centre and in departments.	20	643	
<u>Management Accountancy</u>			
The Management Accountancy Advisory Branch (part of the Accountancy Finance and Audit Division of the Treasury-AFA) advises Expenditure Divisions and operating departments on the development of accountancy systems, the use of costing and accountancy techniques and how these can help the management control process. It focuses particularly on the development of management accounting and budgetary control. AFA also produces the guide on fees and charges and the ready reckoner for staff and other costs.	12	225	The development of budgetary control systems in departments has resulted in a growing demand for advice and assistance, both from Departments and from Expenditure Divisions in the Treasury.
AFA (MPO), an out-post of the Treasury AFA Division, provides accountancy support and advice to the ME Group and to MPO as a whole.	2	80	The cost of work done on different activities for different customers is measured. The benefits are hard to quantify but indicators of the value of management accountants' contribution include the comprehensiveness of budgets and the improvement of financial results on fees and charges.
<u>Internal Audit</u>			
The Internal Audit Development Branch of AFA is responsible for the development of internal audit in departments. It provides advice and assistance on procedures, practice and structure and coordinates the activities of tuition and training. The Branch produces the Government Internal Audit Manual.	12	269	The Branch is still working under a 5 year plan, set up in March 1981 after a critical PAC hearing on internal audit. A number of tasks are identified within the whole programme which are picked up in time budgets set annually on the basis of work left to be done. There are also programmes of continuous review of both performance of departmental internal audit units and the delivery of internal audit training. The ultimate measure of performance will be contained in the NAO's report to PAC at the conclusion of its 1986 review of Internal Audit in the Civil Service.

<u>Service</u>	<u>Staff (exc. clerical support)</u>	<u>1985/86 budget</u> <u>£'000</u>	<u>Results</u>
<u>Information Technology</u>			
<p>The Departmental and Project Support Division of the Central Computer and Telecommunications Agency (CCTA) supports departments in formulating technology strategies and in carrying through specific IT projects and advises Treasury Expenditure Divisions that have responsibilities for approving IT expenditure. It includes also CCTA's Systems Consultancy Service which aims to provide intensive high-level, mainly short-duration consultancy to departments.</p>	<p>89 (+ 8 external consultants)</p>	<p>3,500</p>	<p>Participation in departments' strategic planning focusses the breadth of CCTA's experience on the planning process. Managed progressive reductions of project-specific support is planned. 33 consultancy studies were completed in 1984 of which 17 addressed aspects of departmental strategy, 10 were high-level feasibility studies and the remainder management and technical reviews. This level of activity will be maintained at about 35 assignments per year.</p>
<p>The small Systems Unit of Information Engineering Division provides a bespoke microcomputer systems implementation service to departments</p>	<p>26</p>	<p>500</p>	<p>IT bespoke systems implemented 1984-85. Costs recovered from departments on a fixed price basis.</p>
<u>Operational Research</u>			
<p>The Operational Research Division of the Treasury is primarily concerned with providing OR advice within the Treasury. Its main work for Departments is the dissemination of ideas on output measures, performance indicators and related matters.</p>	<p>9</p>	<p>226</p>	<p>The output of the OR division is constantly under review, via work planning meetings with customers, and through occasional value-for-money audits of its own output. The final output is mainly increased value for money in the spending departments.</p>





5/11/13

10 DOWNING STREET

CP

at file
Pt 17.

Could I see entire papers, if I.

The top minutes should
also be copied to
Mark Over.

MCA 3/12

Mark,

These are the only
recent papers I can find -
they do not seem too
relevant I'm afraid - on
part 17.

JF

3/12



SRWALS

10 DOWNING STREET

From the Principal Private Secretary

1 December 1985

VALUE FOR MONEY

Michael Stark's letter of 18 November to you reminded Departments that all policy proposals with value for money implications in Cabinet and Cabinet Committee papers should (unless it has been agreed with the Treasury that the circumstances are exceptional) state what is to be achieved, by when, at what cost and how it is to be measured.

The Prime Minister has asked me to emphasise the importance she attaches to these instructions. She also attaches importance to Departments complying with the other instructions in paragraph 1.4 of the Handbook for Cabinet Documents Officers, especially the requirement that Cabinet and Cabinet Committee papers should be discussed in advance with the Treasury and the results of those discussions, including the best possible estimate of costs, should be indicated in the paper. These requirements in the Handbook should be read as applying equally to papers put to informal collective Ministerial meetings.

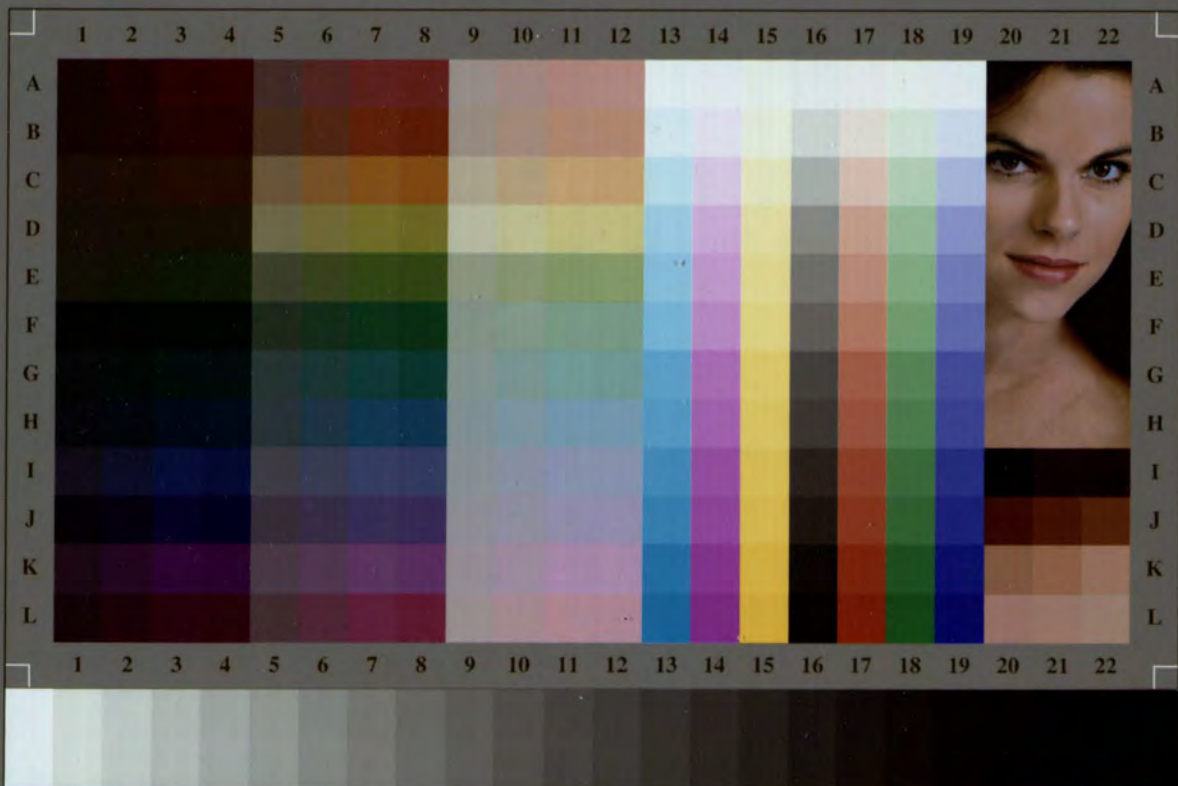
I am sending copies of this letter to the Private Secretaries to members of the Cabinet, the Minister of State, Privy Council Office and the Minister for Overseas Development, Sir Robert Armstrong and Sir Robin Ibbs.

(N. L. WICKS)

Miss Joan MacNaughton,
Lord President's Office.

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