PREM 19/2044

MT

33/88 PART TWO

Confidential Filing

PSA Restructuring.

Wardale Enquiry.

CIVIL SERVICE

Part 1: July 1982

Part 2: February 1986

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
~~7.2.86~~		~~12/2/88~~					
~~10.2.86~~		~~15/2/88~~					
~~11.2.86~~		19.2.88					
~~28.2.86~~		PT 2 ENDS					
~~5.3.86~~							
~~7.3.86~~							
~~18.3.86~~							
~~29.10.86~~							
~~7.11.86~~							
~~10.11.86~~							
~~14.11.86~~							
~~17.11.86~~							
~~1.12.86~~							
~~19.12.86~~							
~~20.2.87~~							
~~26.3.87~~							
~~24.4.87~~							
~~6.5.87~~							
~~13.5.87~~							
~~24.6.87~~							
~~26.6.87~~							
~~10.7.87~~							
~~17.7.87~~							
~~20.7.87~~							
~~23.7.87~~							
28.7.87							

PREM 19/2044

PART 2 ends:-

NLW to DOE. 19.2.88

PART 3 begins:-

FCRB to NLW 4.3.88

MANAGEMENT IN CONFIDENCE

VC

10 DOWNING STREET

LONDON SW1A 2AA

From the Principal Private Secretary

19 February 1988

Dear Roger,

FUTURE OF THE PSA: DEFENCE ESTATE

The Prime Minister has now considered Sir Robin Butler's minute of 31 December and the attached High Level Working Group report, and his further minute of 9 February. She is inclined to accept the approach of an untied PSA trading fund set out in paragraph 18(b) of Sir Robin's earlier minute, coupled with a more intensive programme to contract out internal PSA functions and rapid progress to untie the great bulk of PSA's work by April 1990.

The Prime Minister would like to discuss the ways of carrying this approach forward with your Secretary of State, the Secretary of State for Defence, and the Chief Secretary, and we shall be making arrangements for a meeting in the near future.

I am sending copies of this letter to the Private Secretaries to the Secretary of State for Defence, the Chief Secretary and Sir Robin Butler.

Yours sincerely,

Nigel Wicks

N.L. WICKS

Roger Bright, Esq.,
Department of the Environment.

6

MANAGEMENT IN CONFIDENCE

Prime Minister

Agree I should write to Mr Ridley's PS, and to Mr Younger's and the CSTs, on the lines of the draft attached?

N.L.W.

15.2

Ref. A088/598

MR WICKS

Yes

Future of the PSA

In your minute of 15 February, you recorded the Prime Minister's view that Mr Younger should be present at the proposed meeting with Mr Ridley and the Chief Secretary.

2. This has the advantages you record, but I think it would be as well for you to issue a short minute in advance indicating the Prime Minister's thinking. Otherwise there is a risk, if both main protagonists are invited, that they will put a lot of unproductive effort into getting themselves briefed on the original issue of transferring to the Ministry of Defence the PSA's responsibility for defence works.

--- 3. I therefore attach a short draft minute which, if the Prime Minister agrees, you might circulate: the note of the proposed meeting can be used to sweep up other points which will need to be resolved.

4. I will provide further advice on the specific points raised by the Prime Minister in your minute of 15 February before the meeting with Mr Ridley and Mr Younger, along with an aide memoire of points for the Prime Minister to cover at the meeting.

R.R.B.

ROBIN BUTLER

18 February 1988

MANAGEMENT - IN CONFIDENCE

CONFIDENTIAL

DRAFT

PS/MR RIDLEY

FUTURE OF THE PSA: DEFENCE ESTATE

The Prime Minister has now considered Sir Robin Butler's minute of 31 December and the attached High Level Working Group report, and his further minute of 9 February. She is inclined to accept the approach of an untied PSA trading fund set out in paragraph 18(b) of Sir Robin's earlier minute, coupled with a more intensive programme to contract out internal PSA functions and rapid progress to untie the great bulk of PSA's work by April 1990.

The Prime Minister would like to discuss the ways of carrying this approach forward with your Secretary of State, the Secretary of State for Defence, and the Chief Secretary, and we shall be making arrangements for a meeting in the near future.

I am sending copies of this letter to Brian Hawtin, Jill Rutter and Trevor Woolley

N L WICKS

Civil Service. PSA Restrictions
P. 2

File PUMARP

10 DOWNING STREET

LONDON SW1A 2AA

From the Principal Private Secretary

SIR ROBIN BUTLER

FUTURE OF THE PSA

I have shown the Prime Minister your two minutes of 9 February about the future of the PSA.

The Prime Minister is inclined to accept the approach in your uncirculated minute (ref: A088/466). She assumes that if the great bulk of PSA work is untied;

(i) PSA would contract in size if it did not get business;

(ii) there would be a mechanism to ensure that departments do take advantage of untying and seek private tenders.

The Prime Minister has noted from paragraph 4 of the minute circulated to other Ministers that not all the major client departments are intending to take advantage of the untying procedures already agreed for major civil works. She would be interested to know the departments referred to in that paragraph; and why they are not intending to market test some of their major new works scheduled for 1988/89.

I think that the way is now open for the Prime Minister to discuss the approach, summarised in paragraph 10 of your uncirculated minute, with Mr. Ridley and the Chief Secretary. She believes that there will be an advantage in having Mr. Younger present for that discussion too. His department is the PSA's major contractor and his presence at the meeting should enable us finally to resolve the outstanding disagreement between MOD and the PSA on Ministerial responsibility for the defence estate.

If your office could confirm that there would be no difficulty about inviting Mr. Younger to this meeting, we will arrange the discussion. I know that the Prime Minister would find it helpful to have the aid memoire of the points to make in such a talk, which you promised in paragraph 11 of your uncirculated minute.

I am not circulating this minute to the interested Ministers.

N. L. WICKS
15 February 1988

MANAGEMENT IN CONFIDENCE

PRIME MINISTER

FUTURE OF THE PSA: DEFENCE ESTATE

Late last year Robin Butler sent you a report about the disagreement between MOD and the PSA/Treasury on Ministerial responsibility for the defence estate. Essentially:

> MOD wanted all PSA work on the defence estate transferred to themselves;
>
> PSA wanted the creation of a PSA Trading Fund for both civil and defence work, with departments "untied", (i.e. free to use private sector contractors) from the PSA.

You asked Robin to consider a more direct approach for reducing the size of the PSA. You drew the analogy between PSA and local authority Direct Labour Organisations (DLOs). For DLOs the Government's objective was clear: the maximum privatisation and contractorisation necessary to improve efficiency.

Why could the same approach not be undertaken for the PSA? You recognised that the effect of the "untying" arrangements, favoured by the PSA, might in due course be to bring about the objective. But that approach would take time and be uncertain in its results. You wondered whether there was not a more direct way forward. This would be to give PSA, and perhaps departments, a timetable for privatisation and contractorisation for reducing the volume of its business and its staff numbers over the next few years. You asked Robin to do two things:

(a) to provide information on departments' plans to untie their PSA work in the next two years.

(b) to advise on whether there was a more direct way of transferring PSA work to the private sector.

His minute at flag A answers the first question. The essential point is in paragraph 6 - present plans for untying can have only a limited impact on PSA's workload over the next two years because they apply solely to major new works on the civil estate, which accounts for only 12 per cent of PSA business (the 70 per cent of PSA work for the defence estate is excluded pending resolution of the machinery of Government point described in the first paragraph above).

The minute at flag B answers the second question. Robin recommends a twin-pronged approach:

- further contracting-out of internal PSA functions, notably the Direct Labour Force and Design Work, coupled with a rapid programme to take the proportion of PSA work untied from 12 per cent to 95 per cent over two years to April 1990.

Although this route has its difficulties (especially if it involves changing the no compulsory redundancies policy), I think it is the right one. Certainly we could be more direct by decreeing that by 1990, PSA must not only untie its work, but actually stop offering the services concerned. But this could result - or so it would be argued - in higher costs to departments in those cases, where PSA could provide more cost-effective services than the private sector. It seems better, and fairer, at least to give the PSA an opportunity to compete with the private sector provided:

(a) PSA contracts in size if it does not get the business; and

(b) there is a mechanism to ensure that departments do take advantage of untying and seek private tenders (NB from paragraph 4 at flag A that not all the major client departments are intending to take advantage of untying already agreed for major civil works.)

Robin suggests, and I agree, that you should discuss the two-pronged approach with Mr. Ridley and the Chief Secretary. If Mr. Ridley agrees to this approach, you would then need to speak to Mr. Younger to explain that you had decided that PSA should retain the work on the defence estate; that that work should be untied; and that MOD would have therefore the option of using the private sector instead of the PSA. (It might be possible to do all this in one meeting, rather than two.)

Agree to proceed in this way?

N.L.W.

Yes - I think he should include George Younger in the talks.

N. L. WICKS

12 February 1988

PMMARN

Ref. A088/466

MR WICKS

Future of the PSA: Defence Estate

You sent me two minutes on 15 January seeking further advice on aspects of this issue. In a parallel minute to this, copied to Departments, I have responded to the question on the pace of untying. In this minute, I attempt to deal with the Prime Minister's request for advice on the broader question of the possibilities for a more direct approach to reducing the size of the PSA (currently just under 24,500 staff: it was 35,200 in 1979, so there has already been a reduction of some 30 per cent).

2. The Prime Minister drew an analogy between the PSA and local authority Direct Labour Organisations (DLO), and that similar policies should therefore be followed. This analogy is a good one for a part of PSA activity, the Directly Employed Labour force (DEL) which carries out maintenance work (and some related activities) on the civil and defence estates. Proportionately, the DEL has in fact been run down in size much more rapidly than local authority DLOs since 1979. Between 1979 and 1986, the number of DLOs fell from 532 to 520, and between 1980 and 1986 the number of employees fell by 25 per cent (from 157,000 to 117,000). The numbers employed by the PSA's DEL fell by 54 per cent (from 18,200 to 9,900) between 1979 and 1987, and is continuing to fall.

3. However the DEL, which costs some £90m per year, accounts for only a small part of the resources controlled or managed by the PSA. The major part of their work is the design and management of new construction; management of maintenance; and managing the Government's property estate. The table at Annex A

FRBACP

gives a fuller breakdown, but it is worth noting that a high proportion of PSA's business is already contracted out (£2,497 m out of £2,90lm, or £1,989m out of £2,387m if rents and similar charges are excluded):

- 100 per cent of new construction work is contracted out to the private sector;

- 85 per cent of UK maintenance work is similarly contracted out (the DEL accounts for the other 15 per cent);

- 65 per cent of design and management of major new works is contracted out (PSA do the other 35 per cent in-house, and a higher proportion on minor new works).

Nonetheless, PSA's in-house resource costs will still total some £404 m in 1987/88.

4. This suggests that a strategy for further privatisation/ contractorisation to improve efficiency might fall into three parts.

5. First, it should be possible to run down the DEL still further consistently with achieving better value for money. The two main issues to be tackled here are:

i. on the defence side, the minimum numbers which need to be retained to maintain service establishments in case of Transition to War (TTW). This depends on an as yet incomplete MOD assessment;

ii. on the civil side, whether the pace of run down should remain subject to the present Ministerial policy of no compulsory redundancies (except in exceptional circumstances).

FRBACP

6. Second, I see no magic in the present PSA/private sector split on management and (more especially) design of new works. While the PSA believe that their ability to recruit and retain potential project management staff, and to achieve value for money in the management of projects, is enhanced by in-house design capability, I think it would be reasonable to ask the Secretary of State for Environment to explore the scope for increased contracting out of design work for both major and minor new works.

7. Third, there is the scope for contracting out entire projects (new works or maintenance), including their management. This in practice means client Departments by-passing PSA altogether, and is what untying permits for the first time. But in this field, once the basis and date for untying is set, responsibility rests with client Departments, not with PSA (except insofar as PSA's competitive performance will influence the outcome case by case). In particular, client Departments are only now beginning to get into a position to take over from PSA the role of 'intelligent customers', and a one-sided rundown of PSA capability would jeopardise the ability of client Departments to achieve their building and maintenance programmes to time and cost.

8. In this third area, untying is the key to reducing client Departments' dependence on the PSA, even though it will take several years for the full benefits to be seen. I recommend that we should press ahead as quickly as possible to extend the principle of untying across a much wider range of PSA's activities. As my other minute sets out in more detail, the decision to untie major new works on the civil estate announced last July affects no more than 12 per cent of PSA's total business. The PSA believe that it should be possible to untie the great bulk of their business by 1 April 1990, though this will require agreement with client Departments, internal restructuring and new IT systems. This is a tight schedule, but

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I recommend that we should aim to have at least 95 per cent of PSA's activities untied from 1 April 1990.

9. Achievement of this objective will however need an early decision on the machinery of government issue set out in my minute of 31 December, since almost 70 per cent of PSA's work is on the defence estate. The stalemate between PSA and MOD has frozen discussion on untying and related issues for more than a year, and no serious discussion between the two Departments on the practicalities will occur until it is resolved. While either of the machinery options (a PSA trading fund or transfer to MOD) should give better value for money, I believe that the present allocation of responsibilities - ie no major transfer to the MOD - is preferable for the reasons set out in my earlier minute.

10. To summarise, I recommend a twin-pronged approach: further contracting out of internal PSA functions (notably the DEL and design work), coupled with a rapid programme to take the proportion of PSA's work untied from 12 per cent to 95 per cent over the two years to April 1990. This should lead to a significant proportion of client Departments' business being placed directly with the private sector in the early 1990s: the precise proportion will depend on the strength of PSA's competitive response. PSA would be put on a more commercial footing as a trading fund, and should either become a candidate for eventual privatisation or wither away if its performance is inadequate.

11. If the Prime Minister accepts this approach, the next step would be for her to discuss it informally with Mr Ridley and perhaps the Chief Secretary. I could provide an aid memoire of points to make in such a talk. She might also want to see

FRBACP

Mr Younger before issuing a formal response to my minute of 31 December (the draft attached to that minute would need some adjustment to reflect a greater emphasis on contracting out).

12. I am not sending copies of this minute to the recipients of my other minute.

F.R.B.

ROBIN BUTLER

9 February 1988

FRBACP

ANNEX A

PSA ACTIVITY: IN HOUSE AND PRIVATE SECTOR: 1987/88 (FORECAST)

BUSINESS	PSA IN-HOUSE COSTS		EXPENDITURE IN THE PRIVATE SECTOR		TOTAL	
	£M	(%)	£M	(%)	£M	(%)
Design and Management of all new construction[a]	144	(5)	135	(5)	279	(10)
Construction Expenditure	-		1136	(39)	1136	(39)
Management of Maintenance	137	(5)	32	(1)	169	(6)
Maintenance Expenditure	91[b]	(3)	684	(24)	775	(27)
Estate Management	26	(1)	2	(-)	28	(1)
Rents, Service Charges and Defence Lands etc	6	(-)	508[c]	(17)	514[d]	(17)
TOTAL	404	(14)	2497	(86)	2901	(100)

Notes

a. These figures relate to all new construction. As far, however, as design and management of major new construction work is concerned, the ratio of in-house work to that handled by private sector consultants is 35%:65%.

b. This figure is accounted for entirely by the cost of PSA's Directly Employed Labour (DEL) force.

c. Includes £104M expenditure on rents in the UK and overseas which is accounted for directly on MOD Vote 1.2.

d. £179M receipts from disposals and other transactions on the Civil & Defence estates are excluded. PSA activity is thus based on expenditure.

Ref. A088/465

MR WICKS

Future of the PSA: Defence Estate

Your minute of 15 January sought advice on Departments' plans to untie their PSA work in the next two years.

2. Civil Departments will begin the move to untying from 1 April 1988 for major new works within the framework set out in the Chief Secretary's statement last July (copy attached). Civil Departments will also meet the costs of projects from their own votes from the same date.

3. Untying and the introduction of competition should improve the value for money achieved by client Departments soon after its introduction. The full benefits will probably not be achieved until PSA has become a trading fund based on full commercial accounts. Until then, normal vote accounting arrangements mean that client Departments will have to meet PSA's actual costs: efficiency gains will therefore depend both on PSA's response to direct commercial pressure and on its ability to deliver its service to Departments to time and budget in the knowledge that poor performance would provide Departments with legitimate reason to take future business elsewhere. PSA are already reviewing their overall costs as part of their effort to meet the competition which will result from untying.

4. Now that the rules for Civil Departments are settled, the pace at which untying proceeds will be determined primarily by Departments (who have financial responsibility) not by PSA. Departments are recruiting qualified project sponsors (sometimes in the form of consultants) to represent their client interest as the essential first step before they can make a start on

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testing the market for alternatives to PSA. At this stage, Departments' plans are inevitably tentative but the indications are that most (though not all) of the major client Departments intend to market test some of their major new works whose planning is scheduled for 1988/89.

We need to know what don't.

5. What cannot be assessed at this stage is (a) the proportion of the work put out to alternative bids which will eventually be placed with the PSA; or (b) the proportion on which Departments will not invite bids from PSA in the first place. It can be expected that client Departments will place a significant proportion of market tested business away from the PSA when it appears cost effective to do so.

6. However, last summer's decision can only have a limited impact on PSA's workload over the next two years. Major new works on the civil estate - the category concerned - account for only 12 per cent of PSA's business (NB: the 70 per cent of PSA's work represented by the defence estate is excluded entirely pending the Prime Minister's decision on the Machinery of Government issue). The volume of business lost to PSA will clearly be a good deal smaller than that, partly for the reasons set out in paragraphs 4 and 5, and partly because much of the 1988-89 work represents projects already in progress and unaffected by the decision on untying. However, the impact on attitudes should be substantial, and the impact on volumes is likely to increase as time goes on.

7. The PSA are, however, fully prepared to expose themselves to direct competition over a wider range of their business. On the civil side, the PSA believe that the aim should be to untie their other activities, as well as major new works, by April 1990, though this would need an early decision on the respective responsibilities of PSA and client Departments in the light of proposals by Deloittes for a PSA trading fund; it would also require detailed preparation within PSA (including progress on a

FRBACO

new IT strategy) and client Departments. On the defence estate, if the Prime Minister were to decide against the transfer option, the MOD would wish to make a start with untying, covering both maintenance and new works, as soon as possible. Implementation could begin from 1 April 1989 subject to definition of the detailed arrangements; this was discussed in paragraphs 6 and 8 of my minute of 31 December.

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

F.R.B.

ROBIN BUTLER

9 February 1988

FRBACO

NATIONAL FINANCE

Tax Evasion

Mr. Chris Smith asked the Chancellor of the Exchequer what is his estimate of the total loss of tax revenue through evasion and or fraudulent returns in relation to payment of (i) income tax, (ii) national insurance contributions, (iii) corporation tax, (iv) capital transfer tax and (v) value added tax.

Mr. Norman Lamont: I regret that reliable estimates are not possible.

Inland Revenue

Mr. Sackville asked the Chancellor of the Exchequer if he will make a statement about the Inland Revenue's plan to move work out of London.

Mr. Norman Lamont: The Department has considered a number of proposals to reduce resignations of inspectors of taxes. One of the major reasons for resignations which it has identified is the generally unwelcome nature of a transfer to London. It has therefore decided to move from London to a number of cities elsewhere, over the period 1987 to 1991, 21 tax districts dealing with some of the largest commercial and industrial concerns; some head office sections responsible for training and technical and investigation work including half of the London special office and inquiry branch posts. A total of about 185 posts at higher levels and about 125 at lower levels will be involved. Suitable accommodation is being sought in Glasgow, Manchester, Liverpool, Leeds, Birmingham and Bristol. The Department will ensure that any inconvenience to companies and their advisers will be kept to a minimum. I recognise and accept the reasons underlying these proposals and I support the plans and hope that they will succeed in their aim.

Property Services Agency

Dr. Twinn asked the Chancellor of the Exchequer whether any changes are proposed in the financial and accounting responsibilities of the Property Services Agency and client departments for new civil works projects.

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

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

These changes are part of a continuing process which is designed to clarify the respective responsibilities of client and agent to ensure completion of projects to time and within budget. The introduction of payment will improve the incentive for the client Department to ensure, for example, that late and potentially expensive changes to specification are avoided. The introduction of competition, by untying Departments from PSA, will provide an opportunity for Departments to test other sources of supply as well as an incentive for further improvement of the efficiency of services provided by PSA.

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

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

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

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

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

PSA intends to move to a system of commercial accounting as soon as possible. When it does, PSA will be able to provide advance quotations on a comparable basis to those of outside agencies. In the interim it will be necessary for Departments to base their comparisons on the best estimates PSA can provide.

These arrangements will be reviewed in two years' time.

The Government will take account of this reply in their response to the Select Committee on the Environment, whose report earlier this year on PSA recommended charging on a repayment basis and untying of Departments for some of the functions carried out by PSA.

Cash Limits

Mr. Marland asked the Chancellor of the Exchequer if he will give revised cash limits for 1987-88 resulting from the carry forward of capital underspends allowed under the end-year flexibility scheme for central Government and for local authority expenditure.

Mr. Major: A list of revised cash limits totalling £458·1 million is shown in the following table. The increases in cash limits on central Government votes are subject to parliamentary approval of the necessary Supplement Estimates.

FLE

ECL

SUBJECT
cc MASTER

10 DOWNING STREET

LONDON SW1A 2AA

From the Principal Private Secretary

SIR ROBIN BUTLER

FUTURE OF THE PSA: DEFENCE ESTATES

I have sent you a minute today, copied to interested departments, regarding the Prime Minister's wish to have information about departments' intentions regarding untying PSA work.

As the Prime Minister indicated this morning, she would also wish to have advice from you on the possibilities of taking a more direct approach to reduce the size of the PSA. She believes that the PSA is analogous, in many ways, to a Local Authority Direct Labour Organisation (DLO). The Government's objective for such DLOs is clear: the maximum privatisation and contractorisation necessary to improve efficiency. She cannot see why the same approach should not be taken with the PSA. She recognises that the effect of the "untying" arrangements might, in due course, be to bring about that objective. But that approach would take time and be uncertain in its result. She wonders whether there is not a more direct way forward. This would be to give PSA, and perhaps departments, a timetable for privatisation and contractorisation of its work, perhaps by giving the Agency targets for reducing the volume of its business and its staff numbers over the next few years.

BFH

The Prime Minister would be grateful if you would consider this approach and let her have advice.

I am not sending copies of this minute to the recipients of my other minute.

N.L.W.

N.L. WICKS

15 January 1988

MANAGEMENT IN CONFIDENCE - CONFIDENTIAL

FILE

SUBJECT

cc MASTER

10 DOWNING STREET

LONDON SW1A 2AA

From the Principal Private Secretary

SIR ROBIN BUTLER

FUTURE OF THE PSA: DEFENCE ESTATES

The Prime Minister discussed with you this morning your minute of 31 December about the study commissioned by the Secretaries of State for Defence and the Environment on PSA's defence work.

The Prime Minister has noted that Ministers differ on the options described in your minute. She is not yet ready to decide how to pursue the consideration of the options described in your minute. As a first step, she would like to have information on departments' plans to untie their PSA work in the next two years. This would give an indication of the likely growth in the work of the PSA in the period immediately ahead. I should be grateful if you could let the Prime Minister have further advice.

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

N.L.W.

N.L. WICKS

15 January 1988

MANAGEMENT IN CONFIDENCE - CONFIDENTIAL

AB/tosee. PDB 15/1
I have marked

PRIME MINISTER

We must have a meeting of FERB with Younger & Ridley present to discuss it this evening. We must get some collective advice

Robin Butler's two minutes below record a difference of view between Mr. Younger and Mr. Ridley about the future of PSA's responsibilities for defence estates. Mr. Younger wants these responsibilities transferred to MOD. Mr. Ridley wants them retained in PSA in an "untied Trading Fund". Robin Butler recommends in favour of Mr. Ridley's "untied Trading Fund" option. Mr. Younger has asked for a meeting if you are inclined to find against him; Mr. Ridley would no doubt want one if you were to find for Mr. Younger.

Agree a meeting? Yes

Of the papers below, you need read in detail Robin's minute at Flag A and skim his minute at Flag B. No need to read the detailed report at Flag C.

N.L.W.

N. L. WICKS
4 January 1988

Whatever are PSA doing with so many staff? Is this the kind of thing which we are considering in L.R.'s ? May we have a word? Next

Ref. A087/3702

PRIME MINISTER

Future of the PSA: Defence Estate

The Secretary of State for the Environment minuted you on 20 March about a study he and the Secretary of State for Defence had commissioned of PSA's defence work, to consider two options:

i. the 'Trading Fund' option - the creation of a PSA Trading Fund for both civil and defence work, with departments untied from PSA (favoured by the PSA); or

ii. the 'transfer' option - the transfer of all PSA work on the defence estate to MOD (favoured by the MOD).

--- The study is now complete (copy attached), though it has proved very difficult to establish agreement on the costs and benefits of the two options, or on the likely timescale for implementation. The study has been discussed by Mr Ridley and Mr Younger, but since they have been unable to agree which option to recommend to you, I have been invited to seek your view.

Present Position

2. MOD is much the largest customer of the PSA, accounting for nearly 70 per cent of its workload, and the financial relationship differs in some respects from that between PSA and civil departments. MOD currently fund all expenditure on the defence estate from the defence budget, but account for vote management only in respect of estate activities (ie acquisitions, disposals and rents - some £157 m in 1987/88.) PSA account for expenditure on new works and maintenance (£1,145 m in 1987/88), consultants employed by PSA (£120 m) and PSA staff

FRBAAL

costs (£130 m plus a further £55 m for Directly Employed Labour - DEL), some £1,450 m in all. Some two-thirds of PSA's UK staff (16,700 out of a total of nearly 25,000) are estimated to be attributable to defence work, plus some 4,700 locally engaged staff overseas. Across the UK, however, almost all of PSA's 180 offices outside headquarters cover civil as well as defence work. PSA contracts out to the private sector all new construction, some 85 per cent of maintenance and some 70 per cent of design work. As well as the balance of the maintenance and design work, PSA provides project management for new works and a variety of estate management services.

Deficiencies against Basic Principles

3. The report notes two general principles which have emerged from work by Sir Robin Ibbs and others on major capital projects in Government generally, and which it is agreed should apply to the defence estate also:

i. 'project ownership' - client departments should 'own' their projects and be responsible for them, whether the work is done in-house or by an agent; and

ii. 'payment and untying' - departments should pay for work done on their projects, be accountable for their decisions as clients, and not be tied to any one supplier (ie PSA) of services (the Chief Secretary announced in July the ways in which payment and untying would be implemented, from 1 April 1988, for major projects on the civil estate; decisions on the defence estate were left open pending the present report).

4. The present position shows a number of deficiencies when viewed against these principles. MOD is not at present in a position to discharge the project owner role, it does not have all the necessary management information and cost control mechanisms, and it is at present tied to PSA for the management

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of defence estate work. The MOD, PSA and Treasury agree that improvements are needed urgently, but have failed to agree on the best way forward. The main options remain the Trading Fund and Transfer options identified when the study was set up.

Trading Fund Option

5. The Trading Fund option would involve no substantive machinery of government changes, though vote accounting for defence work would pass to MOD to enable MOD to 'own' projects; and MOD would need additional specialist staff to help it become an 'intelligent customer' for property services. MOD would then contract out all the operational tasks; either to PSA, which would remain the focus for the provision of property services within Government; or direct to the private sector.

6. A recent Deloittes report on introducing commercial accounts for PSA recommends the creation of a Trading Fund via a staged process; payment and untying might be introduced from April 1989 (this will occur for the civil estate from April 1988), starting with major projects; full commercial accounts for PSA by April 1991 or 1992; and full Trading Fund status by April 1992 or 1993. This would give MOD as customer a steadily increasing flow of management information. MOD nonetheless have strong reservations about introducing for the defence estate the payment and untying arrangements now agreed for the civil estate, particularly in the interim period before a Trading Fund was set up. This is partly because no detailed consideration has yet been given to the means by which maintenance work might be untied; and partly because MOD do not believe that payment and untying in the interim period would give them any greater control than now exists, since MOD would have to repay the PSA costs actually incurred and would not be able to negotiate fixed or firm prices.

7. The report states that some 44 per cent of PSA's defence activities cannot readily be classed as trading, thus raising

the question of whether these activities can be untied and exposed to effective competition. The activities in question are overseas work carried out under agreement with the host Government; work for the US forces in the UK; operational and minor maintenance where security requirements and restricted choice of private sector expertise at present in particular locations inhibit untying; and work (mainly plant operation, store keeping and day to day maintenance) by Directly Employed Labour (DEL), where there is a Ministerial policy of no compulsory redundancies and security is again a constraint. MOD argue that these activities would undermine the concept of a Trading Fund, and should therefore be transferred to MOD even under the Trading Fund option. PSA however argue that this would cause an impractical split of the present pool of specialist resources; that tied activities could be accommodated within a Trading Fund (as at the Royal Mint); and that the practical difficulties associated with untying would be overcome within a reasonable timescale for the bulk of the activities in question. PSA estimate that under 4 per cent of their defence work could not in principle be untied.

8. If non-trading activities were included in a Trading Fund, MOD were concerned that the charges it would face for tied work would be inflated by overheads which PSA had incurred in respect of untied work, but had not been able to charge to such work. The Treasury agreed with PSA that such a risk existed in theory, but that accounting practices and other incentives on PSA could be devised to minimise it in practice. Agreed solutions have not yet been developed, and the MOD remain unconvinced.

Transfer Option

9. Under the Transfer option all PSA work on the defence estate, and an estimated 16,700 UK staff, would transfer to MOD. This transfer might take place on 1 April 1989. The strict confidentiality within which the report was prepared inhibited detailed work:

i. to devise a more precise timetable;
ii. on the necessary separation of defence and civil work, and the associated staff, within PSA;
iii. to devise a structure for the transferred work within MOD; and
iv. to devise a rational and cost-efficient organisation for the remaining PSA (which would be one-third its present size and concerned solely with the civil estate).

10. Subsequently, the MOD has said they would establise a single central property organistion (CPO) for the staff and functions transferred from the PSA under this option. The CPO would take in the existing MOD functions concerned with the defence estate, including the central finance and lands functions and MOD's existing management functions in relation to buildings on the civil estate, thus achieving a simplified management chain. It would have a relationship with the rest of MOD somewhat akin to that of the Procurement Executive, and in particular would operate at arms length from MOD customers, notably the Directorate of Quartering. MOD's intention would remain to privatise or contractorise a high proportion of the work.

11. There is nevertheless uncertainty, and dispute between MOD and PSA, as to how long a period would be required after the actual transfer before any new structure would be fully operational and able effectively to pursue aims such as increased contracting-out.

Assessment

12. The report sets out to assess the two options against three criteria:

i. ability to comply with basic principles of project ownership, payment and untying;

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ii. the likely scale and speed of improvements in performance; and

iii. resource costs and benefits.

13. Broadly, both options appear capable of meeting the basic principles, but there are uncertainties as to the effect in practice. On the Trading Fund option, MOD would have to rely for management information on the new Information Technology system being developed by PSA (in consultation with client departments) and which should come into operation progressively over the next 4-5 years. MOD would be more confident that its needs would be met if it were in the lead, as it would be under the Transfer Option. On the Transfer Option, the Treasury are concerned that internal pressure to retain transferred work in-house could put genuine untying and competition at risk. MOD points to its record of contracting out work in the past (eg contractorisation of dockyard management), to ensure that work will be done in-house only if it cannot be contracted out to the private sector at lower or equal cost.

14. On improvements in efficiency, MOD's claims for the Transfer option are at paragraph 41 of the report, and PSA's for the Trading Fund option at paragraph 42. MOD consider that the Transfer Option would deliver benefits, notably of contractorisation, more quickly, and that the interim arrangements pending establishment of a Trading Fund in 1992 or 1993 would be unsatisfactory for the reasons set out in paragraph 6. PSA consider that MOD could contractorise at least as rapidly if they were dealing with an untied PSA as they could with in-house MOD staff. PSA also see considerable benefits arising from exposure to competition during the interim stages towards commercial accounts and a Trading Fund, and note that creating a Trading Fund in 1992 or 1993 would be the final step in that option, whereas a transfer to MOD in 1989 would be only the beginning of a major task in integrating former PSA defence work into MOD.

15. The report gives some estimates of resource costs. The Transfer Option is estimated to involve additional resource costs of some £7m p.a., as a result of continuing diseconomies of scale for PSA's civil estate work (the cost of immediate disruption has not been estimated). Additional resource costs of the Trading Fund option are estimated at some £2m p.a. by PSA and at £5-7m p.a. by MOD (the difference reflecting different views on the number of staff needed to operate the new arrangements and the extent to which increases in MOD would be offset by reductions in PSA). The remit of this study precluded wide consultation or work in the field (where I suspect both the costs and the potential for improved value for money are concentrated), and I suggest you do not put much weight on differences between the present estimates.

16. All departments expect that benefits would accrue from a change in the status quo, to offset these resource costs, but without quantification. The MOD emphasise the benefits under the transfer option of combining full direct control over all defence estate work with full responsibility and accountability which cannot be achieved otherwise; the scope (though this has not been explored in any detail) for reducing duplication, and the potential benefits from contracting-out. With a trading fund, the PSA see benefits arising from their greater exposure to outside competition and maintenance of an arms length relationship with the MOD as customer (as will occur in relation to the civil estate from 1988) and from the move to the internal financial disciplines of a trading fund, all obtainable without the disruption and loss of scale economies associated with the transfer option.

Ministerial Views

17. At a meeting between the Secretaries of State for the Environment and Defence on 17 November, the Defence Secretary firmly favoured the Transfer Option, stressing the scope this would give for greater control at all levels over expenditure on

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defence estate; the elimination of duplication between existing MOD and PSA functions; and the scope for early contractorisation (where the MOD's record was excellent). The Environment Secretary, while admitting he had once favoured a transfer, now believed that a Trading Fund untied from the MOD was the best approach for both the civil and defence estates. A lot of preparatory work had already been done, and he thought it likely that a transfer would simply result in the duplication within MOD of the accounting arrangements now envisaged by the PSA for the civil and defence estates together.

Conclusion

18. The report concludes by noting that MOD continue to favour the Transfer option and PSA the Trading Fund option.

--- Preparation of the attached report has already consumed more time than expected, and continued uncertainty would have drawbacks, notably in further postponing consideration and action on Deloitte's recommendations for developing PSA as a whole, on more commercial lines; in leaving no settled framework for work on PSA's Information Technology system and regional re-organisation; and in delaying the benefits of more contracting out and/or exposure of PSA's defence work to more competition. I therefore see clear merits in an early indication of your views as between:

a. a decision in principle in favour of the transfer option, with 1 April 1989 as the initial target date for implementation. Your final agreement to the transfer then should depend on MOD producing detailed organisational plans within three months, and Ministers agreeing the future responsibilities of civil departments vis a vis a residual civil PSA in the same timescale; or

b. a decision in principle in favour of an untied PSA Trading Fund with, in the interim, early moves to implement the principles of project ownership, payment, and untying

for the defence estate. Officials should report back to you within three months on the detailed arrangements for implementation.

19. I am copying this minute to the Secretaries of State for Defence and for the Environment, and the Chief Secretary, Treasury.

MB Wolley
(Private Secretary)

for F E R BUTLER
(Signed by the Cabinet Secretary dec. and signed in his absence)

31 December 1987

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ARRANGEMENTS FOR HANDLING PSA's DEFENCE WORK:

REPORT OF THE HIGH LEVEL WORKING GROUP

INTRODUCTION

1. The Group was established in February 1987 by the Secretaries of State for Defence and the Environment to look into the question of improving arrangements for handling the PSA's defence work, and to consider in particular, two main options:

a) the creation of a PSA Trading Fund for both civil and defence work, with the PSA untied from its clients

b) the transfer of all PSA defence functions to the MOD.

These options are referred to in this report as the 'trading fund' and 'transfer' options respectively, though the Group subsequently identified two further options (see paragraphs 15 to 17 below).

2. The full terms of reference and the composition of the Group are set out at Annex A.

3. The Group has carried out its work under conditions of strict confidentiality that have precluded wide consultations within the Departments concerned.

BACKGROUND

Defence Estate: Resources and Vote Accounting

4. The Secretary of State for Defence owns the UK Defence Estate, of some 275,000 hectares. A breakdown is at Annex B. MOD also occupy large holdings abroad, principally in Germany, Cyprus, Hong Kong, the Falkland Islands, Gibraltar and Belize. All costs (including PSA's staff costs) are found from the Defence budget and the MOD Accounting Officer is responsible for specifying the requirement for all Works services including

maintenance. Vote Management responsibility, however, is divided. MOD account for defence estates activities, notably acquisitions (some £7M), disposals (almost £70M) and rents (almost £80M). PSA account under Defence Vote 4 for expenditure on new works and maintenance (over £1,200M), and for consultants fees of just over £120M and PSA staff costs of some £130M.*

PSA Functional Responsibilities

5. PSA's main functional responsibilities for defence matters comprise:

a) pre-design and feasibility studies;

b) design (whether in-house or contracted out) and project management of new works;

c) management of maintenance (including the operation of certain types of equipment eg heating installations, industrial power equipment);

d) financial control of projects and maintenance;

e) advice on health and safety requirements, maintenance standards, energy conservation and all technical and all technical matters;

f) implementation of estates policy (eg acquisitions, leases, disposals, and estate management).

6. PSA is also responsible for design, project management and maintenance of all the installations in the UK occupied by US forces (which, for reasons of policy, also form part of the Defence Estate).

Current Organisations

7. The organisations of MOD and PSA for defence activities are depicted at Annex C. MOD has 166 full-time staff on works and estates. The defence share of PSA's staff (excluding locally engaged staff overseas) is equivalent to just over

* The rounded figures in paragraph 4 derive from 1987/88 allocation figures

10,000 professional, technical and administrative staff and just over 6,700 industrial staff (See Annex D). All new construction work, some 85% of maintenance and some 70% of design is carried out by the private sector. PSA staff carry out around 30% of design and 15% of maintenance.

BASIC PRINCIPLES

8. The Group has had regard to certain general principles concerning major capital expenditure projects in Government. These principles were set out in a report from Sir Robin Ibbs and subsequently in two Treasury-led reports. Their development is summarised in Annex E. Their key elements, however, are "project ownership" (the responsibility of client Departments for specification and for securing completion on time and within budget, whoever carries out the actual works); the appointment of a "project sponsor" personally responsible for each project in the client Department and overseeing the project manager in the PSA or elsewhere supervising the actual works; the principle of payment (the responsibility of client Departments for meeting the full costs of individual projects); and the principle of untying (the freedom of client Departments to choose their supplier).

9. Ministers have endorsed the principles of payment and untying for major civil projects, which will be implemented from 1 April 1988. But application to defence projects was deferred until this Group's work had been completed. The Group has in fact considered these particular principles not only in relation to major projects but for the whole range of PSA defence activities (see paragraph 20 below). The extent to which, and the pace at which, the principle of untying can be put into effect across this range is also considered below (see paragraphs 30 to 35).

DESCRIPTION OF MAIN OPTIONS FOR CHANGE

10. Against the background above, the Group has considered four options for change. Two of these are already mentioned in the terms of reference:

a) the transfer of all PSA defence functions to the MOD - the "transfer option";

b) the creation of a PSA Trading Fund for both civil and defence work, with the PSA untied from its clients - the "trading fund option".

The two further options are:

c) PSA providing defence services to MOD on a payment basis, with MOD having the choice of using PSA or alternative agents ("payment and untying without a trading fund");

d) PSA providing defence services to MOD on a payment basis, with MOD obliged to use PSA ("payment alone"). This option, however, failed to meet the basic principle of untying and was therefore discarded at an early stage.

11. The three remaining options are described at paragraphs 12 to 18 below.

Transfer Option

12. Under the transfer option, all PSA's defence related activities, and the associated staff would be transferred to MOD leaving PSA as an organisation devoted exclusively to civil construction and to management of the civil estate. Detailed study would be needed to set a precise timetable for a rapid, but orderly transfer. The Group's working assumption, however, is that, after a decision to transfer defence works, a period of 18 months would be sufficient to implement the necessary organisational changes. A decision to transfer in the autumn of 1987 could thus be implemented on this basis on 1 April 1989. Few problems, except over specialist professional services, are foreseen in identifying for transfer most of the PSA's Headquarters defence functions since these are already largely separate.

13. The main tasks would be to:

a) separate defence and civil work in PSA's UKTO, and devise a sensible organisation for residual civil work;

b) decide how best to integrate defence work into MOD's own management structure.

Trading Fund Option

14. As a basis for moving towards the trading fund option, the Group has studied the report prepared by Deloitte, Haskins and Sells, the consultants commissioned last year to investigate improvements in PSA's accounting arrangements, and hence its performance and value for money to clients. In addition, Deloittes briefed the Group on their findings. These are

summarised at Annex F. Annex G describes the nature and purpose of Trading Funds in general. Within a possible PSA Trading Fund as envisaged by Deloittes, defence activities would be handled, alongside civil activities, under two main business groupings (essentially, design and project management of major capital works on the one hand and minor new works, maintenance and estate services on the other). PSA would carry out services for MOD on a payment basis, quoting prices in advance, with the MOD untied and thus free to commission outside consultants or agents where this would give better value for money. The Group assumed that a PSA trading fund would be set up on a PSBR neutral basis.

15. Deloittes saw the move to a Trading Fund as a staged process involving essential improvement of PSA's management information for internal use and for clients, including MOD. The first step would be for PSA to provide services on a payment basis (but recovering costs) and for MOD to be untied from PSA. The Group has assumed that this stepwould entail the division, described at Annex H, of existing PSA functions into those which would remain with PSA or outside agents and those which would pass to MOD. For the latter, Annex H distinguishes between those functions which MOD would take over as part of their internal management to improve their control as "project sponsors" and those functions which they would take over as an "intelligent customer" in order to deal with evaluation of estimates from, letting of tenders to, and consequential dealings with PSA and outside agents. The Group has also assumed that, in the event of a decision by autumn 1987, this first step towards a trading fund could be taken by 1 April 1989. Thereafter, "coarse" commercial accounts would be introduced by 1989/90, full commercial accounts in 1991/92 and a Trading Fund based on full commercial accounts in 1992 or 1993. PSA current proposals for an IT strategy (see Annex I) have been designed against this timetable.

16. Deloittes did not consider the transfer option in any detail since this was not in their remit.

Payment and Untying without a Trading Fund - Third Option

17. Under the third option of payment and untying without a trading fund, PSA would proceed only as far as carrying out services for MOD on a cost recovery payment basis, and the MOD would be free to commission outside consultants or agents (see paragraph 15 above). It would then be for subsequent decision whether to remain with payment and untying or proceed either to

the transfer option or to a trading fund. PSA's present resource cost system could be used to provide information for a system of payment, as is intended when payment and untying for major civil works projects is introduced on 1 April 1988. But transition to a trading fund would depend on PSA improving its management information systems, as planned in its IT strategy (see paragraph 15 above) to the point where it could offer advance price quotations on a fully commercial basis. Payment and untying without a trading fund, however, would have to be accommodated within a vote accounting régime which would preclude advance quotation and would therefore entail cost recovery as the basis for PSA charges to MOD.

18. As noted at paragraph 15 above, the Group has assumed that payment and untying could be introduced for defence activities on 1 April 1989.

ASSESSMENT CRITERIA

19. The Group has examined these options under three main headings. These are:

a) how far basic principles for handling of major capital projects, and, by extension, other PSA activities (including non-trading activities) would be met;

b) how well and how rapidly each option would contribute towards improved performance, including how effective each option would be in meeting Government policy on contractorisation;

c) resource costs and benefits.

MEETING BASIC PRINCIPLES

20. The Group has assumed that the principles set out in the Ibbs and successor reports should be taken as relevant not only to major capital projects as has been applied on the civil side but also, where appropriate, to the entirety of defence activities ie the principles would be relevant also to minor capital projects, maintenance and estate services. On this assumption, the Group examined how the Ibbs and successor principles would be put into effect under each of the three options.

21. Existing arrangements between MOD and PSA fall short of meeting the Ibbs and successor principles in four main respects.

MOD as Project Owner/Sponsor

22. First, the MOD is not yet equipped to play its full part as a project owner/sponsor. MOD already meet ownership/sponsorship criteria to the extent that they fund the capital costs of defence projects from the Defence Budget, and scrutinise and agree the level of resources and cash funding required by the PSA. Moreover, this role stands to be reinforced by current management initiatives to be developed and implemented over the next few years. These include a budgetary regime whereby MOD managers control their own costs (including building maintenance), different means of exercising strategic management of the estate (including direct use of consultants), and extension of direct use of contractors for smaller maintenance jobs. But even with these management initiatives in place, MOD would not have the responsibility and the resources to discharge their "intelligent customer" role - see again paragraph 15 above and Annex H.

23. The existing gap would be met under all the options by a transfer of functions from PSA, with MOD foreseeing that they would require additional administrative, professional and technical staff in order to discharge their new responsibilities. The precise numbers involved have not yet been assessed (any more than they have in those civil Departments needing additional resources for their ownership/sponsorship role from 1 April 1988 onwards).

24. It should be noted that under the transfer option, all additional MOD resources would be found from staff transferred with the functions from PSA on 1 April 1989. Under the trading fund and third options appropriate PSA administrative staff could be transferred on 1 April 1989, though PSA consider they would in the first instance need to retain their existing professional and technical expertise for the defence services they would continue to carry out (as they expect to do for their civil activities). Staffing would then be reviewed and adjusted in the light of any changes in PSA's workload. In the MOD view, inability to secure PSA professional staff could put at risk the timetable for transfer of functions under the trading fund and third options. The PSA, however, consider that the MOD would need to find the additional resources for themselves in the same way as civil Departments are having to do. The relative timetables, however,

of the various options are considered at paragraphs 46 to 49 below. Timetable considerations apart, the Group noted that under all the options the existing gap in MOD's responsibilities would be made good.

Management Information

25. Secondly, the accurate and timely management information which the MOD will want in order to discharge their owner/sponsor role cannot at present be provided in full because the necessary information systems are not yet in place. Under all the options, such systems would have to be devised and introduced. This would be an MOD responsibility under the transfer option and a PSA responsibility under the trading fund and third options. The MOD argue that the transfer option would permit them to design information systems more closely tailored to MOD needs after transfer had been effected. The PSA on the other hand argue that the plans they have already formulated for an IT strategy, which they would propose to develop in detail in consultation with MOD (and civil clients), would entail speedier implementation of the necessary systems. Leaving aside, however, the relative merits of MOD or PSA taking the lead, the Group noted that all the options required, and could accommodate, the development of improved management information.

Cost Control

26. Thirdly, despite MOD providing the funds for defence projects, the Vote concerned is managed by PSA who also account for the expenditure. So long as PSA remain responsible for controlling and accounting for this expenditure rather than MOD, the MOD have no formal control over expenditure or progress on individual projects except through the blunt instrument of the overall cash limit. Under the transfer option, this difficulty would be removed through MOD taking over complete responsibility. Under the trading fund and third options, the introduction of payment and untying would also satisfy the Ibbs and successor principles by giving MOD direct responsibility for individual projects. The MOD believe that payment on a simple cost recovery basis would still leave them with insufficient financial control but this point is discussed in greater detail at paragraphs 43 to 45 below.

Untying

27. Fourthly, MOD cannot at present exercise a choice, so long as they are tied to PSA, of controlling and managing defence services through agents other than PSA where this would offer

better value for money. The issue that therefore arises is whether all three options would provide the opportunity for untying, as understood in the Ibbs and successor principles. (This leaves for later consideration the further question of which option would set a faster pace for commissioning outside agents in place of PSA ("contractorisation") on value for money grounds as a result of MOD exercising the freedom to untie. See paragraphs 50 to 53 below.

28. The Treasury and PSA foresaw that under the trading fund and third options, the MOD could be expected, once untied, to seek out vigorously agents other than PSA for a range of services. They feared, however, that once transfer had taken place under the transfer option MOD would find themselves ill-placed to resist internal pressures to continue to do work in-house which could readily be contracted out. They believed that MOD would also need to establish a separate unit, at arm's length from the executants of services transferred from the PSA, to carry out an independent role of market testing as between the in-house staff and outside agents. Although it was not yet possible to set out their organisational proposals for integrating former PSA staff after transfer, the provision of an arm's length market testing unit seemingly did not feature in MOD's plans. On this basis, translation in practice of the Ibbs and successor principles on untying was at risk under the transfer option.

29 The MOD, considered that the transfer option would accelerate further contractorisation, and that their record and experience to date (see paragraphs 50 to 53 below) afforded testimony to their capacity to take full advantage of the opportunity to convert untying opportunities into reductions in in-house staff. In these circumstances, the creation of a separate in-house market testing unit would be unnecessary and irrelevant. Whatever the precise organisation established after transfer, MOD believed that an integrated staff and their record gave every reason for confidence that the principle of untying would be implemented in full.

Non-Trading Activities

30. The Group explored the implications for a trading fund of those defence activities which could not be classed as trading operations or operations in the nature of trading. Prima facie, a trading fund would include only those activities in which PSA might trade in competition with the private sector within the two

main business groupings identified by Deloittes (see paragraph 14 above). There are, however, some defence activities at present conducted by PSA which are not trading and where it would be difficult to arrange effective competition. Untying would either be possible in principle, but its extent in practice and its timing would require further study, or else would not be feasible at all. Annex J analyses PSA's various defence activities by expenditure, and brings out that 56% could readily be untied and 44% give rise to practical difficulties, although less than 4% could not in principle be untied. There are four categories where problems would arise: overseas work (notably in Germany and Hong Kong); work for the United States forces in the UK; management and execution of operational and minor maintenance; and work carried out by the Directly Employed Labour Force (DEL).

31. On the first two of these categories, a proportion of work could in any event be expected to pass to the MOD from 1 April 1989 as part of their "intelligent customer" functions of project ownership/sponsorship. Of the remaining work in these categories, the problems to be overcome would be:

a) design and management of new construction overseas and maintenance overseas (20% of PSA's defence expenditure involving some 1300 non-industrial staff). Overseas work is carried out under agreement between the Government abroad and the UK Government (which may be impractical to re-negotiate in Hong Kong, given the withdrawal in 1997).For Germany, PSA's on the spot task largely comprises liaison with the German Construction Administration (GCA) with a view to interpreting design requirements into construction representing value for money; and organisation and planning of maintenance. The step of untying would have to recognise that any private sector managing agent appointed in place of PSA would have to be engaged for a sufficiently long period to avoid disruption and loss of continuity;

b) work for the United States forces in the UK (12% of PSA's defence expenditure). This arises from a Government to Government agreement under which the costs of design, and of management of property and estates services, are shared, but the costs of execution are met in totality by the US Government. This work is therefore in practice carried out on a repayment basis. Untying of this work would require either amendment to the negotiated agreement with US Government whereby an appropriate authority of the UK Government provides works services or MOD taking over the role of appropriate authority from PSA and putting the service in question out to competitive tender.

c. management and execution of operational and minor maintenance (8% of PSA's defence expenditure). Security considerations and lack of private sector expertise to replace District Works Offices in particular locations could hamper rapid untying.

32. The fourth category of DEL work (4% of PSA's defence expenditure) includes just under 1,000 industrial staff engaged on plant operation (eg boiler houses, sewage plants) and some 4,770 on static duties such as store-keeping and on immediate front line maintenance work, including planned maintenance checks, not yet generally carried out by private contractors. The DEL industrial staff supervised by some 130 PSA non-industrial staff. The problems of untying on DEL work are particularly severe and comprise:

a) under present Ministerial policy, compulsory redundancies are not to be enforced in the DEL. With the future natural rate of wastage unpredictable, the scope for replacing the DEL with private contractors cannot be accurately assessed. Timing of untying is therefore uncertain;

b) certain DEL functions which relate to security and transition to war have to be carried out within Government and cannot be untied. The extent of these functions is subject to a separate current review. But the requirements for all three services have not yet been specified with sufficient clarity to enable a measure yet to be devised;

c) staff supervising the DEL would in any event have to remain tied.

33. The Group accepted that there would in practice be difficulties in the path of untying all these categories within a short timescale. The Group drew, however, two different conclusions from their examination. In the MOD view, continued existence of activities for which MOD would have no means of recourse to outside competition would undermine the concept of a trading fund supposedly intended to allow PSA to engage in trading activities. In the interim, under the third option, these effectively tied areas of work were incompatible with their responsibility for project ownership under a payment régime even before the establishment of a Trading Fund.

34. MOD therefore argued that the responsibility for non-trading activities, and the staff associated with them should be transferred from PSA to MOD, regardless of the option to be adopted (though it would make operational sense for such a move to form part of a larger transfer under the transfer option).

35. The PSA argued that no real problem need arise over accommodating tied and untied activities within a trading fund (eg as at the Royal Mint). They considered, however, that the practical difficulties over untying overseas and USAF work could well, if pursued vigorously, be overcome within a reasonable timescale and that the DEL, while less amenable to rapid solutions could nonetheless be further run down as has already happened in recent years (depending on the minimum levels required for transition to war arrangements). In due course well under 4% of activities analysed would have to be carried out within Government. PSA considered also that the MOD's proposed division of staff between the two Departments would prove impractical. In particular, PSA's pool of professional and technical resources would in practice continue to be the source of supply (and place of return) for staff going on tours of duty overseas, or doing a stint on US forces work. In terms of management efficiency, it therefore seemed preferable to PSA to handle these staff, and the functions they discharged, alongside their other responsibilities.

Overheads

36. MOD were also concerned about the treatment of overheads in respect of tied work which remained with PSA. They foresaw the risk of unrecovered overheads from untied work (or from tenders lost to competition) migrating to tied work, even after the proposed new accounting systems were fully developed. This would at worst negate the purpose of exposing PSA to competition or at best estabish a more favourable base for the Trading Fund compared with outside competition, as happened with the Royal Ordnance Factories when the private sector complained of unfair competition.

37. The PSA and the Treasury accepted there was some risk that if PSA's workload reduced the remaining customers (tied and untied) might face higher resource costs on that account. However, in practice they expected any effect of this kind to be small. Under payment and untying there could be discussion each year between MOD and PSA about the forward programme of work, on the lines of the arrangements now agreed for civil departments. This would give PSA a basis for planning its future resource

requirements. 70 per cent of PSA's design work is contracted out and fluctuations in workload arising from market testing could be accommodated by changes in the amount of work placed with private sector consultants. The main risk would relate to central overheads, such as Headquarters costs, where PSA might be able to react less quickly than for costs directly related to individual projects. Prior to introduction of a trading fund, PSA would be required, in the case of the vote accounting arrangements to be adopted under the new regime for payment for major civil projects, to recover its costs year by year.

38. If this risk materialised, the Treasury would expect in any event the allocation of such overheads to be properly apportioned to all services (tied and untied), so that costs would not be unfairly loaded on any tied work. As a check, a trading fund could be required to produce analyses by activity (as the HMSO trading fund does). These would show clearly how overhead costs had been allocated, and would be subject to audit. In the interim period leading up to a trading fund, the cost could be identified in activity-related memorandum trading accounts. But the forward planning arrangements described above and the competitive pressures PSA would face on its untied work for MOD should provide a strong discipline on PSA to bring its costs (including overheads) in line with its workload as quickly as possible.

39. The Group were unable to reach a common view on the significance of the treatment of overheads. The MOD concluded that the risks which they had outlined reinforced the case for transfer to MOD of non-trading activities if the trading fund option or the third option were to proceed. PSA concluded that any risk could be forestalled and need not be significant anyway if practical difficulties in the way of untying could be resolved.

IMPROVEMENTS IN PERFORMANCE UNDER EACH OPTION

40. The Group reached differing views on the contribution which each of the options would make to improved performance.

Transfer Option - Promotion of Efficiency

41. The MOD noted that further work would be necessary to establish in detail the most appropriate organisation within MOD and to establish precise staff levels. An analysis of this kind could not sensibly be made within the constraints of the Group's remit. However, MOD saw the transfer option as facilitating

increased efficiency because it would strengthen accountability and customer satisfaction by:

a) affording clear financial accountability for all aspects of the Defence estate, having regard to the development of budgetary systems under the FMI and the need for budget holders to have greater control over works expenditure;

b) having first hand knowledge of the costs and the incentive created by manpower plans;

c) matching the basic management structure of the MOD, whereas otherwise the present unsatisfactory division between MOD and PSA would still be replicated;

d) better achieving effective control both over efficiency and over the adequacy of competition with the private sector (see paragraphs 50 to 53 below on contractorisation) through a vigorous operation of accountability, resting on clear and unified lines of responsibility such as already obtained for defence equipment in the Procurement Executive.

Trading Fund Option - Promotion of Efficiency

42. The PSA on the other hand saw increased efficiency arising from the trading fund option by:

a) exposing PSA's defence services to a market test, on a directly comparable basis, with outside competition;

b) embracing both the civil and defence aspects of PSA's work, thus avoiding the disruption and cost of separating civil from defence work (ie relocation of offices and relocation of staff on top of the need for additional staff resources);

c) offering a blueprint for organisational change in the shape of the Deloitte's proposals.

Third Option - Promotion of Efficiency

43. The Treasury believed that an early move to payment and untying, on the lines Ministers have now agreed for major civil projects, would have benefits in clarifying the respective roles of client and agent and introducing competitive pressures to improve performance and reduce costs.

44. The MOD pointed out that in both official and Ministerial level discussions on major civil projects they had opposed application to the defence sector of a form of payment based on cost recovery. By extension, they were opposed to application to other defence services also. Such a system would do nothing in their view to promote genuine competition and untying which the MOD supported. It would involve the PSA's Chief Executive operating as an agent Accounting Officer, but they considered that such a role would not be different in essence from that which he discharged under existing arrangements (see paragraph 4 above). Since under the third option PSA would charge MOD on a cost recovery basis and not on a basis of competitive tendering via advance quotation, MOD would be unable to exert any effective control over PSA costs, and the freedom to untie would be limited by the absence of an adequate basis for comparison. MOD considered that this problem would be compounded through their having to meet PSA overhead costs over which they would have no control; and through the PSA having little or no incentive to reduce overheads before competitive tendering on the basis of commercial accounts was introduced. The third option in their view represented an even more unsatisfactory arrangement than that existing at present.

45. Although PSA regarded the third option as a second best solution since efficiency gains would be greater from proceeding to the trading fund option, they nonetheless considered that it would promote significant improvement. PSA argued that MOD would in fact be much better placed to exercise more rigorous control by virtue of the functions to be transferred to them (see paragraph 15 above). They also saw untying not only as a significant step in its own right enabling MOD to choose to operate through agents other than PSA but also as a means of exerting efficiency pressure on PSA to contain costs and prune overheads. And they pointed (paragraph 42b above) to avoidance of disruption on civil work as applying to the third option as well as the trading fund.

Pace of Improvements

46. The Group noted that consideration of how far each option would promote efficiency could not be divorced from consideration of how rapidly improvements would take effect, assuming the timetables set out at paragraphs 12, 15 and 18 above.

Pace of Improvements - Transfer Option

47. The MOD pointed out that the transfer option could, on the Group's assumption, be implemented by 1 April 1989 ie within the same timetable as the interim step of payment and untying (from

which they saw no benefit - see paragraph 44 above) and three years in advance of setting up a trading fund. Since transfer was not dependent on the establishment of special accounting procedures, the transitional arrangements to be completed by 1 April 1989 would essentially be confined to the timing of the transfers of work and staff from PSA to MOD, and the need to devise within PSA arrangements for organising residual civil work. MOD considered that implementation of transfer within 18 months would enable them thereafter to organise the work transferred so as to be able quickly to achieve the maximum contractorisation (see paragraphs 50 to 53 below) with the fullest possible use of competition for the services which on value for money criteria could be conducted by the private sector. The costs associated with the transferred work would be made subject to MOD's new budgetary régime as this was introduced (see paragraph 22 above), and the opportunity would be taken to design the related IT systems so that they could handle the work and provide a basis for improved performance.

48. MOD also pointed out that while they would have no objection in principle to a trading fund carrying out trading activities (see paragraphs 30 to 35 above on non-trading activities) assuming that they had an adequate customer/sponsor capability (see paragraphs 22 to 24 above). But they stressed that they were concerned at the protracted timescale before a trading fund could be established and could compete on a fully commercial basis; and about the unsatisfactory nature of interim arrangements (see paragraph 43 and 44 above).

Pace of Improvements - Trading Fund and Third Options

49. The PSA argued that while transfer was the beginning of changes under the transfer option the actual establishment of a trading fund in 1992 or 1993 would be the culmination of a succession of measures aimed at improving performance. Unlike MOD, they saw considerable competitive benefits as likely to derive from the interim step of moving on 1 April 1989 to untying regardless of the charging basis (see paragraph 45 above) and were already developing their new IT systems (see paragraph 15 above and Annex I) to achieve, over the period up to establishment of a trading fund, progressive gains in efficiency and service to clients, civil and MOD.

Contractorisation

50. In examining the pace of improvements, the Group discussed which option would facilitate speedier implementation of the Government policy to contract out Government services wherever this provides value for money. There were, however, contrary views.

51. The MOD argued that essentially the pace of contractorisation depended on the customer ie on MOD, and upon the incentive and capability to contractorise. The concentration of staff in MOD under the transfer option would facilitate the comparisons and appraisals needed for further contractorisation, and any decisions to reduce staff as a result. Experience of large scale contractorisation (eg the Royal Dockyards) and a wide range of smaller contractorisations covering in total a range of over 27,000 posts, provided ready-made and proven criteria for decisions on contractorisation. And the programmes could get under way more rapidly as soon as transfer had taken place on the basis of a direct knowledge of the in-house costs and implications, with the full benefit from contractorisation, as from the organisational changes which transfer would permit, being achieved progressively.

52. PSA on the other hand considered that the only fully satisfactory basis for the price/quality element in decisions to contractorise would be a market comparison such as a Trading Fund would provide. In the interim before a Trading Fund could be established the move to untying would, however, provide the trigger to facilitate contractorisation because it would enable MOD to use agents other than PSA at the same time as the transfer option would do. PSA believed that the MOD could, after untying, apply the same criteria for choosing between PSA and outside agents as they would to choosing between in-house and outside agents under the transfer option. In their view contractorisation in line with Government policy could proceed at the same pace from 1 April 1989. Indeed, the transfer option risked proceeding more slowly because it could well involve inhibitions in directing work away from in-house staff (see paragraphs 28 above). Moreover, PSA pointed out that since 1979 they had reduced staff by 36%, from almost 39,000 to a current figure of under 25,000, with almost 80% of expenditure placed with private sector agents.

53. The Group saw no means of reconciling these two views.

RESOURCE COSTS AND BENEFITS

54. The confidentiality which the Group had to maintain inhibited them from carrying out the internal consultations necessary to arrive at a reliable quantification of the costs and benefit of the competing options. A broad assessment of the possible resource costs of the transfer option at Annex K suggests an additional annual cost of some £7M per annum. Broad assessments by the PSA and MOD respectively of the possible resource costs of the trading fund and third options are at Annexes L and M. On the basis of the assumptions used by the PSA, the additional annual cost could be of the order of £2m per annum. On the basis of the assumptions used by the MOD, it could be in the range of £4.5m to £6.5m per annum for the third option and in the range of £5m to £7m per annum for the trading fund option.

55. The Group noted that MOD would expect, under the transfer option, to achieve savings from staff rationalisation, notably on common services, though these could not as yet be quantified. The PSA pointed out that while the costing of the transfer option was based on the resource implications for PSA's civil operations, they foresaw further and significant costs of transition and disruption on the civil side of the PSA's business (eg from relocation of offices and relocation of staff).

56. The Treasury and the PSA expected (see paragraphs 43 and 45 above) benefits by way of increased efficiency to accrue from the third option and hence from the trading fund option, but as with the application of payment and untying to civil projects these could not be satisfactorily measured in advance.

57. The Group emphasised that the quantification in the Annexes could only be regarded as at best an order of magnitude and that they stood to be altered by the various factors which it had not been possible to quantify. The figures put forward were therefore necessarily tentative.

CONCLUSIONS

58. The Group considered the two main options for change identified in their terms of reference namely the transfer and trading fund options. They also considered a third option of not proceeding to a trading fund based on commercial accounts but of taking only the first step towards a trading fund ie putting PSA's defence services on to a payment basis and of untying MOD from using PSA.

59. If Government decisions were taken in autumn 1987, the Group assumed that implementation could take place on 1 April 1989 either of the transfer option or of payment on the basis of cost recovery and untying (whether as a prelude to a trading fund or as the third option). They also assumed, in line with proposals from consultants (Deloittes)that a trading fund could be set up in 1992 or 1993, based on full commercial accounts introduced a year earlier. PSA's IT strategy was on the critical path and early decisions were needed on funding. The Group noted also that under all the options improvements to IT systems were needed, whether in MOD or PSA, to provide the appropriate management information.

60. The Group examined the options under three main headings:

61. How far each option fulfilled the basic principles established by the Ibbs and successor reports

a) Major projects

For PSA's defence activities, major projects account for 43% of PSA's resource costs, 19% of their total non-industrial and industrial in-house staff numbers and 45% of their expenditure. The Group agreed that the Ibbs and successor recommendations meant that the MOD should, as the client Department, have total financial responsibility for its projects. Accordingly, MOD should have access to outside agents other than the PSA and the capacity to sponsor and supervise projects, whether or not the PSA were involved. They would also become responsible for Vote management. Each of the options offered the means of effecting the necessary changes, though the Group disagreed on the extent to which each option met the fundamental principles satisfactorily. The MOD also believe that, even under the Trading Fund and third options, the necessary changes would best be accomplished by a transfer of the relevant staff from the PSA to carry out the functions of secretariat, including vote management, contract placing and payment of bills, together with sufficient professional and technical staff to sponsor and supervise projects. The PSA consider that, initially at least, they would need to retain the functions and staff for the work which they would continue to do. To the extent that staff transfer does not take place, MOD would be obliged to recruit their own or buy in the services in order to provide the additional resources required. This would not be the case under the transfer option.

b) Minor projects and maintenance management

For PSA defence activities, minor projects and maintenance account for 52% of PSA's resource costs, 70% (including DEL) of their total non-industrial and industrial in-house staff numbers and 54% of their expenditure. The Group noted that the Ibbs principles had been developed in the context of major projects on the civil estate. They assumed, however, that these principles should apply to minor projects and to maintenance on the defence estate, even though different practical considerations arise. Minor projects and maintenance management are services which, PSA argue, could form part of an untied Trading Fund with MOD financially responsible for the activities in the same way as for major projects. MOD's view is that the maintenance management task is precisely the sort of work to which contractorisation could readily be applied and that transfer of the function would lead more rapidly to significant elements of it being conducted outside the public sector. PSA pointed out that the Group had not considered the practicalities of untying and further contractorisation in the maintenance field beyond a preliminary analysis of categories which could or could not readily be untied. Considerable work was therefore required before the case for transfer of the maintenance function could either be sustained or refuted.

c) Non-Trading activities

The Group noted that untying could be achieved readily for 56% of PSA defence activities (by expenditure) but untying would be difficult to achieve within a short timescale for 44% ie PSA work overseas with the appropriate agencies of Governments abroad (20%); work for the United States forces in the UK (12%); operational and ad hoc maintenance (8%); and work done by Directly Employed Labour (4%). Less than 4% could not in principle be untied. The MOD contended that the continued existence of activities closed to competition limited the extent to which the trading fund would be exposed to competition, and was incompatible in the interim with their project ownership responsibilities. The activities in question should, even under the trading fund and third options, be transferred to them. The PSA contended that trading funds could accommodate tied activities, that the difficulties over untying could largely be overcome within a reasonable timescale and that transfer would be inefficient in personnel and management terms. The MOD were further concerned at the prospect of unrecovered overheads migrating from untied work (or tenders lost to

competition) to tied activities for which they would have to use PSA. In their view, this concern reinforced the case for transfer of the activities in question to the MOD. The Treasury and PSA argued that there were remedies in the hands of MOD and in appropriate accounting arrangements. PSA considered the problem need not be significant anyway if practical difficulties over untying could be resolved.

62. How well and how rapidly each option would contribute towards improved performance. The Group were unable to reach a common view on promotion of efficiency. MOD preferred the transfer option as the means to strengthening accountability and customer satisfaction. It would enable an organisation based on the positive experience of the Procurement Executive to be set up, thus removing the existing division of responsibility for the defence estate which they regarded as unsatisfactory. They would introduce contractorisation piecemeal, as rapidly as possible, as for example has been done for catering and cleaning services, subject to value for money and decisions about what work needs to remain tied. The full benefits from contractorisation, and indeed from the organisation changes which transfer would permit, would be achieved progressively. The PSA, however, preferred the trading fund option on the grounds that it provided a direct test with outside competition, avoided disruption of civil activities, and had been charted by Deloittes. MOD considered the third option as wholly unsatisfactory giving them insufficient financial control and failing to promote genuine competition. The PSA regarded the third option as a second best solution but still significant in exerting more rigorous financial control, opening PSA to outside competitors and avoiding disruption to civil work.

63. On speed, the MOD were concerned at the protracted timescale before a trading fund could compete on a fully commercial basis, especially given their dissatisfaction at any interim arrangement of payment of costs incurred within a vote accounting régime. PSA argued that while transfer would mark the beginning of changes under the transfer option, establishment of a trading fund would be the culmination of measure to improve performance.

64. In examining the pace of improvements, the Group discussed which options would most rapidly promote Government policy on contracting out whenever value for money was obtainable. The MOD argued that the pace of contractorisation essentially depend on them as the customer, and upon their incentive and ability to pursue contractorisation. Under the transfer option they would have first hand knowledge of the costs and the incentive created

by manpower plans. The transfer option would enable them to introduce contractorisation more rapidly in that it would facilitate internal comparisons and appraisals and would be based on extensive experience to date (and hence on ready made and proven criteria). The PSA argued that only the fully satisfactory basis for contractorisation was direct market comparison in which only the trading fund option would provide. In the interim, they considered that with untying under vote accounting contractorisation could proceed as rapidly (possibly more so) as under the transfer option through MOD applying criteria developed in-house to competition between PSA and outside agents.

65. Resource cost and benefits. Quantification had been inhibited because the need to preserve confidentiality prevented the Group from undertaking internal consultations in depth. Such quantification as had been carried out, and which had to be treated with caution, suggested an overall cost of some £7M per annum for the transfer option due to the effect on PSA's organisation of civil work. The immediate disruption effects on PSA's civil operations had not been quantified. The costs of the transfer option would be offset by savings (as yet unquantified) from MOD staff rationalisation, notably from treating major works projects on Procurement Executive lines, from handling maintenance as part of developing delegated budgeting arrangements and from reducing common services taken over from PSA. The trading fund option and the third option could impose additional staff costs of some £2M per annum (PSA figures) or between £4.5m and £6.5m per annum for the third option and between £5M and £7M per annum for the trading fund option (MOD figures). Benefits for each of the options could not yet be quantified.

66. The MOD and PSA positions remain far apart. The MOD, stressing customer satisfaction and accountability, press for implementation of the transfer option; and argue that under any option a transfer should take place of those functions (and associated staff) necessary to make MOD an intelligent customer and those functions which cannot, or cannot readily, be open to competition and the staff responsible for the maintenance function at MOD establishments. The PSA, stressing competition via direct exposure to market forces and avoidance of disruption to civil activities, press for implementation of the trading fund option for all defence and civil activities, based on the Deloittes proposals. The MOD consider wholly unsatisfactory, and worse than the status quo, the third option of moving only as far as untying where this is based on payment of costs incurred. The PSA consider it to be only second best as a permanent solution, but would be a desirable transitional step towards a trading fund.

ANNEX A

PSA/MOD HIGH LEVEL WORKING GROUP

TERMS OF REFERENCE AND COMPOSITION

Terms of Reference

1. The Secretaries of State for Environment and for Defence have agreed to set up a High Level Working Group to consider and make recommendations about improved arrangements for handling the PSA's defence work. The Working Group should be small and should include senior representatives of the Department of the Environment, the Ministry of Defence, the Treasury and the Cabinet Office. It should report to the Secretaries of State for the Environment and for Defence by the end of May 1987.

2. The Working Group's primary considerations will be the rapid development of commercial disciplines and accounting systems, the improvement of efficiency and the scope for further transfers of work to the private sector, to achieve the best value for money. It will base its task on two main options;-

a. The creation of a PSA Trading Fund for both defence and civil work, with the PSA untied from its defence and civil clients and competing with the private sector. The MOD would continue to be the owner of defence property.

b. The transfer of all PSA defence functions to the MOD with the aim of contracting out all but the essential core functions commensurate with best value for money.

3. The Working Group should consider the implications of these two options in terms of organisation, finance (including the PSA's plans for introducing IT) and timing for both the defence and civil estates. It should take account of the report by Deloitte Haskins and Sells on the introduction of commercial accounts into the PSA.

Composition

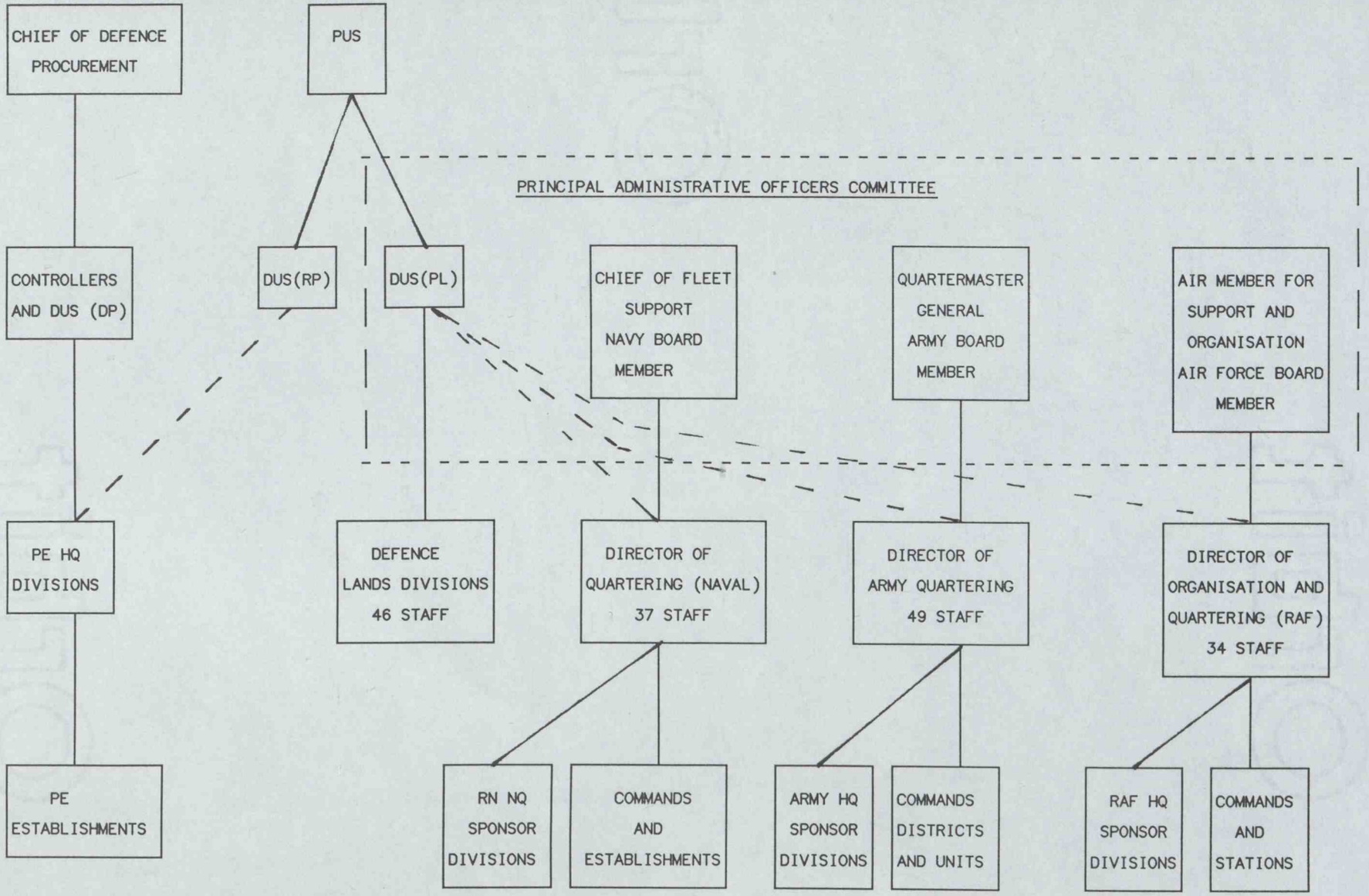
4. The Group was chaired jointly by the Deputy Under Secretary of State (Personnel and Logistics) of the MOD and the Deputy Chief Executive 2 of the PSA. The other members were the Deputy Under Secretary of State (Finance) of the MOD, the Principal Finance Officer of the PSA, the Under Secretary heading the Local Government Group and the Under Secretary heading the Defence Policy Manpower and Material Group in the Treasury, and the Assistant Secretary in the Machinery of Government Division in the MPO/Cabinet Office. The Secretariat was provided jointly by the MOD and the PSA.

ANNEX B

THE COMPOSITION OF THE UK DEFENCE ESTATE AT 1 APRIL 1987

Main Categories of Establishment	Thousands of Hectares	%
Training Areas and Ranges	185.9	67
Airfields and Ancillary Sites	28.5	10
Research, Development, Ordnance and Industrial Establishments	28.8	11
Naval Dockyards	1.0)	
	)	5
Barracks and Camps	11.6)	
Storage and Supply Depots	10.2	4
Radio and W/T Stations	6.3	2
Miscellaneous	3.3	1
Total Area	275.6	100

MANAGEMENT IN CONFIDENCE

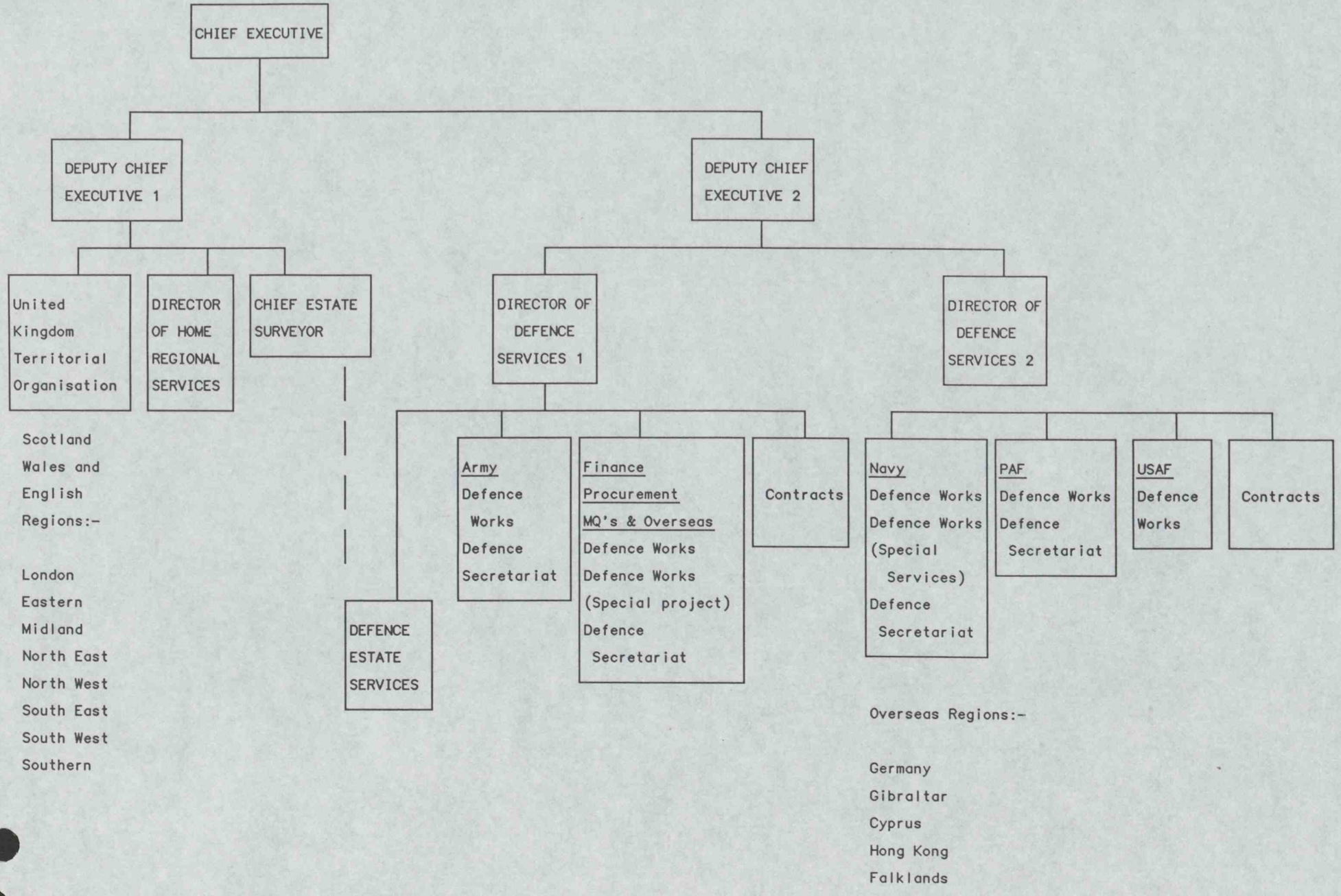


NOTES
1. Continuous lines are lines of command.
2. Dotted lines are lines of financial responsibility.
3. HQ sponsor divisions originate and authorise many requirements eg operational and training.

ANNEX C
(Page 2)

MANAGEMENT IN CONFIDENCE

PSA: ORGANISATION OF DEFENCE ACTIVITIES



ANNEX D

PSA STAFF CURRENTLY ATTRIBUTABLE TO DEFENCE ACTIVITIES

Non Industrial

Central Finance and Accounts	102
Central Contracts	24
Other Specialist services	465
Major new works	
a. HQ	1284
b. UKTO	2493
c. Overseas (UK Based)	74
(locally engaged)	50
Minor new works and maintenance	
a. UKTO	2803
b. Overseas (UK Based)	383
(locally engaged)	1180
Estates	
a. HQ	90
b. UKTO	380
c. Overseas	40
US Forces	740
Common services	1149
TOTAL (UK Based)	10027
TOTAL (locally engaged overseas)	1230

Industrial

UK	5750
US Forces	900
Overseas (UK Based)	60
(locally engaged)	3440
TOTAL (UK Based)	6710
TOTAL (locally engaged overseas)	3440

Note. The above figures are illustrative only, having been based on limited study restricted to few officials. They are no more than a rough order of possibilities and not in any sense a reliable estimate.

ANNEX E

MAJOR CAPITAL PROJECTS: GENERAL PRINCIPLES

1. Development of principles concerning major capital projects in Government stemmed from the Prime Minister's request early in 1985 to Sir Robin Ibbs to advise on how time and cost overruns could be reduced. This work is still continuing, but the following recommendations in the successive reports are significant:

a. the recommendation in the 1985 report by Sir Robin Ibbs (approved by the Prime Minister) that Departments for which work is done should 'own' their project, regarding themselves as responsible for specifying what they want and for seeing (through the appointment of a project manager) that they get it to budget and on time. A client Department's responsibility should be exercised regardless of whether the work in question is carried out within that Department, by another Department or by an agent outside Government;

b. the recommendations in a follow up report by the Treasury and the Central Unit on Purchasing that client Departments or Divisions should have total financial responsibility for their projects. (The principle of payment) Departments should not be tied to any particular supplier of these services. (The principle of untying). For each project, the client should nominate a project Sponsor who would be personally responsible to the department's senior management for the Project's success. The client should buy project services, including technical advice and project management, and pay for the project construction. The Project Manager would be accountable to the Project Sponsor.

2. The recommendations in the latter report have been considered in further detail by an Inter-Departmental Working Group (IDWG) chaired by the Treasury. Ministers have now, in the light of the IDWG's findings, endorsed the principles of payment and untying endorsed for major civil projects. Their application to the Defence Estate and in-house agencies was left open for further consideration to be taken forward in the High Level Working Group.

ANNEX F

KEY FEATURES OF DELOITTE'S REPORT

All PSA work should be put on a commercial accounting basis. If defence work is not included, the rest of PSA is likely to be unviable commercially.

Commercial account will involve putting all services on to a 'market price' payment basis and untying customers from PSA.

PSA should be divided up into project, estate and civil property ownership functions for accounting purposes. But at least initially organisational change should be kept to the minimum.

(This involves substantial cross-changing between the 3 PSA businesses and a matrix structure for organisation and reporting. This is envisaged as a permanent solution but raises the possibility of some disaggregation in long term).

Whilst PSA could stop short at commercial accounts, it would be highly desirable to proceed to a trading fund. And if a fund were established it could be turned into a PLC later. Trading fund or PLC status would require minimal change in the basic commercial accounting systems.

Within PSA operations should be broken down into a large number of cost centres.

(Where cost centres produce saleable services they will also be profit centres. This will represent the fullest possible application of FMI principles of delegation of responsibility to local managers, budgeting, and output/performance measurement as applied to the PSA's handling of clients' programmes. Responsibility for accounting for the programmes themselves will shift completely to the customers).

The civil Estate should be divided into a specialised category where ownership and management responsibilities will essentially be with occupying departments and the common user estate it will be necessary to have strong central ownership and management. (The covering minute deals with this in more detail).

A form of coarse commercial accounts could be available in the 1980s; realistically 1989 rather than 1988. More work will be needed to identify the IT and user resources required for coarse accounts, possibly at the expense of developing the longer term systems.

Full commercial accounts could be available in the early 1990s; realistically 1992 rather than 1991. The constraint here is the IT system changes which are needed. It will also be desirable to operate the accounts for a year before moving onto a trading fund.

NATURE AND PURPOSE OF TRADING FUNDS IN GENERAL

1. The Government Trading Funds Act 1973 enables the responsible Minister, if he believes it will improve the commercial operation and public accountability of a service carried out by his department, to promote an order setting up a Trading Fund to cover financing of the service instead of financing it by means of annual votes and appropriations. The main features of a Trading Fund are set out in paragraphs 2 to 5 below but might be briefly summarised as:-

a. it provides a means of Government trading other than through annual votes or appropriations;

b. it covers operations which are trading operations or operations in the nature of trading;

c. it has capital assets;

d. it quotes fixed prices in advance;

e. it must not lose money permanently and has to achieve set financial objectives.

2. A Trading Fund is intended to cover operations which are "trading operations or in the nature of trading". Trading Fund finance may be provided by a mixture of public dividend capital (PDC) and loans from the National Loans Fund or solely by loans; in practice few organisations would be likely to meet the criteria for PDC finance. The Act requires that the Fund be managed:-

a. so that the revenue of the Fund is at least enough taking one year with another to meet outgoings which are properly chargeable to revenue account; ie the Fund can stay permanently in profit, or make occasional losses, but must not lose money permanently;

b. so as to achieve any further financial objectives agreed between the responsible Minister and the Treasury to be desirable.

Although the act refers to the Minister, a Fund, like a Vote, has an Accounting officer and an accountable manager to run it eg the PSA Chief Executive is the AO for the Crown Suppliers Trading Fund which is managed by the Controller of TCS.

3. It is implicit in the Act that, with minimal exceptions, a Trading Fund organisation should be paid for all the goods and services which it provides, and should be charged for all the goods and services provided to it by other departments, or other parts of the same department. In general departments should charge Trading Funds the full cost of the goods and services provided to them. In particular current market rentals should be charged for the use of buildings and land.

4. In arriving at charges for goods and services supplied to its customers, a Trading Fund organisation will operate on the basis of forecast costs, ie the best estimate of what the costs will be during the period for which the price will be applicable, and of the need to meet its financial objectives. The presumption is that imprest accounts will not be required but that invoices should be paid promptly (in effect customers will not be asked to pay when the Fund itself bears costs, but only when it can present an invoice to the customer, possibly some weeks later).

5. Effectively a Trading Fund is liklely to be appropriate when the body concerned is supplying services which are similar to those supplied by private sector trading bodies and can, and should, have more commercial freedom to manage its business than Votes provide. Possible supporting arguments for a Trading Fund are that the Fund organisation does or will compete with private sector bodies to do work for other departments, supplies services with a market value to the private sector and/or has large capital assets which it needs to manage in a commercial way.

6. Bodies which are, or have been, on a Trading Fund basis are the Mint, PSA's Crown Suppliers organisation, HMSO and Royal Ordnance Factories (ROF). All are engaged in one way or another in trading activities with some sort of commercial basis - ROFs have now been privatised; PSA's Crown Suppliers are being considered for privatisation.

ANNEX H

Division of Existing PSA Functions

1. Much detailed work is still needed before the consultants' proposals can be translated into operating systems, revised organisation and changes in strategy. But, broadly, the functions which PSA at present discharge or assist MOD to discharge, would:

a. either remain with PSA, or be transferred to an outside agent;

b. pass to MOD as internal management responsibilities for project ownership and sponsorship;

c. pass to MOD so that they could fulfil their project owner/sponsor role of "intelligent customer", eg letting of contracts or commissions to the PSA or to outside agents.

2. PSA's existing individual functions could in practice divide into the above categories as listed on the attached sheet.

(1)	(2)	(3)
PSA or Outside Agents' Functions*	MOD Project Owner/ Sponsor - Internal Management Functions	MOD Project Owner/ Sponsor - "Intelligent Customer" Functions**
a. Prepare Feasibility/ Design studies as required	a. Secure funding (Treasury approvals etc)	a. Compare and assess offers and estimates from PSA and consultant: (outside agents)
b. Management of the design/construction process for new works:	b. Establish programme priorities within available funds; monitor and adjust in year with PSA or outside agents	b. For work handled by MOD, direct capability for management of desig and construction proces This will involve a limited ability to conduct most of the functions in column 1 a a comprehensive capability to:-
i. Commission and manage consultants	c. Coordinate and agree requirement for individual projects following investment appraisal and discussion with the PSA/or outside agents	i. select, commissio and manage consultant agents and contractor
ii. Prepare design drawings, specifications and schedules for new works	d. Ensure design meets user requirement and monitor project progress	ii. invite tenders fr consultants
iii. Prepare Bills of quantity, contract preparation, tender documentation	e. Establish maintenance requirements	iii. pay bills
iv. Establish construction control and programme		iv. internal audit functions
v. Certify consultants/ contractors bills		
c. Provide professional estates advice to clients and execute all estates services (including commissioning consultants) eg acquisitions, disposals etc		
d. Inspect existing facilities and establish programme of maintenance in conjunction with client		
e. Manage maintenance (contractor or DEL)		
f. Supervise and certify maintenance work		
g. Carry out above functions for US Forces and support services in UK		
h. Carry out above functions overseas		
i. Internal audit functions		

NOTES

* Functions e, f, g, and h of the "PSA/Outside Agents" list raise particular issues for consideration - see paragraphs 45 to 50 of main text and Annex J.

** Functions b(i.) to b(iv.) of the "Intelligent Customer" List would involve some duplication between MOD and PSA

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ANNEX I

INFORMATION TECHNOLOGY STRATEGY

1. The purpose of the IT strategy is to update PSA's old computer systems, many of which are based on large mainframe computers producing standard reports and without any facilities for interrogation.

2. The long term strategy for the application of IT aims to improve operational efficiency by creating a new integrated data base networked throughout the Agency and accessible to all tiers of management. These developments are needed whether PSA stays on Vote Accounting or moves to Commercial Accounts or a Trading Fund. PSA believes that improvements in computer support for local works and estate offices and HQ design units will be necessary even under the transfer option. The speed at which the IT Strategy can be introduced is the critical factor in the timetable for moving to a Trading Fund. They will be critical in moving to Commercial Accounts and a Trading Fund.

3. Subject to funding the bulk of the strategy can be in place by 1990/91. The costs of implementation are:

	1988/89	1989/90	1990/91	(£m 1986 PES prices)
Total Programme	7.826	12.35	10.486	
(MOD element)	4.915	7.756	6.586	

These costs exclude the incremental cost of developing systems for Commercial rather than Vote Accounts. Deloittes estimated this at approximately £2m.

ANNEX J

UNTYING OF PSA'S DEFENCE SERVICES

1. The Table overleaf distinguishes between the 56% of PSA programme expenditure* on defence activities which could readily be untied and the 44% where untying would pose problems of implementation within a short timescale, and might at the extreme prove impossible.

2. The category where untying would pose problems divides as follows:

a. overseas work - 20%

b. US forces work - 12%

c. management and execution of operational and minor maintenance - 8%

d. Directly Employed Labour (DEL) - 4%

3. Categories a. b. and c. above exclude expenditure incurred on work undertaken by the DEL, all of which is included at d.

4. The extent of expenditure necessarily remaining tied is uncertain, but would relate to those DEL who would have to be retained on military operational grounds to meet transition to war requirements. The numbers of these have not yet been quantified, but clearly would account for well under the 4% of expenditure attributed above to the DEL.

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*according to 1987/88 allocations

TABLE TO ANNEX J

	Could readily be untied	Untying likely to pose practical problems
PART I (MAJOR NEW WORKS)		
Army, Navy, Air Force, Procurement Executive and NATO (including Married Quarters) in UK	£448m	
Overseas		£86m
PART II (MINOR NEW WORKS)		
Army, Navy, Air Force, Procurement Executive	£ 86m	
Overseas		£21m
PART III (MAINTENANCE)		
Major preplanned maintenance Married Quarters' maintenance	£200m	
Management and execution of operational and minor maintenance		£111m
Directly Employed Labour (DEL)		£55m
Overseas		£168m
ESTATES		
Defence Estate: UK	£ 7m	
Overseas	£ 1m	
US forces Part I, II and III		£171m
TOTALS	£782m (56%)	£612m (44%)

ANNEX K

RESOURCE COSTS OF TRANSFER OPTION

1. The following figures give a possible order of resource cost in moving from the present PSA/MOD relationship to one where PSA's defence activities were all transferred to the MOD and PSA remained responsible for civil activities alone. Defence activities would as far and as rapidly as practicable, be open to competition with the private sector. The figures are necessarily highly uncertain, and can indicate only broad orders of magnitude. This is inevitable, given that timescale set for the Working Group. More significantly, the Working Group's remit precluded the internal consultations which would be necessary for a more reliable assessment.

2. The main staff changes and an estimate of their order of cost are as follows.

Function	Reason for Increase	Method of Costing	Order of Cost (£M)
i. UKTO Works Staff	Experience under PSA's previous Chief Executive of a proposed split (within PSA) between defence and civil activities, plus a sample examination of existing District Works Offices suggest for works staff diseconomies of scale of the order of 15% to 20% on the civil side. For the question of diseconomies versus savings on the defence side, see the note at paragraph 3c below	Some 4,440 and some 2,280 UKTO Works and support staff can be present be attributed to defence and civil activities respectively. In PSA, diseconomies of 15% to 20% seem likely on the civil side in the event of transfer. A 15% diseconomy would be equivalent to, say 340, staff on the civil side. Assuming a median level of HPTO outside London (17.412 each), this points to an additional resource cost of £5,92M, (a 20% diseconomy would entail, on this basis, additional resource costs of almost £7.9M)	5.92

Function	Reason for Increase	Method of Costing	Order of Cost (£M)
ii. Policy on Part 2 and Maintenance	Policy guidance on Part 2 and maintenace procedures would have to be duplicated for both civil and defence and could not simply be divided. This would entail 20 additional staff	An additional 20 staff and a median level of HEO, outside London (£19,079 each)	0.38
iii. Directorate General of Design Services	The 45% and 15% of DGDS time devoted exclusively to defence and civil work respectively are taken as divisible between civil and defence acitivities. The remaining 40% of common civil/defence work implies a staff loading of 220. The diseconomies of scale are likely to be higher than for the general run of staff because of specialist pockets of expertise and procedural guidance which would have to be duplicated in the event of a split	A diseconomy of 10% is assumed ie 22 additional staff at a median level of SPTO (£26,306 each)	0.58
		TOTAL (rounded)	£6.90M

3. It should be noted that:

a) disruptive effects from splitting civil and defence staff (eg office relocation, staff relocation) in the UKTO cannot as yet be assessed, but is likely to be considerable. Relocation in different premises of staff allocated to civil work would prove especially costly;

b) in the absence of firm indications about the future, no assumption about changes in the quantum of residual PSA civil activity has been made;

c) diseconomies possibly of an overall order of 5%, could arise at the point of transfer in respect of PSA staff in the UKTO transferred to MOD though currently working on both defence and civil activities. It has been assumed that these would be subsumed within subsequent savings from staff rationalisation within MOD which cannot as yet be quantified;

d) no account has been taken of UKTO staff transferring to MOD and subsequently having to be relocated in order to provide District Works Offices on a major service user basis;

e) no allowance has been made for diseconomies of scale for estates staff. PSA have already carried out a more detailed costing for the MPO study of defence estate management. But MOD argue that transfer of defence estates services would enable them to achieve staff savings to redress the overall diseconomies of scale, though are not as yet able to identify where such compensating savings would be effected.

f) All staff costs are fully overheaded, including accommodation. They derive from the Treasury's "Ready Reckoner for Staff and Other Costs", 1986 edition. HQ staff in the costing are taken as working in Outer London. Accommodation costs for the Midland Region have been imputed to staff taken as working outside London. The Midland figure fall just under the middle of the range of accommodation costs outside London.

ANNEX L

RESOURCE COSTS OF TRADING FUND OPTION AND THIRD OPTION: PSA ESTIMATE

1. The following figures give PSA's estimate of a possible order of resource cost in moving from the present PSA/MOD relationship to one where PSA's defence activities form part of a Trading Fund covering civil and defence work. They also apply to the third option of payment and untying within an accounting regime. Under both the trading fund and third option additional resource costs would arise at the point where repayment and untying was introduced and the appropriate functions were transferred from PSA to MOD - see Annex H.

2. Defence activities would as far and as rapidly as practicable, be open to competition with the private sector. The figures are necessarily highly uncertain, and can indicate only broad orders of magnitude. This is inevitable, given that timescale set for the Working Group. More significantly, the Working Group's remit precluded the internal consultations which would be necessary for a more reliable assessment.

3. Paragraph 4 below outlines requirements for additional staff. The balance of staff between MOD and PSA could alter if MOD were to put more work than assumed to agents other than PSA. MOD staffing requirements would increase and PSA's would decrease. It is impossible to quantify the precise effects at each stage for much would depend on the organisation which MOD adopted to discharge the functions and on the passing of various thresholds at which further staffing variations come into play.

4. The main staff changes and an estimate of their order of cost are as follows.

Function	Reason for Increase	Method of Costing	Order of Cost (£M)
i. Works Staff for Project Sponsorship including supervision of market testing	If initially MOD were to be geared up to put out to the private sector some 20% of the programme (given an average annual spend of some £100M for each service programme), each service and the Procurement Executive would require a minimum viable unit for market testing and placing of contracts for outside consultancies. Each unit would comprise some 30 professional and technical staff, headed at Grade 6 level ie a total of 120. The reduction in workload would enable PSA to reduce Works staff by 80.	There would be a net increase of 40 staff - say, at a median level of SPTO (£26,306 each)	1.0

Function	Reason for Increase	Method of Costing	Order of Cost (£M)
ii. Secretariat	Responsibility for Vote Management and Vote Accounting would pass to MOD who would require the whole of the existing administrative Secretariat. PSA would, however, require additional administrative Secretariat support in the Works Directorates numbering 20 in total to effect client liaison and in particular to extract and process improved management information for MOD as client.	A team of 20 staff headed at Grade 6 would be needed - say, 20 staff at a median level of 10 HEOs (£22,511 each) and 10 EOs (£18,053)	0.4
iii. Contracts	A decrease in PSA workload of some 10% is assumed ie 6 staff. MOD could well need double that number (12) because of lack of staff already expert in works contracts.	There would be a net increase of 6 staff at a median level of say, HEO (£22,511 each)	0.1

Function	Reason for Increase	Method of Costing	Order of Cost (£M)
iv. Accounts	Any potential staff savings in PSA are likely to be cancelled by increases required for a repayment regime. An additional 10 staff would be required in MOD to support the Market Testing units.	There would be a net increase of 10 staff at a median level (outside London) of say, EO (£15,156 each)	
v. Internal Audit	PSA would have to retain all existing staff. MOD would need since internal audit work is related to systems rather than compliance. MOD would need require an additional 15 staff because of their responsibility for new systems applying to works contracts and commissions let direct to outside consultants.	There would be a net increase of 15 staff at a median level (outside London) of, say, HEO (£19,079 each) (£19,079 each)	0.28
		TOTAL (rounded)	1.97

5. The estimated annual cost of £1.97m takes no account of offsetting benefits which can be expected to accrue from more efficient performance under a Trading Fund régime.

6. It should also be noted that:

a) the total increase of 120 in professional and technical staff which MOD would need for establishing market testing etc (see paragraph 3i. above) could be reduced to 100, if a common unit were set up for all the services, and the Procurement Executive. This could entail a saving of some £0.5M per annum on the figure at paragraph 3i.;

b) the initial extent of work assumed as switching from PSA to the private sector would - depending on PSA performance - be liable to change over time. But any subsequent increases or decreases in net staff are assumed to be at the margin and able to be readily assimilated because of:

   i) minimum viable units already having been established in MOD;

   ii) the pace of change being regulated by a forward rolling programme to be agreed between MOD and PSA and similar to those already proposed for civil Departments and PSA.

c) both the trading fund option and the third option depend on implementation of PSA's IT Strategy .

d) all staff costs are fully overheaded, including accommodation. They derive from the Treasury's "Ready Reckoner for Staff and Other Costs", 1986 edition. HQ staff in the costing are taken as working in Outer London. Accommodation costs for the Midland Region have been imputed to staff taken as working outside London. The Midland figure falls just under the middle of the range of accommodation costs outside London.

ANNEX M

RESOURCE COSTS OF TRADING FUND OPTION AND THIRD OPTION: MOD ESTIMATE

1. This Annex describes MOD's estimate of a possible order of resource cost in moving from the present PSA/MOD relationship either to the trading fund option or to the third option. Defence activities under either option would as far and as rapidly as practicable be open to competition with the private sector. The figures are necessarily highly uncertain, and can indicate only broad orders of magnitude. This is inevitable, given the timescale set for the Working Group. More significantly, the Working Group's remit precludes the consultation with staff at middle management and less senior levels which would be necessary in order to arrive at a more reliable assessment.

2. If it is to become an intelligent customer, MOD believes that it must have a comprehensive capability to test the market, negotiate and supervise contracts and pay bills. This is irrespective of how many of the agency contracts are won by the PSA since MOD, under Ibbs principles, would become responsible for paying the contractors whether PSA or an outside firm was the managing agent. The additional staff needed in the MOD fall into 5 categories: project sponsorship and supervision; contracts; accounts; secretariat; and internal audit. In the case of the latter 4 categories, these are functions which would transfer from PSA covering such things as contract negotiation with industry, bill paying, and Vote Management and Vote Accounting. In principle, the PSA staff concerned could transfer with the work at no extra cost, though the splitting of some existing teams could lead to a diseconomy and, thus, to some extra cost.

3. But if these staff were transferred, the PSA would itself need additional staff. It would need administrative secretariat support in the Works Directorates, numbering 20 in total, to effect client liaison and, in particular, to extract and process improved management information for MOD as client. It would need some contracts staff to handle the more formal relationship with MOD. This could be a further 20 staff. Although losing responsibility for Vote management and accounting, it would need additional accounting staff to operate the new payment arrangements. This task is difficult to assess but might require

between 10 staff for the third option to 30 staff, including professional accountants, for the trading fund option based on commercial accounts. PSA would also still need a full internal audit team of its own which might add 15 staff to the total. These 65 to 85 staff might cost £1.4m (third option) to £1.8M (trading fund option).

4. The most difficult assessment is that of the additional MOD staff for the first category - project sponsorship and supervision. This is not a question of transfer (although the only current expertise in Government is in the PSA) but of duplication of PSA functions. To cover the totality of the MOD's works programme could require a pool of 200 professional and technical staff at a cost of some £5M. But there would not necessarily be any compensating reduction in the PSA. If a PSA Trading Fund were to win most or all of MOD's business, the PSA would still require most or all of its existing expert staff. To the extent that some work was won by private agents and consultants, PSA would be obliged to reduce their staff, in order not to become uncompetitive. Assessments are very difficult but, if some 20% of the Part 1 programme were lost to the private sector, this might lead to a reduction of 80 PSA staff, at a saving of some £2M, which would help offset the extra MOD cost.

5. On this analysis, the extra resource cost of the third option and the trading fund option could broadly be in the ranges respectively of £4.5m to £6.5m and £5M to £7M. This, of course, takes no account of offsetting benefits which can be expected to accrue from more efficient performance under a Trading Fund regime.

6. It should also be noted that:

a. work for the USAF and work overseas has been assumed to form part of the PSA Trading Fund but to remain tied and charged to MOD at cost;

b. existing arrangements in respect of minor new works and maintenance are assumed to continue;

c. no separate treatement is proposed for the DEL, where costs would continue to be passed on to MOD as part of maintenance costs;

d. the Trading Fund option is not feasible unless accompanied by implementation of PSA's IT Strategy.

CIVIL SERVICE: BSA
Restructuring
Pt 2

Ref. A087/3703

PRIME MINISTER

Future of the PSA: Defence Estate

(at flap Pt 1

In January 1986, Sir Robert Armstrong sent you a report concluding that PSA should continue broadly in its present role for both civil and defence estates. You approved this approach subject to a review of the option of transferring to MOD the functions PSA perform in relation to defence estate management (a small proportion of PSA's total work on the defence estate). Since then a number of steps have been set in hand to improve PSA's performance, notably reorganisation of the UK territorial organisation (started in April 1987), a decision to introduce payment and untying for major projects on the civil estate (announced in July, to start in April 1988), and receipt of a report by Deloittes on introducing commercial accounts and establishing PSA as a Trading Fund.

2. Decisions on the Deloittes report, on whether payment and untying should extend to the defence estate, and, as Sir Robert Armstrong mentioned in his minute of 26 March this year, on the review of responsibility for defence estate management have, however, been waiting for the outcome of a report commissioned by the Secretaries of State for Defence and for the Environment on the totality of PSA work on the defence estate. That report, from a working group chaired jointly by MOD and PSA, has at last arrived and, because the two Secretaries of State cannot agree a recommendation, I have been asked to submit the attached copy to you.

3. You do not need to read all the report - it is a disappointment both in content and in the extent to which it has overrun its target reporting date of the end of May. The issues

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are set out, in form acceptable to MOD and PSA and Treasury, in my formal minute below, which summarises the report and the different Ministerial views. This minute, which I am not circulating to departments, sets out my own views.

4. The issue is whether to transfer all PSA work on the defence estate to MOD (the 'transfer option'); or whether to leave Ministerial and departmental functions and responsibilities essentially as they are and to seek improved performance by changes in the relationship between PSA and its MOD customers, primarily via the creation of a PSA Trading Fund for both civil and defence work, with departments untied from PSA (the 'untied Trading Fund' option).

5. Two questions underlie the choice:

i. the policy question of how best to achieve improved performance in work on the defence estate, for example by increasing competition or contractorisation; and

ii. the machinery of government question of whether the substantial organisational change implicit in the transfer option would produce benefits sufficient to justify its costs.

6. On the policy question, MOD argue that the transfer option, coupled with their intention to pursue contractorisation thereafter, would be more effective than an untied Trading Fund in securing improved performance. The Treasury have some doubts about this, which I share. MOD may find it more difficult to put work to private contractors when the consequence would be job losses within MOD than when any job losses would occur in another department (PSA), as would be the case under the untied Trading Fund option. Furthermore, earlier work by Sir Robin Ibbs and others indicates that large organisations in both the public and private sectors get the best results on major project

work by keeping the 'customer' role at arms length from project management.

7. MOD also argue that the transfer option would yield improved performance more quikly. An initial transfer could certainly be implemented sooner than the final establishment of a PSA Trading Fund, though MOD have only just begun to consider how they would integrate PSA staff into MOD after any transfer, or how long this would take. And efficiency gains are of course only secured once competition and/or contractorisation are introduced, which inevitably follows later.

8. The Trading Fund option is more clearly delineated, both because it builds on developments already in train for the civil estate and because the Deloittes report considers implementation in some detail. Although a Trading Fund could not be operational before 1992 or 1993, improved performance would begin to be stimulated much earlier by the intermediate steps of introducing payment and untying from (say) April 1989 and full commercial accounts from April 1991. ? Why so long?

9. My view, having looked at this issue while I was in the Treasury as well as since my arrival in the Cabinet Office, is that the untied PSA Trading Fund looks the more likely means of delivering better value for money to MOD as customers. This is because MOD are more likely to seek competitive quotations for their work if PSA is a genuinely untied contractor than if the PSA staff is transferred to MOD. On these grounds, I recommend in favour of the 'Trading Fund' option: machinery of government considerations, discussed in the following paragraphs, point in the same direction.

?!? 10. The transfer option would constitute a major organisational change, affecting some 16,700 UK staff (more, for example, than the entire Department of Trade and Industry or all but the largest half dozen departments). All past experience suggests

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MANAGEMENT IN CONFIDENCE

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that such a move would inevitably impose considerable disruptions, both for work on the defence estate and for the rump of PSA's continuing work on the civil estate. Those 16,700 staff, including a significant proportion of PSA's present Senior Open Structure posts, would be added to what is already by far the largest Government department, and MOD would then have to divert top management time from its many other concerns to the task of integrating the arriving staff into the MOD structure (a question MOD has not really begun to address yet).

11. There would also have to be a further review of PSA's civil work, and PSA's relationship with civil departments, a question which the current study did not consider other than in passing. The transfer of PSA's defence work - some 70 per cent of the total - would undoubtedly raise the costs of the residual but still substantial civil operation in the short term, and would probably require a significant relocation of offices and staff. In the longer term, it could be that a PSA civil operation would cease to be viable, and all departments would have to take on full responsibility for estates, buildings and works. While some civil departments may wish to go down this road anyway as they cease to be tied to PSA, complete fragmentation would not necessarily be the most cost-effective outcome for Government as a whole.

12. None of this means that the transfer option could not be implemented if you judged that desirable. It does however highlight the general point that major machinery changes cause disruption and impose costs, and that the burden of proof should therefore lie on the advocate of change to show that disruption would be outweighed by tangible future benefits not obtainable by other means. The attached report falls well short of making an adequate case for change in these terms.

13. It could be argued that the inadequacies of the present report are such that no decision should be taken now, and

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further study should be commissioned. Certainly there is considerable scope for improving the analysis currently available. But while the possibility that defence estate work may transfer to MOD remains open, a number of initiatives are stalled, or proceeding against a background of uncertainty. This delay has already lasted considerably longer than was expected when the present report was commissioned.

14. I would also judge that the inadequacies of the report do not undermine a basic analogy between civil and defence estate work: if current agreed developments - principally the introduction of competition via payment and untying for major projects and the PRS system for less major works, plus a restructuring of PSA on more commercial lines via territorial reorganisation, new information systems and commercial accounting leading ultimately to a trading fund (and maybe privatisation beyond that if all went well) - represent the right way forward for work on the civil estate, then this approach is likely also to be right for the defence estate, including as it would the key freedom for MOD to place work with the private sector rather than with PSA where this leads to better value for money.

15. I therefore recommend that you reach an in principle decision now, so that we can at last get ahead with improvements to work on the defence estate; and I recommend that you reject the transfer option, retain broadly the present allocation of responsibilities, and launch a programme of work leading to the establishment of an untied PSA Trading Fund. I know that Sir Robert Armstrong shared these conclusions.

16. If you accept this advice, there is a lot of further work to be done. It needs to cover:

i. arrangements to equip MOD with the ability to exercise an 'intelligent customer' function, as civil

Surely there are people there with enough seniority to do that now.

FRBAAM

departments are already doing, albeit on a smaller scale. This will probably need to involve a limited transfer of skilled staff from PSA, together with external recruitment or hire of consultants;

ii. the ways in which the general principles of project ownership, payment and untying should be introduced for the defence estate, as interim steps towards an untied PSA Trading Fund. An unresolved issue here is whether payment and untying should be introduced as soon as possible (most likely 1 April 1989), before commercial accounts could be introduced and a Trading Fund established. Treasury and PSA consider this would usefully bring forward in time pressure for improved performance, and it is the approach which has been adopted for the civil estate. But while MOD would welcome untying, they have strong reservations about a move to 'payment', principally because until it is a Trading Fund, PSA would have to continue to operate cost recovery pricing;

iii. the ways in which as high a proportion of PSA's defence work as possible could be untied in practice - the report indicates that there are difficulties in relation to some 44 per cent of the work, but that only 4 per cent in PSA's view could not in principle be untied. A key factor here will be establishing MOD access to relevant information held by PSA;

iv. the establishment of a timetable of the key steps leading to the eventual establishment of an untied Trading Fund.

17. My formal submission to you below, which the departments have seen, suggests that officials should report back to you on these matters within three months. Given the recent history of

FRBAAM

delays in this area, I suggest it might be better to give the Chief Secretary and the Treasury the lead responsibility for fulfilling this remit.

18. There is also a residual machinery of government issue, concerning the possibility of MOD taking over from PSA the defence estate management responsibility: as Sir Robert Armstrong mentioned in his minute of 26 March, he was about to put recommendations to you on this when the wider issue of future arrangements for all PSA work on the defence estate was raised. If you wished, you could ask me now to submit advice on this issue and also to advise whether, within the Trading Fund option, there would be merit in MOD taking over some parts of PSA's Directly Employed Labour (DEL). This is one of the 'non-trading' activities mentioned at paragraph 7 of my covering minute to the report. MOD have suggested that even under the Trading Fund option all these 'non-trading' activities should transfer to MOD. That would itself impose considerable disruption, but in the particular case of relevant parts of DEL work - staff operating boilers, etc. at defence installations, for example - limited transfer might offer the benefit of more direct lines of command in an area where untying could be most difficult and without imposing any great disruption elsewhere.

Handling

19. Given the long history of this issue, it would be perfectly reasonable for you to proceed directly to a decision on the basis of these papers. If you agree with the advice above, I --- attach a draft minute for Mr Wicks to send back to me. This gives the Chief Secretary the lead responsibility for pursuing the necessary follow-up work, following the precedent of recent work on civil estate issues: this might help to reduce the scope for further delays. I would take responsibility for the machinery issues discussed in paragraph 18.

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20. However, you may judge that you should hear the views of the Ministers concerned at first hand before reaching a decision, in view of the entrenched positions they have adopted: Mr Younger, for example, clearly feels strongly on the matter. If you do decide to hold a meeting, I will let you have a brief.

Trevor Woolley
(Private Secretary)

for F E R BUTLER

31 December 1987

Agreed by the Cabinet Secretary des. and signed in his absence

FRBAAM

DRAFT

MR BUTLER

FUTURE OF THE PSA: DEFENCE ESTATE

The Prime Minister has now considered Sir Robert Armstrong's minute of [23 December] and the attached High Level Working Group report. She has decided that the option of transferring all PSA work on the defence estate to MOD would impose more disruption than would be warranted by the potential benefits, and that in principle the Trading Fund option is the right way to stimulate improvements in the performance of defence estate work. She has however noted that the report does not resolve a number of questions on the ways this objective can be achieved. She has therefore asked that the Chief Secretary, in consultation with the Secretaries of State for Environment and Defence, should report back to her within three months with more detailed proposals to

(i) enable MOD to fulfil the role of intelligent customer;

(ii) implement in relation to the Defence Estate from 1 April 1989 the principles of project ownership, payment and untying, as an interim step towards a trading fund;

(iii) maximise the proportion of work on the Defence Estate to be untied, including maintenance and other non-trading activities;

(iv) establish a more detailed timetable for the steps leading to an untied PSA trading fund in 1992 at the latest.

2. In addition, the Prime Minister has asked you to report on the outstanding question of responsibility for defence estate management as a machinery of government issue, if the Secretary

of State for Defence wishes to pursue this issue. She has also asked you to consider, as a machinery issue and in consultation with the PSA, the MOD and the Treasury, whether there would be benefits sufficient to outweigh the costs of change from a transfer to the MOD those parts of PSA's Directly Employed Labour engaged entirely on day to day operations.

3. I am copying this minute to the Secretaries of State for Defence and the Environment, and the Chief Secretary.

N L WICKS

CIVIL SERVICE : PSA
Restructuring
Pt 2

MANAGEMENT IN CONFIDENCE

CC/BC

SECRETARY OF STATE FOR THE ENVIRONMENT

2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref:

Your ref:

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

28 July 1987

Dear John

Thank you for your helpful letter of ~~22~~ 21st July about arrangements for reporting on the PSA.

I am pleased you agree that the business plan should be the main means of assessing PSA's performance and agreeing performance indicators for its work. Like you, I believe PSA is making good progress in improving its performance measures. But there is a lot of work still to be done particularly in developing output measures in areas like maintenance. Although there has been a range of improvements in these areas over the last few years in terms of systems and management practice, it has often not been easy to quantify the benefits or properly to link cause and effect.

I am happy with the arrangements you suggest for PSA and Treasury officials to review all of this on an annual cycle and October seems a reasonable deadline for settling the broad terms of the performance indicators for the following financial year.

Copies of this letter go to the Prime Minister, George Younger, Richard Luce, Sir Robert Armstrong and Sir Robin Ibbs.

Yours ever

Nicholas

NICHOLAS RIDLEY

100% RECYCLED PAPER

CIVIL SERVICE : PSA PTL

MANAGEMENT IN CONFIDENCE

SECRETARY OF STATE FOR THE ENVIRONMENT

2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref:

Your ref:

P A Bearpark Esq
Private Secretary to
The Prime Minister
10 Downing Street
LONDON
SW1A 2AA

24 July 1987

CR
PL hf on 11/8 PJ 11/8 F PAB for info
MEW

Dear Andy,

PSA'S DEFENCE WORK

Thank you for your letter of 17 July.

The position is that the review of future arrangements for PSA's defence activities is still under consideration by officials. My Secretary of State is concerned that their work is taking longer than he would have wished. He understands however that the report is now nearing completion although it will almost certainly have to record diverging views about the way forward. There is thus every prospect that Ministers will have to reach a decision on the basis of differing recommendations.

As you know my Secretary of State attaches considerable importance to the announcement which the Chief Secretary made yesterday afternoon about the introduction of payment and untying for PSA's major civil new works. He sees this as a big step forward in terms of exposing the PSA to early competition. He is keenly aware that decisions about how further to improve PSA's competitive performance depend on, amongst other things, the outcome of the present review. He has therefore stressed to officials here the need for work to be brought to a speedy conclusion.

I am copying this letter to the Private Secretaries to the Secretary of State for Defence and to the Chief Secretary, and to Sir Robert Armstrong.

Yours sincerely,
Robin Eg.

PP DEBORAH LAMB
Private Secretary

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CIVIL SERVICE: PSA; PL 2

File

LPO

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

23 July 1987

Dear John

PAYMENT AND UNTYING FROM THE PSA

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

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

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

Yours ever

Andy

P. A. BEARPARK

John Howe, Esq.,
Ministry of Defence.

8RW

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CCBG

nbpm

CHIEF SECRETARY TO THE TREASURY

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon George Younger MP
Secretary of State for Defence
Ministry of Defence
Main Building
Whitehall
London
SW1A 2HB

22 July 1987

Dear Secretary of State,

PAYMENT AND UNTYING FROM THE PSA WITH ATS

Thank you for your letter of 21 July.

I see no difficulty about accepting your point that the announcement should not preclude subsequent consideration of the arrangements for the funding of defence works or for projects now regarded as part of the civil estate. Indeed I think this follows from the point I made in my letter of 20 July to Nicholas Ridley that MOD civil projects might need to be treated differently if they were transferred to the defence estate.

I am grateful for your agreement that, subject to these understandings, you will not press your reservation. Accordingly I am now arranging for the announcement to be made. A copy of the final text is attached.

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

Yours sincerely,

John Major

23.VII

pp JOHN MAJOR
(Approved by the Chief Secretary).

DRAFT STATEMENT TO PARLIAMENT

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

DRAFT REPLY

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

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

3. These changes are part of a continuing process which is designed to clarify the respective responsibilities of client and agent to ensure completion of projects to time and within budget. The introduction of payment will improve the incentive for the client Department to ensure, for example, that late and potentially expensive

CIVIL SERVICE
PSA PT 2

changes to specification are avoided. The introduction of competition, by untying Departments from PSA, will provide an opportunity for Departments to test other sources of supply as well as an incentive for further improvement of the efficiency of services provided by PSA.

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

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

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

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

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

9. PSA intends to move to a system of commercial accounting as soon as possible. When it does, PSA will be able to provide advance quotations on a comparable basis to those of outside agencies. In the interim it will be necessary for Departments to base their comparisons on the best estimates PSA can provide.

10. These arrangements will be reviewed in two years time.

11. The Government will take account of this reply in their response to the Select Committee on the Environment, whose report earlier this year on PSA recommended charging on a repayment basis and untying of Departments for some of the functions carried out by PSA.

007/4208

MANAGEMENT IN CONFIDENCE

CCBG

16pm

CHIEF SECRETARY TO THE TREASURY

Treasury Chambers, Parliament Street, SW1P 3AG

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

22nd July 1987

Dear Nick,

REPORTING ON PSA

Thank you for sending me a copy of your minute of ~~26~~ at trap June about the arrangements for reporting on PSA. I have also seen the Prime Minister's Private Secretary's letter of ~~10~~ July confirming the Prime Minister's agreement that these reports should be discontinued in their current format.

As your minute acknowledged, it is important for me to keep in touch with value for money issues. I suggest this is best done through PSA's business plan. This would avoid PSA having to produce any separate reports for the Treasury. It would also fit in with the Prime Minister's view that the development of the business plan should be encouraged as a vehicle for setting and assessing performance targets.

PSA has made an encouraging start on the development of improved performance measures. These could be built upon to provide a progressively improving framework for measuring the Agency's performance. My officials have already started discussing performance measures with yours in the context of the Public Expenditure Survey.

I suggest they should continue these discussions with a view to considering by the end of October whether the existing range of measurements could be enhanced or improved on. Those measures would then be incorporated into the business plan, for 1988-89.

CIVIL SERVICE : PSA PT2

MANAGEMENT IN CONFIDENCE

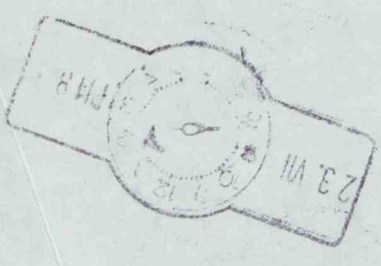
Officials would thereafter review once a year, at a convenient stage in your planning cycle, the range of measures and the actual targets to be ascribed to them (with the targets being progressively tightened up) in the next year's business plan for three years ahead, possibly the period covered by the Public Expenditure Survey. At the same time officials would be asked to report on the previous year's performance.

This would enable me to keep in touch with value for money questions without the need for any special exercises. If you agree, I suggest that officials should press ahead with this.

I am copying this letter to the Prime Minister, George Younger, Richard Luce, Sir Robert Armstrong and Sir Robin Ibbs.

Yours Ever,
John

JOHN MAJOR



CCBG

Ref. A087/2150

Prime Minister

PRIME MINISTER

Content for me to write on RTA proposal?

Payment and Untying from PSA

PSA 21/7

I think that in the light of the Chief Secretary's letter of 20 July you may wish to write endorsing his proposal for an announcement on this matter tomorrow.

2. Mr Bearpark's minute of 23 December 1986 recorded your endorsement of Mr Brooke's view that there was a need for early decisions on the question of payment for and untying of PSA services. In January the Treasury Working Group on Major Capital Projects recommended the introduction of payment and untying, and went on inter alia to recommend further study of the applicability of these principles to the Defence Estate. The recommendations were discussed by Permanent Secretaries, and then put to all members of the Cabinet and other Ministers in charge of Departments in the then Chief Secretary's letter of 24 April to the Secretary of State for the Environment.

3. The present Chief Secretary has followed this up with a letter of 7 July proposing an arranged Parliamentary Question to announce the introduction of payment and untying for major civil projects. The Secretary of State for Defence asks, however, in his letter of 10 July, that the statement exclude not only projects on the Defence Estate (which is accepted, pending the outcome of the further study recommended by the Treasury Working Group) but also that part of the Civil Estate occupied by the Ministry of Defence.

4. The Chief Secretary and the Secretary of State for the Environment are understandably concerned that this issue should not delay the Chief Secretary's intended announcement beyond the

PSAAAR

Summer Recess, and perhaps even put at risk the ability to implement payment and untying by the target date of April 1988, which has always been recognised to be a tight timetable. Mr Bearpark has already written to Mr Ridley's Private Secretary asking when the study on defence projects, to which the Secretary of State for Defence refers, will be completed. To add this further issue to the Group's remit would only delay their report even longer. This would be undesirable because, as the PSA Chief Executive noted in the report attached to Mr Ridley's minute to you of 26 June, until this group has reported and decisions have been taken on future arrangements for the Defence Estate, it is not possible to bring to a head consideration of other proposals for PSA - notably the recommendations from Deloittes that PSA should establish commercial accounts and operate on a Trading Fund basis. Mr Ridley's further letter of 15 July makes clear how fundamental this is to settling the way PSA operates in future. The Chief Secretary's letter supports that, noting helpfully that this need not rule out other options that the Secretary of State for Defence may want to consider in the longer term.

5. I imagine therefore that you will want to indicate your support for the Chief Secretary's intended announcement, proceeding as planned. I attach a possible draft letter to the Ministry of Defence.

RA

ROBERT ARMSTRONG

21 July 1987

PSAAAR

LOBALTY

PRB

DRAFT LETTER FROM MR WICKS TO J F HOWE ESQ,
PS/SECRETARY OF STATE FOR DEFENCE

Payment and Untying from the PSA

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

She was not, however, aware that any question existed as to the application of payment and untying to that part of the Civil Estate which is occupied by your Department. She is not clear why one part of the Civil Estate should be treated differently from others in this respect, and believes therefore that there should be no delay to the announcement from the Chief Secretary relating

PSAAAS

to the Civil Estate before the Summer Recess. She has noted that interrelationships between different studies relating to the PSA have often led to delay in implementing recommended reforms and considers that this should be avoided on this occasion.

I am copying this minute to the Private Secretaries to Members of the Cabinet and Ministers in charge of Departments, and to Sir Robert Armstrong and Sir Robin Ibbs.

PSAAAS

CIVIC SERVICE

PSA

PTZ

CCBC

MINISTRY OF DEFENCE WHITEHALL LONDON SW1A 2HB

MO 10L

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

21 July 1987

Dear John,

PAYMENT AND UNTYING FROM THE PSA

WITH PAB/PM's BOX

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

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

The Rt Hon John Major MP

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

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

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

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

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

Yours ever,

George.

George Younger

020/3298

CC B/Gt

awaiting RTD comment (promised by Tues)

Treasury Chambers. Parliament Street. SW1P 3AG

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

20th July 1987

Dear Nick,

PAYMENT AND UNTYING FROM PSA

Thank you for your letters of 9 and 15 July, the latter in response to George Younger's letter to me of 10 July. I have also heard from Michael Havers.

I endorse what you say about the importance of an early move to payment and untying for civil projects. While it is true that payment will initially have to be on the basis of cost recovery, I would not accept George Younger's view that this will not lead to any improvement in control. The introduction of Vote responsibility will help to ensure that departments think more carefully about the financial consequences before changing specifications or increasing the scope of projects. I see this as an important step in developing the concept of project ownership which the Prime Minister endorsed in November 1985. Furthermore without payment, untying would not be possible.

As George has pointed out, arrangements for the defence estate are being examined separately, and I do of course accept that we shall need to consider decisions about defence estate

work in the light of the outcome of that review. The changes announced in the statement clearly relate only to civil projects, so there is no problem here.

But I agree with you that the proposal in George's letter that the announcement should make it clear that the arrangements are for works projects in civil departments does cause difficulty. I understand that it has always been the intention that a common system would be introduced for civil estate projects, including those commissioned by MOD for their headquarters office use. If MOD had doubts on that score, I would have expected them to have been raised in response to John MacGregor's letter of 24 April, rather than left to the very last moment.

Like you, therefore, I think it would be right to proceed on the basis that, as matters stand at present, MOD's civil projects will be handled on the same basis as those for other departments. That would not preclude a change in treatment if, as a result of the current review of the defence estate and your consideration of the Deloittes proposals, it were to be decided subsequently that it would be sensible in estate management terms for MOD's offices currently forming part of PSA's civil estate to be transferred to the defence estate. In that case, it would follow that they should be treated in the same way as defence estate projects. This should meet George's concern about not closing off options for the future.

I am pleased to have Michael Havers' agreement to the introduction of the changes in his department next April. The question of additional manpower and financial resources is one that I shall need to consider with him during the course of the Public Expenditure Survey. I note that his officials will be in touch with mine about this.

I agree with you that it is highly desirable that a public announcement should be made before the Recess, so that PSA and departments can press ahead with the necessary development work to meet the agreed implementation date of April 1988. I propose therefore to arrange for a Question to be put down for answer on Wednesday 22 July on the basis of the revised ... draft attached, which incorporates the two small drafting amendments you have proposed.

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

Yours Ever,

John

JOHN MAJOR

DRAFT STATEMENT TO PARLIAMENT

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

DRAFT REPLY

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

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

3. These changes are part of a continuing process which is designed to clarify the respective responsibilities of client and agent to ensure completion of projects to time and within budget. The introduction of payment will improve the incentive for the client Department to ensure, for example, that late and potentially expensive

CIVIL SERVICE : PSA : PT2

changes to specification are avoided. The introduction of competition, by untying Departments from PSA, will provide an opportunity for Departments to test other sources of supply as well as an incentive for further improvement of the efficiency of services provided by PSA.

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

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

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

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

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

9. PSA intends to move to a system of commercial accounting as soon as possible. When it does, PSA will be able to provide advance quotations on a comparable basis to those of outside agencies. In the interim it will be necessary for Departments to base their comparisons on the best estimates PSA can provide.

10. These arrangements will be reviewed in two years time.

MANAGEMENT IN CONFIDENCE

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

17 July 1987

Dear Deborah

PSA's DEFENCE WORK

Your Secretary of State's minute of 20 March on the future of the PSA described the study which had been commissioned by your Secretary of State, and the Secretary of State for Defence. The Working Group which was to undertake this was described as having been asked to report by the end of May. Could you please let me know if its work is complete? The Prime Minister is aware of the recent correspondence about payment/untying arrangements, and I know she is anxious that a speedy conclusion be reached on defence work.

I am copying this letter to the Private Secretaries to the Secretary of State for Defence, the Chief Secretary and to Sir Robert Armstrong.

Yours ever

Andy

P. A. Bearpark

Miss Deborah Lamb,
Department of the Environment.

MANAGEMENT IN CONFIDENCE

CC PSG

SECRETARY OF STATE FOR THE ENVIRONMENT

2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref:

Your ref: 16pm

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

15 July 1987

Dear Chief Secretary,

file with PAB

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

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

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

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

100% RECYCLED PAPER

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

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

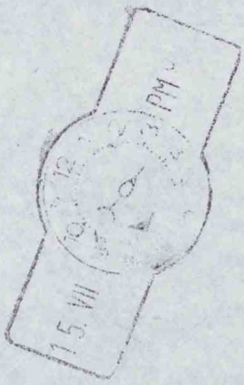
I hope it will be possible to settle this very quickly so that we can keep up the momentum planning for implementation on 1 April 1988. It is highly desirable that an announcement is made in the House and with Parliament rising on 24 July time is getting short.

I am copying this letter to recipients of yours.

Yours sincerely,

Deborah Lamb

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



Civil Service: PSA PT2

CC8G

Ref. A087/2075

MR WICKS RA 17/7

Reporting on PSA

attap

The Secretary of State for the Environment sent me a copy of his minute of 26 June.

2. In it he proposes the discontinuance of the six-monthly reports which were first commissioned in January 1986, and their replacement by submissions on individual proposals as appropriate.

3. Considerable pressures are now in place which bear on the PSA, notably the recommendations for Deloittes for commercial accounts and a trading fund, and implementation of decisions on payment and "untying" for major capital projects. Moreover the present Secretary of State is (as he says) taking a much closer interest in the PSA than his predecessors. For my part I agree that, in the changed circumstances, the Prime Minister need not resist the proposal to discontinue the six-monthly reports, though I think they have served a useful purpose. If she subsequently came to the conclusion that the discipline of the six-monthly report needed to be reasserted, she could always ask for its resumption.

RA

ROBERT ARMSTRONG

14 July 1987

CIVIL SERVICE: PSA PTZ

CUSG

16pm

MINISTRY OF DEFENCE WHITEHALL LONDON SW1A 2HB

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

MO 10E

10 July 1987

Dear John,

PAYMENT AND UNTYING FROM THE PSA

Fat flap.

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

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

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

The Rt Hon John Major MP

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

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

Yours ever,

George

George Younger

R13

FROM THE RIGHT HONOURABLE LORD HAVERS

cc JBG

HOUSE OF LORDS,
LONDON SW1A 0PW

10 July 1987

nbpm

Dear John,

PAYMENTS AND UNTYING FROM PSA

cat flap

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

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

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

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

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

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

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

Copies of this letter go to the recipients of yours.

Yours ever,
Michael.

MANAGEMENT IN CONFIDENCE

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

10 July 1987

cc BG
10/7
28

REPORTING ON THE PSA

The Prime Minister has seen your Secretary of State's minute of 26 June with which was enclosed the second six-monthly report on the PSA. The Prime Minister agrees that these reports have now served their purpose, and is content that they may be discontinued in their current format. She has further proposed that the PSA should be encouraged to develop their use of the business plan as a vehicle for setting and assessing their performance targets.

I am copying this letter to Jill Rutter (Chief Secretary's Office), John Howe (Ministry of Defence), Michael Stark (Minister of State, Privy Council Office), Sir Robin Ibbs and Trevor Woolley (Cabinet Office).

P A BEARPARK

Brian Leonard, Esq.,
Department of the Environment

MANAGEMENT IN CONFIDENCE

CCBT

SECRETARY OF STATE FOR THE ENVIRONMENT

2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref:

Your ref: n6pm

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

9 July 1987

Dear John

PAYMENT AND UNTYING FROM PSA

FILE WITH PAD

Thank you for your letter of 7 July.

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

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

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

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

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

I am copying this letter to the recipients of yours.

Yours ever

Nicholas

NICHOLAS RIDLEY

100%
RECYCLED PAPER

CIVIL SERVICE : PSA PTZ

CCBG

MR BEARPARK

REPORTING ON PSA

FILE WITH AR

We have seen a copy of Mr Ridley's minute of 26 June on the latest 6-monthly progress report on PSA.

We would agree that there is no real benefit in having detailed 6-monthly progress reports covering the activities of the PSA. However the changes that Mr Ridley has put in hand will take some time to be fully implemented and there is a strong case for maintaining formal performance reporting in the interim.

The obvious means is to use the annual business plan which the PSA draws up which sets performance targets. The PSA should be encouraged to develop their use of the business plan as a vehicle for setting and assessing performance targets.

KATE JENKINS
8 July 1987

Prime Minister

This is the regular PSA report. Content to discontinue it and use the business plan instead ?

9/7.

CIVIL SERVICE

PSA

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009/4206

CCBG

Treasury Chambers, Parliament Street, SW1P 3AG

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

Dear Nick,

7th July 1987

PAYMENT AND UNTYING FROM PSA

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

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

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

Yours Ever, John

JOHN MAJOR

4385/009

DRAFT STATEMENT TO PARLIAMENT

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

DRAFT REPLY

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

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

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

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

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

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

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

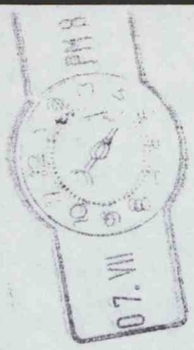
7 Second, Departments will need to satisfy the Treasury of their capacity to use alternative agencies.

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

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

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

10 These arrangements will be reviewed in two years time.



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MANAGEMENT - IN - CONFIDENCE

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SECRETARY OF STATE FOR THE ENVIRONMENT

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BF

Re draft of RTA or Efficiency Unit visit to commit

PMS

Prime Minister

REPORTING ON PSA

I have now received the second six-monthly report (attached) on the PSA which Sir Gordon Manzie has put forward as a result of Sir Robert Armstrong's minute to you of 14 January 1986 and your approval relayed in your Private Secretary's minute of 10 February 1986.

As you know I have instituted major changes in the way PSA is to be run in future: the adoption of commercial accounts leading to PSA becoming a trading fund; the bringing forward of PRS; and the crucial discussions to decide the future relationship between MOD and PSA. It is these matters which are important and on which I will of course keep you and colleagues informed.

The present procedure whereby my Departmental Head circulates for comment a report on the day to day running of the Agency seems to cut across my own Ministerial responsibility for the PSA. I can understand that there might have been good reasons for an unusual procedure of this kind 18 months ago when the financial structure and scope of PSA's operations were taken as settled for the immediate future. But I no longer see a case for continuing with it now that I am promulgating these key changes in PSA, and taking a close and direct interest in day to day management. If you agree, I propose that these reports should be discontinued. Instead, I would expect to consult you as and when important matters arise, to keep directly affected colleagues informed, and to ensure also that the Chief Secretary and Sir Robert Ibbs are kept in touch with value for money issues. In addition, we now have the forum of E(GA), established last year, whose purpose is

MANAGEMENT-IN-CONFIDENCE

to keep under review the allocation of accommodation to Government Departments in the inner London area.

I am copying this minute to John Major, George Younger, Richard Luce, Sir Robert Ibbs and Sir Robert Armstrong.

N R

26 June 1987

Secretary of State

PROPERTY SERVICES AGENCY

1. This is my second six monthly progress report to you about the Property Services Agency. Formally it covers the period from 1 October 1986 to 31 March 1987, though I also deal with certain matters which came to fruition during the first fortnight of April 1987.

AIMS AND OBJECTIVES

2. We have continued to develop our MINIS system during the current round in the light of performance against targets set for 1986/87. In particular, we have devoted considerable effort to setting common targets for the Agency as a whole and discussing them with line Directors so that they are fully aware of what is required of them. The MINIS 8 round was brought forward so that objectives could be agreed prior to 1 April 1987. MINIS has now been extended down the line as far as District Works Office level.

3. We have again prepared a Business Plan covering the Agency's four main businesses of estate management, maintenance, new design and management of construction. This has been enhanced, as requested by Ministers, to show performance against the main objectives set in the previous years Business Plan, and has been extended to cover the central Finance and Establishments functions. A key feature of MINIS incorporated into the Business Plan is the application of output measures to assess performance on management of capital projects against cost and time targets. The new objectives and targets were discussed with Treasury and the Efficiency Unit and we shall have the opportunity to review actual performance last year with them in the context of discussions on value for money.

MAIN POLICY DEVELOPMENTS

Commercial Accounts and Trading Fund

4. The outside consultants commissioned to look at PSA's accounting and internal management systems submitted their final report in the first week of April. Their key findings are summarised at Annex A. Their report provides the basis for Ministers to decide on the extent of PSA's central responsibility for managing the Government's civil estate; and whether PSA should adopt commercial accounts and thence be financed as a Trading Fund rather than from Parliamentary Votes. The speed at which decisions about a Trading Fund can be taken depends on whether this particular option is apt for defence as well as civil activities (see paragraphs 5 and 18 below). The consultants' report also indicates the timescale over which decisions could be implemented. Assuming that the necessary information technology can be put in place in time (see paragraphs 14 and 18 below), full commercial accounts could be introduced at the beginning of 1991/92, with a Trading Fund being established a year later.

Application of Commercial Accounts/Trading Fund to Defence Activities

5. As the consultants developed their work on commercial accounts, we took especial care to keep Ministry of Defence, our major customer, in the picture at official level and you made contact with the Secretary of State for Defence. It became clear that Mr Younger was disinclined to consider a move towards commercial accounts and thence to a Trading Fund, as the sole option for the defence work carried out by PSA. He and you therefore agreed to set up a Working Group of senior officials from PSA, MOD, the Treasury and the Cabinet Office to examine not only that option but also the alternative of transferring all PSA defence functions to the MOD. This Working Group should report shortly. Decisions on commercial accounts and a Trading Fund for the entirety of PSA's operations can only be taken once Ministers have received and assessed the Working Group's report. In view of this work, no decision has been sought on the study carried out last year by the Cabinet Office into the narrower question of whether management of the defence estate should remain with PSA or be returned to MOD.

Repayment and Untying: Major Capital Projects

6. Over the past six months, a Treasury led Working Group has

investigated the handling of major capital expenditure projects in Government. PSA has been involved in the Working Group, whose outcome promises to affect the entire character of our operations. You have recently replied to the Chief Secretary indicating your strong support for the Working Group's recommendations. The chief effect of these recommendations on PSA would be to transfer to individual Departments from 1 April 1988 the responsibility for funding and overseeing the majority of major civil projects, with PSA providing its services on a repayment basis. At a later date, Departments would be untied from PSA ie would have the choice between using PSA or outside agents. These recommendations seek to clarify PSA's financial responsibility and sharpen our competitive edge. As such, they complement moves towards commercial accounts and a Trading Fund, even though certain inconsistencies between the two sets of proposals still need to be resolved.

Responsibility for Minor New Works and Maintenance

7. Preparations were completed for the further transfer of work to civil client departments on 1 April 1987, under the PRS standard option (and for the extension during 1987/88 of Local Works Budgets on the defence estate). The radical option experiments were launched in most places on 1 October 1986 and Consultant Building Surveyors have been commissioned to monitor the results. Future handling of minor new works and maintenance has been the subject of intensive study in the InterDepartmental Committee (IDC) on accommodation under PSA Chairmanship. A detailed report at official level produced in January mapped out the lines for development, and identified the areas requiring further study over the next 2 years, notably the transfer of financial responsibility for minor new works and for much of maintenance to individual Departments. But work in this field will have to be related to consideration of the issues already raised on central management of the civil estate (see paragraph 4 above).

Select Committee on the Environment: Inquiry into PSA

8. The Select Committee on the Environment under the Chairmanship of Sir Hugh Rossi MP carried out their inquiry into PSA, and published their report on 8 April. Its main conclusion and its recommendations are at Annex B. Most of these relate to matters which were already under consideration within Government. In particular, their findings are relevant to the

work which we had already commissioned from consultants on commercial accounts, in which we participated as members of the Treasury Working Group on major capital projects,or which had been continuing under our Chairmanship in the Inter-Departmental Committee on accommodation. A Government response to the Select Committee report should be made before the Summer Recess.

MANAGEMENT

Reorganisation of the United Kingdom Territorial Organisation

9. Our proposals for reorganisation were modified as a result of consultation with other Departments, with staff and with Members of Parliament for areas affected. The main features, however, were not affected: the removal of an intermediate tier of management so as to give a shorter chain of command, integrating our estate and works sides more closely and concentrating our design resources. You announced on 23 March your decision to proceed on this basis. Implementation of the decision, which will involve the closure of ten local offices, started on 1 April.

Maintenance

10. The backlog of essential maintenance on the civil estate at the end of 1986/87 was still of the order of £100M. The prospect of making substantial inroads into the backlog, or even of eliminating it over a period of years, depends, as the Select Committee on the Environment recognised, on whether the Government consider that the case for action outweighs competing claims for expenditure. This is an issue for the PES round now starting.

Staff Resources

11. Overall staff numbers have reduced from 23,153 to 22,801 since we last reported in October 1986. The difficulties of recruiting and/or retaining key staff persist, particularly in the Professional and Technical (P and T) grades and in the South East where the vacancy rate is 5 times higher than elsewhere in the country. It remains to be seen whether the recently agreed pay settlement for P and T staff will improve the position. Directly Employed Labour in the industrial grades (DEL) continues to offer the best opportunities for further reductions. Since

October their numbers have fallen by 245 to a total of 8974. Reduction to 7,500 DEL in 1991 by natural wastage remains the goal agreed by Ministers.

District Management Reviews

12. The first 2 yearly cycle of District Management Reviews (DMRs) was completed by 31 March 1987 for virtually all 150 District Offices. The second 2 yearly cycle began on 1 April 1987.

Fraud and Corruption

13. In the "News of the World" case committal proceedings resulted in all but one of those already charged with offences being committed for trial at the Old Bailey later this year. We can expect further adverse publicity when the trials take place. The total number of new fraud and corruption cases reported in 1986 was 19, of which 8 involved contractors. In the first three months of 1987, 7 new cases were reported, of which 2 involved contractors. In all cases the irregularity which is the subject of the report appears to be a "one off" occurrence. There is still no evidence of any widespread and organised problem such as that revealed by the "News of the World" case in London. Although the worst cases now appear to be behind us, this is an area where we must continue to be vigilant and thorough.

Information Technology

14. Implementation of an information strategy is a massive task, but we are still on course towards meeting our timetable. Subject to Treasury, we intend during 1987 to invite tenders, under EEC and GATT procedures, for the necessary hardware to create an Agency-wide infrastructure on which to run the new information systems, and to let a contract during 1988. As the Deloitte's report (see paragraph 5 above) brings out, the introduction of commercial accounts and any move towards a Trading Fund will depend crucially for their success on adequate management information. This will only be available through development of the new strategic systems.

Professional Services

15. I outlined in my previous report my misgivings over the provision of professional services in PSA and suggested that this subject might be suitable for investigation by an Efficiency Scrutiny. A Scrutiny was in fact launched in January and has now submitted a report. I shall review its findings with Mr Chope and you shortly. We shall of course want to take account of views from Sir Robin Ibbs, who is also studying the report at present.

Project Management

16. My previous report mentioned that we had undertaken a review of our project management practices. This was overtaken by a proposal from the Central Unit on Purchasing (CUP) to investigate project management in Government, starting with a six to nine month study in PSA. The upshot was that the CUP and we agreed to pool our resources in a joint study, taking the form of an Efficiency Scrutiny, into project management in PSA. Mr Chope and Sir Robin Ibbs positively endorsed this step. The joint study team have been asked to report by late summer. This exercise is a practical example of how to make the best use of different organisations within Government. I consider it especially important because it is to report on an area that is vital to PSA's future performance in providing schemes on time and within budget.

Disposals

17. Disposal receipts over the year ending 31 March 1987 amounted to £41M for civil and £75M for defence property respectively. These figures compared favourably with the targets set at the beginning of the year of £24M (Civil) and £50M (Defence). The achievement reflected a conscious PSA policy of giving disposals a high priority. Management at all levels has been concerned to maintain momentum, both through the improved procedures introduced in the wake of previous inquiries and through taking a vigorous interest in the progress of individual cases. Targets of £37M (Civil) and £68M (Defence) have now been set for 1987/88. I regard these as tough and stretching, but achievable. I mentioned in my previous report the intention to look at whether buildings on the Government estate could be transferred to the private sector. The direction now being taken in this field is to explore the practicability of private sector funding for particular sites for mixed Government offices and private development.

CONCLUSIONS

18. The period since my last report has been dominated by UKTO reorganisation and by policy work affecting the future development of PSA. Our priority over the next six months must be to convert policy work into decisions about the structure and functions of PSA. The immediate critical path lies through a decision on the handling of PSA's defence activities once the Working Group on defence activities has reported (see paragraph 5 above). This will in turn enable decisions on commercial accounts, a Trading Fund and untying to be taken for all of PSA's work. Implementation of the IT strategy is a key element in the timetable. Once these various decisions have been taken, the way will be open to resume planning over a longer time horizon. Work on a medium term strategy has necessarily had to be set aside over the past year. But I should like to believe that it can be resumed soon.

19. As policy is translated into firm plans, I see a need for top management to focus intensively on the range of day-to-day matters which we diagnose as key to performance under any changed structure. This is a task in which the three non-executive PSA Board members from the private sector have already expressed much interest. I intend to enlist their active participation.

20. Success in carrying through proposed changes and in improving performance still depends on exploiting the strengths and professionalism of PSA staff. I have made no secret to Mr Chope and you of my concern at the potential damage which low staff morale could inflict. But, insofar as remedies lie within PSA, we have taken significant action to prevent such damage from being realised. Staff have been brought up-to-date with current developments. With your agreement, I wrote to each member of PSA on 26 March (see Annex C) explaining the changes that were due to take place or were in prospect. I also instructed line Directors on 13 April to ensure that all staff were aware of the Select Committee on the Environment's findings. I see these messages, along with top management's determination to carry on visiting local offices widely and frequently, as important steps in securing the staff co-operation and commitment.

21. I am copying this minute to the Private Secretaries to the Prime Minister, the Secretary of State for Defence, the Chief Secretary to the Treasury and the Minister of State, Privy Council Office; and to Sir Robin Ibbs and Sir Robert Armstrong.

GORDON MANZIE
Chief Executive
Property Services Agency
24 June 1987

ANNEX A

KEY FEATURES OF DELOITTE'S REPORT

All PSA work should be put on a commercial accounting basis. If defence work is not included, the rest of PSA is likely to be unviable commercially.

Commercial accounts will involve putting all services on to a 'market price' payment basis and untying customers from PSA.

PSA should be divided up into project, estate and civil property ownership functions for accounting purposes. But at least initially organisational change should be kept to the minimum.

(This involves substantial cross-changing between the 3 PSA business and a matrix structure for organisation and reporting. This is envisaged as a permanent solution but raises the possibility of some disaggregation in long term).

Whilst PSA could stop short at commercial accounts, it would be highly desirable to proceed to a trading fund. And if a fund were established it could be turned into a PLC later. Trading fund or PLC status would require minimal change in the basic commercial accounting systems.

Within PSA operations should be broken down into a large number of cost centres.

(Where cost centres produce saleable services they will also be profit centres. This will represent the fullest possible application of FMI principles of delegation of responsibility to local managers, budgeting, and output/performance measurement as applied to the PSA's handling of clients' programmes. Responsibility for accounting for the programmes themselves will shift completely to the customers).

The civil Estate should be divided into a specialised category where ownership and management responsibilities will essentially be with occupying departments and the common user estate it will be necessary to have strong central ownership and management.

A form of coarse commercial accounts accounts could be available in the 1980s; realistically 1989 rather than 1988. More work will be needed to identify the IT and user resources required for coarse accounts, possibly at the expense of developing the longer term systems.

Full commercial accounts could be available in the early 1990s; realistically 1992 rather than 1991. The constraint here is the IT system changes which are needed. It will also be desirable to operate the accounts for a year before moving onto a trading fund.

ANNEX B

86. Accordingly we recommend that:

(a) new financial arrangements should be established for PSA based on commercial accounts and a Trading Fund under the Government Trading Funds Act 1983;

(b) in any future system, a central body of PSA expertise should be retained as one unit, as a source of specialist expertise to Departments and other clients (covering such matters as major prestige projects, technical services, etc) and as landlord of the civil office and storage estate;

(c) in the light of (a) and (b), PSA should be restructured to create a leaner, fitter and more professional organisation with reduced overheads, eliminating the wasteful overlap between professional and administrative work identified in paragraphs 54 and 55, so that PSA can compete effectively and provide an efficient service in all its traditional areas of work;

(d) PSA should be allowed to manage the civil office and storage estate more positively, to ensure that the estate is controlled strategically as a major property resource. It should also have control over major new construction work in this sector;

(e) the delegations to Departments for lesser works and maintenance of the office and storage estate should be gradually extended. Charging should be put on a repayment basis, with the eventual aim of untying Departments from the requirement to use PSA;

(f) the specialised buildings (such as courts, research laboratories, prisons) should, subject to our recommendation in (h), become the responsibility of occupying Departments, both for management and for capital works and maintenance. There should be a gradual move to a repayment basis, and an eventual aim of untying Departments from the requirement to use PSA;

(g) strategic control of the defence estate should be given sharper focus, and its management and capital works programmes should gradually be untied from the requirement to use PSA;

(h) any changeover of responsibility should be carefully phased to enable the training of existing Departmental staff in new accommodation skills, and to allow for some transfers or secondments of PSA staff to Departments.

We also recommend that:

(i) the Government should devote a greater share of available resources to maintenance in order to prevent the need for even larger expenditure in the long run. (para. 39)

(j) attention should be paid to the adequacy of Departments' training programmes and to arrangements for internal audit. We hope that both Treasury and the National Audit Office will keep a particular eye on such matters during the present transitional stage (para. 46)

(k) PSA should establish a working party with representatives of the industry including applicant firms as well as firms established on the PSA list to reach joint agreement on listing, tendering and contract procedures to be followed in the future (para. 62).

Department of the Environment

PSA

Property Services Agency

Chief Executive Sir Gordon Manzie, KCB

2 Marsham Street London SW1P 3EB
Telephone 01-212 7651
Telex 22221
Fax No 212 0044

ANNEX C

26 March 1987

Dear Colleague,

CURRENT DEVELOPMENTS IN PSA

I am writing to you about current developments in the Agency. Important changes are due to take place or are in prospect. The Secretary of State and I are anxious that you should know about these.

UKTO Reorganisation

We are about to embark on an immediate and significant change. Reorganisation of the United Kingdom Territorial Organisation is going ahead from 1 April. You may like to have the enclosed copy of the Parliamentary Answer announcing this. I believe the change will give us the opportunity to improve our efficiency, and serve our clients better.

Relations with Other Departments

From 1 April as well, decisions already taken will affect our relationships with our client Departments. On the civil side, the Property Repayment System (PRS) is to give further delegations to clients on both minor works and maintenance. Two Departments, the Department of Health and Social Security and the Department of Employment, will test a more radical option. This will mean their taking on an even greater responsibility for the accommodation they occupy. On the defence side, Local Works Maintenance Budgets (LWMB) will be introduced at more sites next year.

I know that these extensions of PRS and LWMB may cause misgivings. But individual Departments have, as a matter of Government-wide policy, been given in recent years more responsibility for their operations, including accommodation. PSA stands to benefit from this. Our skilled staff resources are limited. They must be put to best use. So it makes sense

for us to concentrate on the more complex areas of work, and to confine ourselves to providing guidance on the other tasks which Departments can take on for themselves.

We have to adjust to developments in PRS and LWMB. At the same time, we must build on our improving relations with our clients. This is vital for an Agency whose purpose is to meet the requirements of other Government Departments.

Commercial Comparison

Further developments concern our ability to stand comparison with the outside world. We must be able to measure up to private sector competition. My aim is to provide methods for doing so.

We ourselves commissioned consultants last autumn to look at the practicability of adopting a system of commercial accounts. There is no magic in commercial accounts. They are simply the best means of identifying what costs we incur, which clients we incur them for, and how our costs compare with the private sector. If adopted, they might lead to the Agency as a whole becoming a Trading Fund on the same lines as the Crown Suppliers. Our consultants have already indicated that, provided our management information systems are improved, commercial accounts could be introduced. The consultants' final report should reach us shortly. But whatever their detailed findings, commercial accounts will help us to judge our performance properly against the best private sector practice. That itself would be valuable.

We have to play our part in putting wider Government policy into practice. Where a public sector body provides goods or services, the Government expects performance to be tested against outside competition from the private sector. If the public sector can carry out the job better, they should continue to do it. If not, the private sector should replace them. One proposal for giving effect to this policy has emerged from a Treasury Working Group on which PSA was represented. The proposal is for client Departments to be "untied" on major capital projects ie they should have the choice between going to PSA or outside agents. Ministers have not yet taken a decision on this. But I see no reason for PSA to be afraid of untying. Our general performance compares well with that of private consultants. We certainly have the professional knowledge and technical know-how to compete effectively. Provided we deliver our work on budget and on time, we should keep our business.

Select Committee on the Environment

The Agency is at present the subject of an inquiry by the Select Committee on the Environment under the chairmanship of Sir Hugh Rossi MP. We provided the Committee with factual written evidence last autumn. Between November and January, the Committee held eight sessions of hearings from a selection of Government Departments, and outside organisations and individuals. I gave oral evidence at their first session. Mr Christopher Chope, as the Minister with special responsibility for the Agency, gave evidence at their final session. The Committee are now considering their conclusions.

Visits and Letters

The normal channels of line management enable me to learn about your concerns. They also provide established machinery for Ministers and senior management to pass on to you their policies and decisions. We must use these lines of communication fully.

But in addition to these, I intend continuing my programme of visits. It is now over two and a half years since I took over as Chief Executive. Since then, I have been to some 140 Headquarters and local offices. I have found it extremely valuable to hear your views and concerns at first hand. The knowledge I have gained has helped me to rebut those criticisms of the Agency which I regard as unfair or misplaced.

To supplement my visits, I propose sending out from time to time letters such as this. We are going through a key period of transition. I want therefore to keep you directly in touch with what is happening.

Conclusion

As civil servants, we are of course subject to Ministerial policy which is bound to change over time. We must be ready to respond to this. I have been impressed at the distinctive, sometimes unique, expertise which we have and at the vigorous way in which so many staff have already tackled a variety of important initiatives. I do not underrate the challenges now facing the Agency. But it is up to us to show that we can meet them. I believe we can do so.

Yours sincerely,

Gordon Manzie.

GORDON MANZIE

HOUSE OF COMMONS: MONDAY 23 MARCH 1987

PARLIAMENTARY QUESTION AND ANSWER

Mr Allan Stewart (Eastwood):

To ask the Secretary of State for the Environment, whether he has yet reached decisions on the proposed reorganisation of the United Kingdom Territorial Organisation of the Property Services Agency.

Mr Christopher Chope

My Rt Hon Friend and I have decided to proceed with the PSA reorganisation from 1 April 1987, although in a number of cases closure will be effected over time and some staff may remain outstationed in the interim. We are satisfied that the proposals to merge the Regional and Area tiers of management will yield considerable managerial and cost benefits.

The pattern of Regional Offices in England and Wales will be unchanged and the effect on existing Area Offices and Area Estates Offices is given in the table below. This excludes the South East Region where reorganisation has already begun, and London Region which is the subject of a separate study.

Although in Scotland the Aberdeen and Glasgow Area Offices will close we have decided to retain a substantial PSA presence in both locations to handle maintenance and estates functions. All design work will ultimately be concentrated in Edinburgh.

The current Area Office at Rosyth will close with essential functions being transferred to Edinburgh.

REGION/ DIRECTORATE	HEADQUARTERS	AREA OFFICE	REMARKS
Scotland	Edinburgh	Aberdeen *	Retained as an outstation.
		Glasgow *	Retained as an outstation.
		Rosyth	To close.
North West	Manchester	Lisburn *	Retained as an outstation.
		Preston *	Retained as an outstation (Note 1).
North East	Leeds	Newcastle *	Retained as an outstation.
		Leeds	To close.
		York	To close.
Midland	Birmingham	Nottingham *	To close.
		Shrewsbury *	To close.
		Birmingham *	To close.
Wales	Cardiff	Colwyn Bay *	Retained as an outstation.
		Haverfordwest	Retained as an outstation (Note 2).
		Cardiff	To close.
Eastern	Cambridge	Cambridge/USAF	Merged with Region (Note 3).
		Newmarket	Retained as an outstation (Note 4).
		Colchester	Retained as an outstation.
Southern	Reading	Aldershot *	Retained as an outstation.
		Bournemouth *	Retained as an outstation.
		Abingdon *	To close (Note 5).
South West	Bristol	Cheltenham	To close.
		Plymouth *	Retained as an outstation.
		Bulford	Retained as an outstation (Note 6).
		Bristol	To close.

* Also an Estates Office.

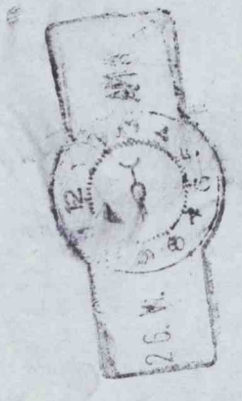
NOTES:-

(1) Preston will become a District Works/Estates Office.
(2) An Estates Office will be retained at Brecon.
(3) USAF services strengthened by establishing two commands.
(4) Pending availability of accommodation or redevelopment of the PSA site at Cambridge.
(5) Closure of the Abingdon Office will take place when suitable accommodation is available in Reading.
(6) Defence Land Agent, Durrington will be retained.
(7) In a number of cases closure will be effected over time and some staff may remain outstationed in the interim.
(8) With a few exceptions design staff will, in the long term, be located at the Regional Headquarters.

CIVIL SERVICE

PSA

PT 2



cc BG

SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

16pm

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

24 June 1987

Dear John,

PAYMENT AND UNTYING FROM PSA

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

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

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

B04174A2

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

Yours ever,

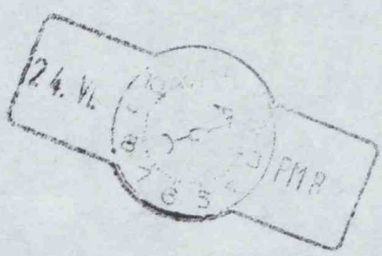
MALCOLM RIKFIND

B04174A2

CIVIL SERVICE

PSA

PTZ



ccBG

SECRETARY OF STATE FOR THE ENVIRONMENT

2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

nbpm

My ref:

Your ref:

The Rt Hon John MacGregor OBE MP
Chief Secretary
HM Treasury
Parliament Street
LONDON
SW1

13 May 1987

Dear John

Thank you for your letter of 24 April about the report of the Working Group on Major Capital Projects.

Like you, I strongly support the recommendation that payment and untying should be introduced from 1 April 1988 for major civil projects carried out by the PSA. Officials here have made a good start on detailed planning and preparation for the move to payment from that date and I understand there was a full discussion about this at the Inter-Departmental Committee on PRS on 1 May. The Committee hope to report to Permanent Secretaries on the main terms of the proposed arrangements by the end of June.

While early implementation will undoubtedly be a major task for the PSA and for departments and there are bound to be a few rough edges, particularly to information flows for the first year or two, like you, I very much hope that all departments will agree to move to repayment in 1988. I was pleased to hear that the Inter-Departmental Committee agreed that works in progress should be treated on a similar basis to new starts with the exception of the Department of Energy which presents special problems. This will avoid the complexities and administrative costs of having to run different systems in parallel for a transition period perhaps as long as two or three years.

I am sure the success of the changes on departments' part will depend in large measure on the quality of staff they select to undertake the task of project sponsors. The training they receive on which central departments are taking the lead will be equally important. The resources required for initial training and subsequent support must not be underestimated.

I agree that a Parliamentary statement will be required in due course and that it must take account of the recommendations in the Environment Committee's Report into the PSA. We must be clear about how to respond to their recommendations on the management of the civil estate. This is something to which I have been giving some thought in considering the report of the consultants who have been looking at the practicalities of putting PSA onto commercial

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CIVIL SERVICE
~~PSA~~ PSA
PT 2

accounts and a trading fund. I think we may be close to a solution which sensibly redefines the division of responsibilities between PSA and its civil clients which simplifies many of the complexities in the current funding arrangements and which is firmly based on Robin Ibbs' recommendations about project ownership. But I would like my officials and yours to look at the details of the proposals before I write to colleagues.

I am copying this letter to those who received copies of yours.

NICHOLAS RIDLEY

This is 100% recycled paper

HOME SECRETARY

QUEEN ANNE'S GATE LONDON SWIH 9AT

6 May 1987

Dear John,

PAYMENT AND UNTYING FROM PSA

Thank you for sending me a copy of your letter of 24 April to Nicholas Ridley.

I warmly welcome the conclusion that full Vote responsibility for the capital expenditure programmes in question should be transferred to Departments, in order to establish full ownership by them of the related projects while strengthening managerial control and accountability, albeit - as your officials have recognised - at some additional cost to Departments. My Department is taking steps to ensure that it is ready to take on this new responsibility from 1 April 1988.

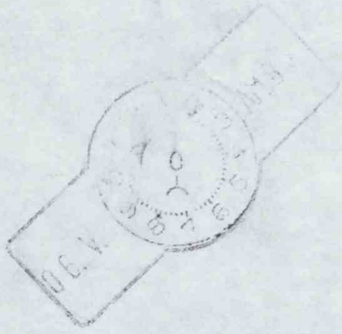
I also value the freedom which untying will bring to Departments to decide on the means by which their projects should be delivered. I have asked officials here to consider urgently how best to take advantage of this in the management of the prison building programme. I am glad, nevertheless, that you propose to underline publicly the evolutionary nature of the changes. Important as the change is, it will need to be well managed.

Yours,

Douglas.

The Rt Hon John MacGregor, OBE., MP.

CIVIL SERVICE: PSA restructuring pt 2.



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cc BG

nbpm

CHIEF SECRETARY TO THE TREASURY

Treasury Chambers, Parliament Street, SW1P 3AG

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

24th April 1987

Dear Nicholas,

PAYMENT AND UNTYING FROM PSA

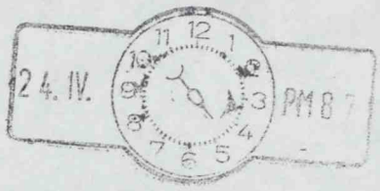
As you will know, Permanent Secretaries have now discussed the recommendations in the report of the Working Group on Major Capital Projects that payment and untying should be introduced for major civil projects carried out by PSA. (The arrangements for defence works projects are being reviewed separately, as recommended by the Working Group.)

I understand that Permanent Secretaries have endorsed the principle of payment and untying as recommended in the report and have agreed that the change should take effect from 1 April 1988. They also agreed that any departments which foresaw exceptional difficulties in meeting this timetable should approach the Treasury and PSA about the possibility of postponing introduction until 1 April 1989.

I strongly endorse the conclusion that Permanent Secretaries have reached. I see payment as an important step in achieving full ownership of projects by clients, which was one of Sir Robin Ibbs' recommendations endorsed by the Prime Minister in November 1985. Untying will also have the major benefit of providing the spur of competition to PSA and so provide a powerful incentive to improve efficiency.

Permanent Secretaries have also recommended that there should be a statement to Parliament making clear what is involved for the responsibilities of departments and PSA, and underlining the evolutionary nature of the changes. I agree with this. I suggest we should settle between us the arrangements for the formal announcement of the change and the precise text.

There are a number of detailed aspects - including the arrangements for works in progress at the time of the change - which can be further considered by the Interdepartmental Committee on PRS.



In considering the final form of the Parliamentary statement, we shall need to take into account the Environment Committee's report on PSA, which has just been published. The recommendations in the report on specialised projects, and more generally on a more commercial regime for PSA, are entirely consistent with the move to payment and untying. On the non-specialised estate the Committee's recommendations are not entirely clear. But their implied recommendation that PSA should be allocated financial and client responsibility for all non-specialised office projects would, in effect, take us back to a position which existed before 1 April this year when we transferred the PES attribution for most of these projects from PSA's to client departments' programmes. The forthcoming move to payment and untying does not preclude further examination of where precisely the boundary line should be drawn between PSA's and departments' financial responsibilities for accommodation projects. But I believe that a change which went as far as that implied by the Environment Committee would represent a retrograde step, since it would involve PSA reassuming responsibility for deciding priorities between different departments' projects. That is not an arrangement which worked at all well in the past.

It is obviously very desirable - not least from the standpoint of PSA in avoiding the extra problems of operating different systems - that there should be a general move to payment next April. I very much hope therefore that requests from individual departments for a year's postponement will not prove to be necessary.

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

Yours ever,

JOHN MacGREGOR

WLW. MGT

BF.

Could you please glance at this:
the PM saw Ridley's minute some
days ago. I'm not sure RTA's
minute is really necessary now.

A.B.

I agree. NBPM BSS BF
, I think. NB X; de male
sere RTA comments before
we submit PM's recommendations
N.C.U 20.3

10 DOWNING STREET

With the compliments of

Ref. A087/905

PRIME MINISTER

Future of the PSA

at flap

The Secretary of State for the Environment's minute of 20 March explains the background to a study of PSA's work for the Ministry of Defence that he has commissioned jointly with the Secretary of State for Defence.

2. The trading fund option, which Mr Ridley finds attractive, would be part of an evolutionary process designed to ensure that PSA was having to operate efficiently in competing with the private sector for departmental business. The second option, of transferring PSA's defence functions to the Ministry of Defence, would effectively overturn the conclusion of the report I sent you in January 1986 and which you approved to the effect that PSA should continue broadly its present role for both civil and defence estates. I understand Mr Ridley's reasons for wanting to reconsider that issue before taking the major decision to move PSA to a trading fund basis. It is important that the review should not be too drawn out, because of the uncertainty that would entail for PSA top management. It is a good thing that a tight timetable has been set.

3. This study has overtaken the work that you agreed last year I should set in hand to consider responsibility for defence estate management (Mr Wicks's minute of 18 March 1986). That review was completed last December, but I delayed putting recommendations to you once I knew that Mr Ridley might want wider options examined. If Mr Ridley's trading fund option were to proceed, there would still be a need to consider whether the Ministry of Defence should be responsible for management of their own estate (but not the 'works' function). In that case I would let you have my recommendations quickly after Mr Ridley reported on the wider issue.

RA

26 March 1987

ROBERT ARMSTRONG

CIVIL SERVICE : PSA PT2

MANAGEMENT IN CONFIDENCE

PRIME MINISTER

FUTURE OF THE PSA

We had a brief word recently about future plans for the PSA. I think I should let you know about a study of the PSA's defence work which the Secretary of State for Defence and I have commissioned. I thought I should set out the background since any conclusions reached might raise machinery of Government issues which you would need to consider.

Your Private Secretary's minute of 10 February 1986 endorsed proposals which Sir Robert Armstrong had put to you on 14 January 1986 recommending that the PSA should continue broadly with its present role and functions for the civil and defence estates while taking specified steps to improve its performance. Your approval stipulated certain further steps including six-monthly progress reports from the Chief Executive to me which would be copied to you. You saw and commented on the first of these progress reports which was circulated on 29 October 1986.

The latest development arises from the consultants' study of the introduction of commercial accounts into the PSA which the Chief Executive initiated and mentioned in his October report. The consultants' final report, which is due before the end of this month, will recommend that the Agency's work should be put on to a trading fund with PSA untied from its clients and competing with the private sector. I have kept closely in touch with the consultants' work and am attracted to this solution.

But before reaching a firm conclusion I need to be quite sure that this is the right answer for the Agency's defence work (some two thirds of the total). The Secretary of State for Defence and I have therefore set up a working group of senior officials to advise us on this and at the same time to consider a second option of transferring all of PSA's defence functions to the MOD, to be

followed in due course by the maximum contracting out. The Group will also consider what implications this would have for the PSA's remaining responsibilities for the civil estate which affect all departments.

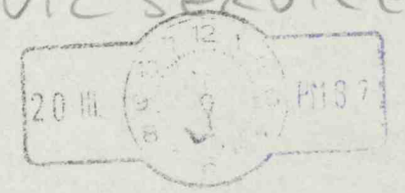
The Group, which includes representatives from the Treasury and the Cabinet Office, have been asked to report by the end of May. The Secretary of State for Defence and I will write to you as soon as possible after that setting out our conclusions.

I am copying this minute to the Secretary of State for Defence, to the Chief Secretary and to Sir Robert Armstrong.

NR

20 March 1987

CIVIL SERVICE - PSA Restructuring
Pt 2



MANAGEMENT IN CONFIDENCE

16pm CCBG

2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref:

Your ref:

Michael Stark Esq
PS/Minister of State
Privy Council Office
Mangement and Personnel Office
Great George Street
LONDON
SW1P 3AL

19 December 1986

Dear Michael,

My Secretary of State was grateful for Mr Luce's letter of 17 November about the first six monthly report from the Chief Executive of the PSA. You had already had a copy of the Prime Minister's views, and by now you will have seen those of the Chief Secretary to the Treasury in Jill Rutter's letter to me of 1 December. My Secretary of State also had on 3 December a useful discussion with Sir Robin Ibbs on many of the topics covered by the report.

Mr Luce raised three particular points. As far as disposal receipts are concerned, the target in the 1986/87 Business Plan was that set at the beginning of the year. The figures mentioned at paragraph 28 of the Chief Executive's report are the then current estimates, as at end October, of what was likely to be achieved. Receipts so far paid over are not a reliable guide to final outcome. We need also to reassess at any given time which further disposals are likely to be realised in the year and the receipts which they are likely to generate. Our latest estimates on this basis are that we shall receive about £40m from disposals on the civil estate; the likely figure on the defence estate is currently put at £78m.

On supervision of contracts, the early warning system is not intended to produce measures of output performance but rather is a device to alert the PSA Board to potential problems on major projects; and to trigger senior management intervention where necessary. Output targets were set for this year, and the targets which Mr Luce mentioned at Table 14 of the Business Plan should not be read in isolation from the quantative targets at Table 10. The PSA are already, however, examining how best to improve measurement of cost and time performances. This will be taken further during the forthcoming MINIS round so as to arrive at objectives for inclusion in the 1987/88 Business Plan.

The maintenance backlog over the past year has not altered substantially. The Chief Executive's report could not, of course, take account of any additional PES allocation for next year because it pre-dated the Chancellor's Autumn Statement made on 6 November. The additional PES provision will be shared between unavoidable rent increases dictated by the market; funding of certain major projects required by clients or likely to yield early payback because of estate rationalisation; and increased maintenance. The last of these is likely to amount to some £8m, but this is unlikely to affect substantially the backlog.

MANAGEMENT IN CONFIDENCE

As you will see from my reply (copy enclosed) to Jill Rutter, PSA aim to produce a Business Plan for 1987/88 by the beginning of April 1987/88. They will take account of points made in Mr Luce's letter.

I am copying this letter to the Private Secretaries to the Prime Minister and to the Chief Secretary, Treasury, to Sir Robin Ibbs, and to Sir Robert Armstrong.

Yours sincerely

Isobel R. Ogilvie.

MISS ISOBEL OGILVIE
Private Secretary

MANAGEMENT IN CONFIDENCE

SECRETARY OF STATE FOR THE ENVIRONMENT

2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref:

Your ref:

Jill Rutter
Private Secretary
Treasury Chambers
Parliament Street
LONDON
SW1P 3AG

19 December 1986

Dear Jill,

Thank you for your letter of 1 December about the first six monthly progress report on the PSA.

My Secretary of State had already asked PSA officials to prepare the 1987/88 Business Plan by the beginning of next year, to include in it an assessment of performance against the targets set for 1986/87 and to bring the Treasury (and the Efficiency Unit) into discussion of 1987/88 performance targets at a formative stage. He sees the advantage in establishing by the beginning of 1987/88 medium term strategic priorities so long as these take as their starting point his overall objectives for PSA's functions, for the extent of PSA operations and for the structure within which PSA should operate.

I am copying this letter to the Private Secretaries to the Prime Minister and to the Minister of State, Privy Council Office; to Sir Robin Ibbs; and to Sir Robert Armstrong.

Yours,

R.

R U YOUNG
Private Secretary

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CIVIL SERVICE

PSA

PTZ

003/1287

nbpm CCBG

CHIEF SECRETARY TO THE TREASURY

Treasury Chambers, Parliament Street, SW1P 3AG

Robin Young Esq
Private Secretary
Department of the Environment
2 Marsham Street
London
SW1

1 December 1986

Dear Robin,

PROPERTY SERVICES AGENCY

The Chief Secretary was interested to see the first six monthly progress report on PSA and the business plan annexed to it. Like the Prime Minister, he is glad to see that progess is being made; and it is valuable to have a single document which brings together action in hand, in the way this report does.

He does, however, consider it essential for the strategic plan for priority objectives over the next three to five year period to be drawn up as quickly as possible. He realises that the first version may in some respects be of a provisional nature because some of the various reviews affecting PSA's role and responsibilities may still be under way. But he hopes that a first version will be available in time to form the background to the 1987-88 business plan as proposed by Mr Manzie in paragraph 4 of his report.

He hopes that the business plan for 1987-88 will be available by 1 April 1987. He considers that the performance targets it will contain should have been discussed and endorsed by the Treasury before then. He suggests that officials should make an early start on discussing these. It might be possible here to draw upon the ideas which are emerging from the consultants' commercial accounts study.

Finally, the Chief Secretary assumes that the next six monthly report will report progress in achieving the targets in the 1986-87 business plan.

I am

CIVIL SERVICE

PSA PT 2

I am copying this letter to the Private Secretaries to the Prime Minister, to the Minister of State, Privy Council Office; to Sir Robin Ibbs; and to Sir Robert Armstrong.

Yours,

Jill

JILL RUTTER
Private Secretary

ccBG

16pm

Cabinet Office

MANAGEMENT AND PERSONNEL OFFICE

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

Great George Street
London SW1P 3AL
Telephone 01-233 8610

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

17 November 1986

Dear Nicholas,

PROPERTY SERVICES AGENCY

The Chief Executive of the PSA copied to me his minute of 29 October. This seems a helpful start to the series of six monthly progress reports endorsed by the Prime Minister in February, but you may wish to consider whether there is room to improve on the content of this first report.

As a general point Sir Robert Armstrong's minute of 14 January envisaged that progress reports should include as far as possible output measures against specific targets. There do not seem to be many output measures at present. In relation to the three specific topics mentioned by the Prime Minister (No 10's minute of 10 February) the position seems to be as follows:

i. Disposals. A target for 1986/87 is stated at paragraph 28 (is this consistent with the targets quoted in Table 4?), but there is no indication of the progress achieved towards this target to date.

ii. Improvements in the supervision of contracts. Table 14 gives some targets, but there are no output measures - for example, how many incipient cost and time overruns on major projects have been identified by the new early warning system mentioned in paragraph 22, and what corrective action taken?

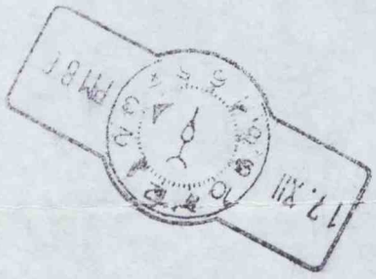
iii. Improvements in working conditions. From a personnel management viewpoint it is disappointing to see paragraph 12's reference to no immediate prospect of securing improvements. The report could usefully

indicate how the current £110m maintenance backlog compares to the position say a year ago - are things getting better or worse - and how the PES provision proposed for 1987/88 will affect the funding constraints mentioned.

I am copying this letter to the Prime Minister, the Chief Secretary, Sir Robin Ibbs and Sir Robert Armstrong.

RICHARD LUCE

CIVIL SERVICE : PSA Restructuring: Part 2



MANAGEMENT - IN - CONFIDENCE

SECRETARY OF STATE FOR THE ENVIRONMENT

2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref:

Your ref:

Ian Andrews Esq
Private Secretary to
The Rt Hon George Younger TD MP
Ministry of Defence
Main Building
Whitehall
LONDON
SW1

11 November 1986

Dear Ian,

PROPERTY SERVICES AGENCY: SIX MONTHLY PROGRESS REPORT

When the Prime Minister agreed last February to Sir Robert Armstrong's paper on the Future of PSA, she agreed, among other things, that the Chief Executive should formally report on progress at six monthly intervals to his Secretary of State.

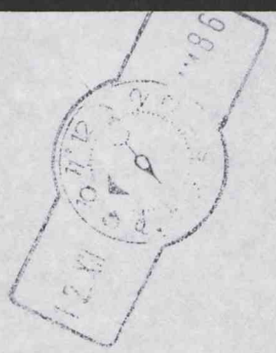
Your Secretary of State may be interested to have the enclosed copy of the first of these reports which the Chief Executive made on 29 October.

I am copying his letter to those who received copies of the report when the Chief Executive submitted it: the Private Secretaries to the Prime Minister, to the Chief Secretary to the Treasury, and to the Minister of State, Privy Council Office; and Sir Rob r Ibbs and Sir Robert Armstrong.

Yours sincerely,

Isobel R. Ogilvie

MISS ISOBEL OGILVIE
Private Secretary



FILE BM

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

10 November 1986

Dear Robin

PROPERTY SERVICES AGENCY

The Prime Minister was interested to read the first six-monthly progress report of PSA, and has welcomed this.

She has noted that there are a number of areas where action continues, and looks forward to seeing significant progress during the next six months.

I am copying this letter to the Private Secretaries to the Chief Secretary (HM Treasury), the Minister of State, Privy Council Office, Sir Robin Ibbs and Sir Robert Armstrong.

Yours ever

Andy.

(P.A. BEARPARK)

Robin Young, Esq.,
Department of the Environment

CAJ

PRIME MINISTER

PROPERTY SERVICES AGENCY

You agreed earlier this year that PSA should produce six-monthly progress reports. The first of these is now attached.

The report itself is rather detailed, but you will want to glance at the attached comments by Policy Unit. The point about museums and galleries is being considered separately. That apart, the general view is that there is still some way to go, but progress is being made and sufficient reviews have now been carried out, or are in train.

Content for me to write saying you welcome the report, and look forward to seeing significant progress during the next six months?

Yes - thankyou

PAB

P. A. Bearpark

7 November 1986

DG2BMX

RP please

MANAGEMENT IN CONFIDENCE

MR NORGROVE 5 November 1986

PROPERTY SERVICES AGENCY

The first of the six monthly reports from the PSA shows signs of progress on various fronts, but there is still a long way to go.

In particular:

a. If museums and galleries are to be ready to assume responsibility for larger projects by 1988-89, it is not too early to see that their boards are adequately supplied with members with some experience of building contracts and financial control so that effective management arrangements can be in place in good time.

b. Maintenance of the civil estate is poor and the backlog of maintenance of tatty offices remains.

c. The possibility of installing commercial accounting systems is under review by consultants.

d. Budgeting of administrative costs is being developed.

e. The form of the PSA's standard contract is under review. Inevitably the industry is not keen as 'claims' figure high in its income, particularly if the client is not particularly efficient.

f. Supervision of contracts, particularly project management, needs improvement. Regular progress meetings are vital in this context.

g. Management information systems need development.

It is good to see some speeding up in disposal of surplus property, but more remains to be done as well as freeing up surpluses held by individual departments.

We believe that sufficient outside reviews have been carried out or set in train.

We suggest that the report should be welcomed and PSA should be encouraged to get on with the many outstanding tasks. Having regard to the unsatisfactory triangular control of the St Pancras Library project, a review of the membership of boards of museums and galleries should be made to see that they have the necessary expertise to control their building projects.

David Hobson

DAVID HOBSON

Civil Service: PSA P72

MANAGEMENT IN CONFIDENCE

PY (DOE)

CF

Secretary of State

BF

Pse copy to P.U. & chief of Hy / any addresses will be commenty.

A.

PROPERTY SERVICES AGENCY

1. As you know, following a submission from Sir Robert Armstrong in February of this year on the future of the Property Services Agency, the Prime Minister agreed that I should make to you a six monthly report on progress. The report was to cover the issues raised in Sir Robert's minute and others on which the Prime Minister particularly wanted information. It was to be copied to the Prime Minister, the Chief Secretary, Treasury, the Minister of State, Privy Council Office, Sir Robin Ibbs and Sir Robert Armstrong. This is the first of these reports covering the six months from 1 April to 30 September 1986.

2. The following are the main issues.

AIMS AND OBJECTIVES

3. We have made substantial progress in obtaining a better understanding at all levels of the Agency of our aims and objectives. Our MINIS system already sets a range of targets for each year and enables performance at the mid-year point and at the end of the year to be assessed. This year, we have extended MINIS down the line to District Works Office level. We have also derived from the MINIS round a Business Plan (Annex A) which replaces the preliminary version mentioned in Sir Robert Armstrong's paper last January. This more commercial document links for the first time salient facts, resource and programme costs and performance targets (quantified wherever possible) for our main businesses: estate management, maintenance, design and management of construction. Your meeting with Sir Robin Ibbs at the beginning of December will provide the opportunity to discuss how the Business Plan should be further developed.

4. I believe that our aims and priorities can be further clarified. MINIS and the Business Plan together look ahead for a

year. But we need to assess, whatever the uncertainties, our goals over a longer time span which is very important for an organisation like PSA. These depend in the first instance on the policies decided by you and your colleagues, but in order to assist your decisions we are drawing up a Corporate Strategy over a three to five year period. Outside consultants have already assisted us in the initial stage of preparation but a considerable amount of work is still required. I hope to put a Corporate Strategy to you so that its contents can form the background to the 1987/88 Business Plan.

PSA BOARD

5. In May 1986 your predecessor appointed three outside members to the PSA Board: Mr J S Brown, Managing Director of Peachey Property Corporation plc; Mr H L Cousins, a partner of Price Waterhouse; and Mr B J Hill, Chairman and Chief Executive of Higgs and Hill plc. This arrangement replaced the former PSA Advisory Board and was intended to bring private sector expertise from the fields of property development, finance and construction to bear more directly on PSA's operations. I value the stimulating contributions which the new members are already making.

RELATIONS WITH CLIENT DEPARTMENTS

Devolvement of work

6. There has been positive achievement in defining the respective roles of PSA and client Departments under the Property Repayment Services (PRS) system. From 1 April 1987, most civil Departments will become responsible for:

a) ordering work up to £5,000 (as distinct from the current £1,000 ceiling);

b) all internal decoration, without limits;

c) commissioning from PSA on repayment terms a wide range of minor new works (between £5,000 and £150,000); and direct from contractors, up to £25,000, where PSA cannot meet requirements.

7. A handful of client Departments have chosen not to move to these new arrangements. Certain others (the DHSS, Department of Employment) are testing, on an experimental basis, a more radical option.

8. PSA has provided technical guidance this summer to help Departments discharge their new responsibilities and obtain value for money. Joint Planning and Liaison machinery has been established at local level where Departments and PSA can formally discuss each other's forward planning and resolve difficulties. I am also meeting at Permanent Secretary level with important customers such as the DHSS and Lord Chancellor's Department to review progress on their programmes.

9. On the defence side, local works maintenance budgets are being introduced. These devolve responsibility for routine maintenance (up to £1,000) to local unit commanders in the armed forces. At the beginning of this year, these arrangements applied in 56 static MOD establishments.They have since been introduced on an experimental basis into 10 operational establishments.

10. A further change, which has now been agreed, is the untying of most Museums and Galleries from PSA. From 1 April 1988 the Museums and Galleries will assume responsibility for the smaller works presently handled by PSA and during 1988-89 they will take over the larger projects.

11. The changes, especially on the civil side, seek to distinguish between those tasks which Departments properly ought to assume in the spirit of the FMI and those which require specialist PSA attention because of their size or particular problems. The changes entail different roles from now on for PSA and Departments. Some client Departments are clearly better organised than others at local level. There are, however, encouraging early indications about co-operation and improved mutual understanding from the Joint Planning and Liaison machinery.

Maintenance

12. I am still concerned at the state of maintenance and repair on the civil estate in particular. Maintenance is a major part

of the Agency's work. Our building inspections are providing better information about maintenance conditions and we are just about keeping abreast of the maintenance work identified on the defence estate. But funding constraints prevent us from carrying out all essential maintenance on the civil estate and our backlog stands currently at around £110M. I cannot, as a result, foresee an immediate prospect of improving civil servants' working conditions which was one of the points mentioned in PS/Prime Minister's letter of 10 February to PS/Sir Robert Armstrong - though the greater freedom being given to Departments under PRS may lead to more money being spent by them on internal decoration of buildings.

FRAUD AND CORRUPTION

13. The police investigations following the "News of the World" allegations in November 1984 resulted in August this year in 10 contractors and 9 PSA staff being charged with offences, all of which related to maintenance and minor works in London. It is likely to be some time before those charged come to trial. In the meantime, police enquiries continue. Since 1984, there has been a significant drop in the number of discovered cases of fraud or other irregularity. From a peak of 69 cases in 1984 (including the "News of the World" case), the total in 1985 fell to 54, of which 22 involved contractors. In the first eight months of 1986, 14 new cases were discovered, of which 6 involved contractors.

14. We have worked closely with the police and also taken internal measures: special contract audit in all District Works Offices; special units to follow up the London investigations and conduct random checks; suspension of 50 London contracting firms from undertaking new work pending current investigations. The latest figures are an improvement, but the continuing investigations we are carrying out may throw up more cases. There is no present evidence that fraud and corruption outside London, despite individual serious cases, has taken place on the scale revealed by the London investigations.

MANAGEMENT

15. Managerial efficiency still needs to be improved across PSA as a whole with a view to obtaining better value for money. We plan further changes to aid this process. The most significant of these changes are:-

Reorganisation of the United Kingdom Territorial Organisation

16. The main proposal in the reorganisation plan is to cut out a tier of management, resulting in closure of fifteen offices. I believe these will give the following benefits: shorter chain of command; improved communications between works and estates staff under Group Managers reporting direct to Regional Directors; and improved quality of design work through concentration of design resource at regional level, with design capacity matching the reduced amount of in-house design work. Our conservative estimate puts the likely financial benefit to PSA at a net present value £45M over 10 years. The proposed reorganisation has also been endorsed by our customers including the Ministry of Defence. We have already implemented the new proposals on a pilot basis in the South East Region and hope to be able to apply it right across the UKTO with effect from 1 April 1987. Whether responsibility for the management of the Defence Estate should remain with PSA or be returned to MOD is being considered by the Cabinet Office's Machinery of Government Division.

Staff Resources

17. We are constantly re-examining how best to deploy staff resources. PSA staff numbers continue to reduce. In the year to date, they fell by a total of 872 (from 24,025 to 23,153). The Directly Employed Labour (DEL) force offers the greatest scope for effecting further reductions without impairing service. Just over 9,000 DEL staff are employed at present as compared with over 17,000 in 1979. The DEL will reach 7,500 by 1991, assuming continuation of the Ministerial policy whereby reductions are effected by natural wastage, not by compulsory redundancy.

18. I should warn that we are increasingly coming under strain because of local shortages in particular skilled disciplines, eg mechanical and electrical engineers, needed in London and the South East of the country. There is, of course, a national shortage of people with electrical and electronic skills and this makes it even more difficult for the public sector to compete for this scarce resource.

Commercial Accounts

19. I have put in hand a study by outside consultants into PSA's accounting and management information systems. Their report should be available early in January 1987. Essentially, their remit is to examine the scope for introducing commercial accounting systems for PSA's operations; and to recommend what steps are needed to make this possible. Commercial accounts are an essential prerequisite for moving PSA from a Parliamentary Vote funded structure to a more commercial organisation such as a trading fund. The consultants' task thus fits in with the proposals being considered by an Inter-Departmental working group on the financial arrangements for major new construction projects (see paragraph 22 below).

20. In addition we are seeking to improve our management of resources by developing a system of administrative cost budgeting. This work may well converge with, and be absorbed in, the development of commercial accounting systems.

Supervision of Contracts - Contracts Procedures

21. I have been concerned since I came to PSA at the extent of the "claims game" in dealings with the building industry. To try to reduce the time and effort involved in both PSA and in the industry, we have been discussing over the last year with the various representative bodies in the industry amendments to our standard contract. So far the industry have given a negative response to our proposals. I intend to meet the industry myself in the next round to see if we can agree. I aim to report to you by the end of 1986 on the outcome of our consultations.

Supervision of Contracts - Construction Projects

22. I see a clear need to improve PSA performance in containing construction projects within estimated cost and timescale. Two Inter-Departmental reports this year under Treasury and MPO chairmanships have focussed on the role, selection and training of project managers, and their relationship with Departments sponsoring projects. In the light of these reports, we are undertaking a review of our project management practices. It is due to report shortly. We have also started a new system of early warning to the PSA Board of cost and time overruns on major projects. To support this, we are taking steps to improve the recording and analysis of the reasons for cost and time variations, distinguishing more closely between cases of overruns which are outside PSA's control (notably changes in client requirements) and those for which we ourselves are responsible. We need to ensure that performance is assessed against firmly based estimates instead of, as sometimes in the past, order of cost figures at too early a stage in the planning and design process.

Information Technology

23. PSA's handling of management information relies excessively on outdated systems and does not give at present the information required by managers to manage their business. Our information system for supporting district works services and our estate record system for underpinning calculation of accommodation charges for Property Repayment Services have proved a step forward - but are partial, incompatible with one another and interim.

24. Our Information Technology Strategy aims to identify and meet PSA's essential computer and telecommunication needs. For the longer term, a design study for two key business areas - day to day management and maintenance of the estate and new works - is in hand. I intend that priority applications for computerisation in these areas over the next two or three years will be decided in early 1987. A similar pattern will then be followed for other business areas. Our overall objective is to make corporate data available throughout PSA for all who need it at all levels of management. In parallel, a programme to provide some immediate assistance with urgent information needs has been put in hand.

Audit Arrangements

25. The new arrangements which we introduced in Internal Audit are now working well. We are just starting to replace some of the secondees we recruited from private sector accounting firms by qualified internal candidates. The NAO are currently undertaking an Inter-Departmental study of internal audit arrangements to follow up their previous work in the area which led to a PAC report in the 1980-81 Session. The PSA is included in the review and we have just seen the NAO report on PSA which says: "That so much has been achieved is in part due to the very positive support given by the Chief Executive and Executive Board to the Head of Internal Audit". It also comments favourably on the appointment of an Audit Committee, chaired by the non-executive member of the PSA Board who is a partner in Price Waterhouse. The overall conclusion of the report is that PSA's Internal Audit has developed the base from which to make a substantial contribution to internal control in PSA.

26. The other major achievement in the area has been the introduction of management audits known as District Management Reviews (DMRs). We are on course to complete a DMR for virtually all the 150 District Works Offices within our first two year cycle (1985/86 and 1986/87). DMRs have enabled common standards to be set and best practice to be disseminated - features previously lacking. The principles of DMRs are now being extended to local estates offices by means of Area Estate Management Reviews.

Specialist Professional Services

27. The PSA needs, and is fortunate to possess, a high degree of specialist professional expertise in its main works disciplines: civil, mechanical and electrical, engineering, building, quantity surveying, and architecture. I am not convinced, however, that this expertise is deployed to best effect. Investigation of this area seems to me ideally suited to an Efficiency Unit Scrutiny. I envisage such a scrutiny forming part of the Efficiency Unit's programme for the current year. This is a further matter you will wish to discuss in your forthcoming meeting with Sir Robin Ibbs.

Disposals

28. Finally, but importantly, disposal of surplus property is being effected more speedily. Last year, intensive senior management investigation, followed by an Efficiency Unit scrutiny, identified weaknesses in our disposal procedures. These procedures have now been sharpened up. Disposal receipts last year totalled £88M (£29M on the civil estate; £59M on the defence estate). Our current target for this year is £136M (£41M on the civil estate; £95M on the defence estate). We shall of course be following up your initiative to see whether buildings on the Government estate can be transferred to the private sector.

CONCLUSION

29. The PSA is bound over the next year or so to be the subject of close scrutiny both within and outside Government. I hope that investigations will not continue at the pitch of intensity of recent years (see Annex B) once the Select Committee on the Environment have concluded their forthcoming inquiry. Equally, all levels of staff in PSA must accept that a period of total stability is an illusion though there is a future for a specialised agency if we acquit ourselves well. It is heartening to see, in Northern Ireland, for example, outstanding achievement under appallingly difficult circumstances - and to meet and listen to the best among our professional staff. I believe that the asset of expert staff, allied to more incisive management across the range of our activities, will enable the PSA to improve its performance.

30. I am copying this minute to the Private Secretaries to the Prime Minister, the Chief Secretary to the Treasury, and the Minister of State, Privy Council Office; and to Sir Robin Ibbs and Sir Robert Armstrong.

A G MANZIE
Chief Executive
Property Services Agency

29 October 1986

ANNEX A.

MANAGEMENT IN CONFIDENCE

PSA BUSINESS PLAN

1. PSA activities are grouped under 4 main businesses (excluding for present purposes The Crown Suppliers):

A. Estates Management

B. Maintenance

C. New Design

D. Management of Construction

2. The Business Plan summarises salient facts relating to each business and sets out their key targets for the current year. Where available previous years' figures are shown in [square] brackets. It also lists separately on Table 15, such value for money initiatives as are not already covered in the targets and which in some instances span two or more businesses.

A. ESTATES MANAGEMENT

1. The estate business comprises central management of:

   a. the civil estate, where title is held by the Secretary of State for the Environment (or in certain cases by other public sector bodies relying on PSA for services);

   b. the defence estate, where title is held by the Secretary of State for Defence.

2. The main (and sometimes conflicting) aims for the civil estate are:

   i) managing, developing and maintaining the civil estate to provide for accommodation to meet the operational needs and priorities of Government clients as economically as possible;

   ii) minimising the size and total cost to the taxpayer of the estate.

3. The main aims for the defence estate are:

   i) managing, developing and maintaining defence estate in the UK and overseas, on behalf of MOD, to agreed standards of performance, costs and time;

   ii) meeting particular operational needs, including transition to war requirements.

4. Tables 1 to 3 underleaf set out the size, staffing/resource costs and programme costs of the estate business. Table 4 sets out the targets, quantitative and qualitative, proposed for 1986/87.

A. ESTATES - SIZE OF BUSINESS ON 1.4.86

TABLE 1

	No of holdings	Space Occupied[1]	Surplus Space[2]	Office Component of Space occupied[7]
1. Civil Estate (UK only)	8059 [8470]	11.4m [11.6m] sq. m	0.381m sq m	7.2m sq m
2. Defence Estate (UK))		276,000 h.	1910 h.	N/A
)		[277,000] h.	[1950 h.]	
)				
(Overseas))		205,000 h.	N/A	
		[205,000 h.]		
Defence Estate Total		481,000 [482,000][5]	1910 [1950]	-

(1) For the civil and defence estates, space is by convention measured in square metres and hectares respectively.

(2) Surplus space on the civil estate comprises vacant accommodation with PSA but whose future remains uncertain; plus vacant accommodation with PSA and destined for disposal.

(3) This component includes the office space occupied by other (civil) Government Departments, but not by bodies paying for PSA services on a repayment basis (eg certain public sector agencies which formerly were Government departments).

(4) Figures are for MOD land with PSA for disposal. Decisions on whether land in the defence estate is surplus to requirements is a policy matter for the MOD. Implementation of MOD decisions to dispose of surplus space is a PSA responsibility, see Table 3 below.

(5) Annex A to Table 1 overleaf provides a further breakdown of the defence estate in the UK and overseas.

A. DEFENCE ESTATE

UK ESTATE

Main Categories of Establishment	Thousands of hectares
Training Areas and Ranges	185.7 [185]
Airfields and Ancillary Sites	28.8 [29]
Research, Development, Ordnance and Industrial Establishments	29.0 [29.5]
Naval Dockyards	1.0 [1.0]
Barracks and Camps	11.5 [11.7]
Storage and Supply Depots	10.3 [10.5]
Radio and W/T Stations	6.3 [6.3]
Miscellaneous	3.4 [3.5]
Total Area	276.0 [276.5]

1. There are 87,000 houses on the UK Defence estate.

OVERSEAS ESTATE

1. The Overseas Defence Estate is mainly in Germany, but also lies in a variety of places abroad including Cyprus, Hong Kong Gibraltar and the Falkland Islands. Its composition is as follows:

	Thousands of hectares	
Land owned or made available by Host Governments	32	[32]
Leasehold	93	[93]
Right of access for training	80	[80]
Total Area	205	[205]

2. It contains also some 40,000 houses.

3. 37 non-industrial UK-based PSA staff (staff in post plus current vacancies) are employed on the Overseas Defence estate. They work exclusively on defence matters. Industrial staff overseas are engaged locally (as are certain non-industrial staff eg interpreters, technical/clerical grades).

A. ESTATES - STAFFING AND RESOURCE COSTS ON 1.4.86[1]

TABLE 2

	Non-Industrial Professional and Technical Staff[2]	Industrial Staff Nos	Resource Costs of Non-Industrial Staff	Resource Costs of Industrial Staff	Consultants Fees
1. Civil Estate (UK only)	315	NIL	12.1	-	0.65
2. Defence Estate (UK)	302	188[3]	9.5	1.49	0.83
(Overseas)	31	N/A	1.8	-	-
Defence Estate Total	333	188	11.3	1.49	0.83
3. Civil/Defence Estate Total	648 [607]	188	23.4	1.49	1.48

(1) Resource Costs include staff salaries/wages and administrative overheads.

(2) Most local estate offices (with 2 exceptions working exclusively in defence) deploy staff on civil and defence work together. These figures are therefore only an approximation of the full time equivalent reflecting an apportionment of total UK staff between civil and defence estate work.

(3) Industrial staff engaged on defence estate work are included also in the staff nos quoted for maintenance - see Table 6 below.

(4) Includes resource costs expended on work for US Forces.

A. ESTATES - PROGRAMME COSTS (1985/86)

TAB 3

	Expenditure[1]	Receipts: Disposals	Receipts: Rents and Miscellaneous
	£M	£M	£M
1. Civil Estate	235.3	29	33.6
2. Defence Estate (UK)	5.9[2]	58.8 [28][3]	15.6 [17.2][3]
(Overseas)	35.5	N/A	
Total Defence Estate	41.4	58.5 [28]	15.6 [17.2]
3. Civil/Defence Estate Total	276.7 [202]	87.8	49.2

(1) This figure covers rents and service charges payable to landlords

(2) This figure covers lands work services

(3) Credited to MOD Votes.

A. ESTATES - TARGETS 1986/87 TABLE 4

QUANTITATIVE

i) to reduce the common user civil office estate by 12,000 sq metres by March 1987.

(This target is based on the current known demands of clients and on their co-operation in achieving economies through rationalisation schemes. This target recognises the constraints on PSA since responsibility for monitoring the effective use of space was transferred to Departments following recommendations in the Multi-Department Review of Accommodation).

ii) to minimise surplus space on the civil estate by

a. maintaining surplus space of around 4 percent of the whole estate as at 31.3.86

(This target has regard to the possibility of substantial release of viable space by departments in 1986/87).

b. reducing the amount of unallocated vacant office space to 1% of the office estate as at 31.3.86, ie a reduction of 34,000m^2.

iii) achieve receipts from disposals by 31 March 1987 of

a. Civil £24M

b. Defence £50M

(Achievement of these targets depends in many cases on Departments releasing accommodation or land by their forecast dates.)

QUALITATIVE

i) Prepare and implement Action Plan arising from the Rayner Scrutiny of Civil Estate vacant space and disposals arrangements for the Defence and Civil Estates;

ii) Prepare by 31 December 1986, with MOD, a comprehensive Defence Estate Strategy.

(This target depends upon the outcome of the joint MPO/MOD/PSA consideration of future responsibilities for the Defence estate).

iii) PRS Arrangements (Civil clients)

A major Report on the future development of PRS, incorporating PSA proposals, was produced by the Inter Departmental Committee and agreed by the Prime Minister. PSA's tasks during 1986/87 are to:

a. ensure that the Agency, and clients, are in a position to implement the principal recommendations of the Report on 1.4.87;

b. issue detailed guidance to clients in May 1986 on the discharge of their delegated works responsibilities;

c. oversee experiments on the PRS "radical option" (untying of client departments for minor works and maintenance up to £100K and new works up to £150K).

iv) Services for Other Civil Clients

Apart from PRS clients PSA also serves a large number of other Civil clients, including government related bodies. The largest of these include MSC, HSE and Museums and Galleries sponsored by the Office of Arts and Libraries (OAL). The disengagement of BT is progressing on target for handover of responsibility for completed buildings and maintenance by November 1986. Following a Select Committee of the Arts review PSA is continuing to participate in the Office of Arts and Libraries review on greater delegation of responsibility to museums and galleries for works services.

v) Use of Private Sector

PSA already uses outside Agents for reviewing rents and setting levels of compensation etc. During 1986 PSA will:

a. take part in a Multi Departmental Review of using private enterprise in government departments (suggestions for areas which might be contracted out were sought from Directors in the MINIS 7 round)

b. seek to agree with MOD by 30 September 1986 a selected area of the Defence estate to be managed by outside agents

c. seek MOD agreement to proposals put to them by PSA to contract out specific aspects of estate management eg acquisition, disposals, advice on new MOD initiatives, insulation schemes etc.

B. MAINTENANCE

1. PSA is responsible for maintaining the fabric of the government estate for both civil and defence clients. The work includes the maintenance of buildings, military and other installations and the operation of heating and other plant.

2. The main aims for the maintenance business are:

i) maintaining the estate in suitable condition to meet the operational needs and priorities of client departments;

ii) minimising long term running costs by timely maintenance work and "spend to save" initiatives where appropriate.

3. Tables 5 and 6 underleaf set out the size of the programme, staffing and resource costs. Table 7 sets out the targets, quantitative and qualitative, proposed for 1986/87.

B. MAINTENANCE - SIZE OF BUSINESS/PROGRAMME COSTS(1)

TABLE 5

	Expenditure 1984/5 £M	1985/86 £M	Estimated 1986/7 £M
1. Civil Estate (UK only)(2)	79	76	80
2. Defence Estate (UK - excluding MQs)	380	406	408
(Married Quarters only)(3)	21	32	47
(Overseas) (4)	147	167	166
Defence Estate Total	548	605	621
3. Civil/Defence Estate Total	627	681	701

(1) 85% of this work is carried out by private sector contractors under a range of contract types let directly by PSA. The remaining 15% of work, which includes the cost of operation of plant, is carried out by PSA's directly employed labour force (DEL). The costs of DEL wages and overheads are included in the figures.

(2) These figures do not include funding borne by clients under PRS arrangements.

(3) Maintenance of MOD Married Quarters is related to separate sets of reference costs for Officers and Other Ranks quarters for each UKTO directorate; the expenditure relates to all work on MOD Married Quarters;

(4) Overseas expenditure includes minor works and maintenance which are not separately identified.

B. MAINTENANCE - STAFFING AND RESOURCE COSTS ON 1.4.86[1] TABLE 6

		Non-Industrial Professional and Technical Staff[2]	Industrial Staff (DEL) No's	Non-Industrial Staff £M	Industrial Staff £M	Consultants Fees
1. Civil Estate	(UK only)	2003	3124	31.2	24.5	6.4
2. Defence Estate	(UK)	4084	6153	63.5[3]	48.3	15.5[3]
	(Overseas)	256[4]	3586[5]	20.7	26.0	9.1
Defence Estate	Total	4340	9739	84.2	74.3	24.6
3. Civil/Defence Estate total		6343 [6359]	12863 [14139]	115.4	98.8	31.0

(1) Resource costs include staff salaries/wages and administrative overheads expended on maintenance and advisory services to clients.

(2) Non-industrial staff comprise P&T staff engaged on maintenance and minor new work.

(3) Includes resource costs expended on work for US Forces.

(4) This includes staff involved on Part II design work (except in Germany) for whom no separate breakdown is available.

(5) Includes 3509 [3686] locally engaged industrial staff.

B. MAINTENANCE - TARGETS 1986/87 TABLE 7

1. A wide range and variety of maintenance work is carried out by PSA's UK Territorial Organisation and the Overseas Regions. In the 1986/87 MINIS round a set of prescribed objectives and targets was set out for the UKTO. Actual targets vary from Region to Region to suit local conditions and methods of working. The following are the main specific targets.

2. QUANTITATIVE

i) maintain the relationship of PSA expenditure related resource costs to expenditure below 14% currently 13.9%);

ii) complete 70% of minor maintenance jobs (below £25,000) within 1 month of initial target completion date; 95% within 3 months;

iii) achieve 5% checks of works and stores orders;

iv) achieve 5% QS checks of Measured Term Contracts;

v) contain expenditure within MOD Married Quarter maintenance targets (separate targets set for each UKTO directorate eg Scotland: £1,085 per Officers Quarter, £875 per Other Ranks Quarter);

vi) achieve Directly Employed Labour Performance ratio of x% (targets set for each UKTO directorate - national average is 63%.

3. QUALITATIVE

i) Maintenance funds have, for some years, been insufficient to meet estimated requirements. This has resulted in inefficiencies for clients' operations and increased long term costs. In 1984 PSA identified a backlog of maintenance which is now estimated to be £104M. Discussion with Treasury about increased provision progressively to tackle this problem have not produced extra funds; the issues will be pursued again in the coming PES round;

ii) each DWO to set out a contract strategy with targets to demonstrate value for money by use of different forms of maintenance contract (this will involve monitoring and research in 1986/7 with targets evolving in the 1987/8 MINIS round);

iii) complete by 1 April 1987 the required number of Maintenance Economy Reviews (MERs); progress outstanding items from action plans of previous MERs;

iv) ensure programme of District Management Reviews (DMRs) on the 2 year cycle, progress outstanding items from completed DMRs;

v) Use of Private Sector

A 6 month trial was set up in November 1985 in a DWO for the contracting out of maintenance work, ie contractors/consultants have been given wider responsibility for defining and executing maintenance work. The results are being monitored and when evaluation is complete extension of the scheme as appropriate will be considered.

vi) Transfer of Responsibility to Departments

The experiment with MOD to introduce Local Works Maintenance Budgets has been introduced permanently in 56 static units. MOD have been slow to agree extension of the experimental scheme into operational units but PSA aim to implement experiments in 10 such units by 31 January 1987 and to extend the permanent scheme to 67 static units during the financial year.

C. NEW DESIGN

1. PSA manages a programme of design work for Defence and Civil clients. About 65% of this work is currently placed with private sector consultants.

2. PSA's expenditure on Defence works (and the resource costs, including consultants fees) form part of the Ministry of Defence Public Expenditure Programme. The money is transferred to PSA votes for the year in which it is spent and PSA then becomes accountable for the expenditure.

3. Comparable arrangements to those for MOD apply to certain specialised civil works eg Crown Courts, prisons, museums and galleries except that the cost of design and supervision of construction generally falls on PSA. Additionally a number of organisations employ PSA to provide design and construction services on a repayment basis (capital expenditure and resource costs), eg US Forces, Manpower Services Commission.

4. The remainder of the major civil works form part of PSA's Public Expenditure programme. This includes office and general accommodation, estate rationalisation and improvement of accommodation for civil servants.

5. Similar arrangements apply in all cases to minor new works (under £150,000), except where departments take direct responsibility for such works under the Property Repayment Services (PRS) arrangements.

6. All the above applies equally to management of construction (see section D underleaf).

7. The main aims for design work are:

i) Achieving timely and appropriate solutions to client requirements within agreed cost limits;

ii) Setting and achieving suitable standards of design quality; and developing standard solutions where appropriate;

iii) Minimising ongoing maintenance costs;

iv) Developing effective procedures for commissioning work to achieve high standards of performance from external consultants with optimum use of limited in-house resources;

v) Competing on design and fees to enhance quality and improve value for money.

8. Tables 8 and 9 underleaf set out the size of the business, staffing and resource costs. Table 10 sets out the targets, quantitative and qualitative, proposed for 1986/87.

C. NEW DESIGN - SIZE OF BUSINESS ON 1.4.86

TABLE 8

	Number of Feasibility Studies(1)	Number of Schemes(2)	Total Capital Value(3)
1. Civil Estate (UK only)	90	122	464
2. Defence Estate (UK)	191	1070	2035
(Overseas)	79	199	233
Defence Estate Total	270	1269	2268
3. Civil/Defence Estate Total	360 [352]	1391 [1353]	2732 [2648]

(1) Feasibility studies are undertaken to identify the most cost effective means by which client's needs can be met. They may involve a number of design options on the same or different sites and include investment appraisals where appropriate; no costs (values) can be shown as these will be produced by the study, but the PSA resource cost in 1985/6 was £5.9m.

(2) This component includes the total number of schemes valued over £150,000 that were in some stage of design on 31 March 1985;

(3) The total capital value of all the schemes in (2) above.

C. NEW DESIGN - STAFFING AND RESOURCE COSTS ON 1.4.86[1] TABLE 9

	Non Industrial Professional and Technical Staff[2]	Resource Costs Non-Industrial Staff £M	Consultants Fees[3]
1. Civil Estate (UK only)	341	24.8	26.6
2. Defence Estate (UK)	613	43.9[4]	78.5[4]
(Overseas)	82[5]	4.0	7.8
Defence Estate Total	695	47.9	86.3
3. Civil/Defence Estate	1036 [1111]	72.7	112.9

(1) Resource Costs include staff salaries/wages and administrative overheads;

(2) Professional and Technical staff work in design teams under a project manager responsible for design and supervision of construction. This breakdown is therefore produced from the comparison of P&T costs recorded against individual design stages with total P&T costs recorded on major works;

(3) Some 65% of PSA's design and construction workload is put to private sector consultants through full and partial commissions. It is not possible to split the consultants fees between design and management of construction and these figures therefore appear also on Table 12.

(4) Includes resource costs expended on work for US Forces.

(5) This figure is for Germany only. Most other major overseas design work is carried out by UK Headquarters Design Offices.

C. NEW DESIGN - TARGETS 1986/7

TABLE 10

1. QUANTITATIVE

i) ensure 90% of projects are within ± 10% of Final Sketch Plan estimate at Pre-Tender Estimate stage;

ii) ensure accepted tenders fall within ± 10% of the pre-tender estimate as follows:

a. 100% of schemes valued at £2M or over;

b. 75% of schemes valued at £0.9M to under £2M;

c. 50% of schemes valued under £0.9M.

iii) ensure at least 50% of accepted tenders are within ± 10% of Pre-Tender Estimate;

iv) achieve key programme stages on 85% of major projects;

2. QUALITATIVE

i) make optimum use of consultants with regard to full employment of in-house resources;

ii) under Ministerial policy in-house major design has been reduced from about 65% in 1979 to about 35%, together with an accompanying reduction in design staff. In the light of these changes, a major review of the organisation of design offices has been undertaken. The main recommendation of the review, which was completed in July 1985, was that the Agency's 7 HQ design offices should be maintained but all design resources in the UKTO should be concentrated in Regional HQ's under the direction of a Regional Design Manager. This recommendation was endorsed by the Secretary of State, and is being implemented as part of the wider reorganisation of the UKTO.

iii) The review also highlighted the importance of effective project management and liaison with consultants, and a further review is now being carried out of the way in which project management is undertaken in the Agency with particular reference to the role of Project Managers, their selection and training. Expected completion late summer 1986;

iv) A separate study is being carried out on the staffing of design offices in the light of the changed circumstances resulting from manpower reductions and the increased use of consultants. Expected completion by late summer 1986.

v) Use of Private Sector

The proportion of design work with the private sector is currently about 65 percent. It is unlikely that, assuming present workload, the proportion given to consultants could be increased further without putting at risk the ability of in-house staff to deal with essential security work and the provision of effective consultant liaison capacity.

D. MANAGEMENT OF CONSTRUCTION

1. All building work on PSA new works projects (ie excluding maintenance) is carried out by private sector builders. PSA is responsible for supervision of construction to ensure that the design criteria and specification are complied with.

2. The majority of contracts are let on the basis of competititive lump sums but various other contractual methods are used where appropriate, eg design, develop and construct and management contracts.

3. Most site supervision is undertaken by PSA's own site control staff, often in conjunction with consultants and/or management contractors and under the direction of a PSA Project Manager.

4. The same funding considerations apply as to New Design Work in section C above.

5. Tables 11 to 13 underleaf set out the size, staffing/resource costs and programme costs of the supervision of construction. Table 14 sets out the targets, quantitative and qualitative, proposed for 1986/7.

D. MANAGEMENT OF CONSTRUCTION - SIZE OF BUSINESS ON 1.4.86

TABLE 11

	No of major projects under construction(1)	Total capital value £M(2)
1. Civil Estate (UK only)	124	479
2. Defence Estate (UK)	565	984
(Overseas)	94	65
Defence Estate Total	659	1049
3. Civil/Defence Estate	783 [830]	1528 [1480]

(1) This component includes the total number of schemes over £150,000 in value that were under construction on 31 March 1985;

(2) The total capital value of all the schemes in 2 above.

D. MANAGEMENT OF CONSTRUCTION - STAFFING AND RESOURCE COSTS ON 1.4.86[1] TABLE 12

	Non Industrial Professional and Technical Staff[2]	Resource Costs Non Industrial	Consultants Fees[3]
1. Civil Estate (UK only)	175	13.3	26.6
2. Defence Estate (UK)	339	23.7	78.5
(Overseas)	44	2.2	7.8
Defence Estate Total	383	25.9	86.3
	558 [598]	39.2	112.9

3. Civil/Defence Estate

(1) Resource costs include staff salaries/wages and administrative overheads;

(2) Professional and Technical staff work in design teams, under a project manager, responsible for design and supervision of construction. This breakdown is therefore produced from the ratio of P&T costs recorded on construction work against total P&T costs.

(3) These figures also appear on Table 9 (New Design) as no breakdown between consultants effort on design and construction stages is available.

D. MANAGEMENT OF CONSTRUCTION - PROGRAMME COSTS

TABLE 13

1. Civil Estate

a. Major Part I programmes[1]

	Expenditure 1984/5 £M	Expenditure 1985/6 £M	Estimated Expenditure in 1986/87 £M
LONDON HQ BUILDINGS AND MAJOR PROJECTS	25.75	33.13	32.13
SCOTLAND	18.95	14.50	5.12
MULTI-LOCATIONAL WORKS PROGRAMME (INCLUDING COP PROGRAMME, UBO PROGRAMME, DHSS COMPUTERISATION ETC)	31.61	40.00	21.27
COURTS PROGRAMME	22.10	27.50	34.35
RESEARCH AND TRAINING ESTABLISHMENTS; CIVIL DEFENCE PROJECTS	15.38	16.51	21.65
SPECIAL HOSPITALS	8.82	11.00	7.93
PRISONS	24.64	40.00	52.94
"SPEND TO SAVE" ESTATE RATIONALISATION - includes Part II	5.34	6.54	1.26
BRITISH TELECOM	23.01	7.21	0.96
PARLIAMENT	0.53	0.85	0.80
MUSEUMS AND GALLERIES	7.17	9.45	8.11
ROYAL PARKS & PALACES & ANCIENT MONUMENTS	0.86	0.50	2.20
Total Part I	184.16	207.19	188.72

TABLE 13 (contd)

	Expenditure 1984/85 £M	Expenditure 1985/86 £M	Estimated Expenditure 1986/87 £M
b. Minor Part II work[2]			
CIVIL ACCOMMODATION	13.9	18.90	15.90
COLLECTIVE SERVICES (including Energy Conservation)	12.6	12.10	12.79
Total Part II	26.5	31.00	28.69
Civil Estate Total	210.66	238.19	217.41
2. Defence Estate (UK)			
a. Major Part I programmes			
NAVY	72.46	110.00	136.00
RAF	102.10	71.00	81.60
NATO/RAF	18.62	10.10	9.72
USAF	50.76	57.00	73.00
NATO/USAF	7.98	6.38	26.40
ARMY	77.00	84.00	91.50
PROCUREMENT EXECUTIVE	29.45	57.80	90.50
MARRIED QUARTERS	20.80	32.00	47.20
Total Part I	379.17	428.28	555.92

	Expenditure 1984/85 £M	Expenditure 1985/86 £M	Estimated Expenditure 1986/87 £M
b. Minor Part II work[2]			
NAVY	14.87	18.00	18.40
RAF	19.47	22.00	25.00
USAF	6.63	10.00	12.30
ARMY	22.85	24.00	33.44
Total Part II	63.82	74.00	89.14
Defence Estate UK total	442.99	502.28	645.06
3. Defence Estate (Overseas) Major Part I programmes			
NAVY	2.20	13.90	11.30
ARMY	78.39	91.34	71.52
RAF	131.16	131.50	59.42
MARRIED QUARTERS*	4.31	5.18	7.95
Defence Estate Overseas Total	216.06	241.92	150.19
Defence Estate UK/Overseas Total	659.05	744.20	795.25
Civil/Defence Estates Total	869.71	982.39	1012.66

(1) Major Part I Works are individual projects costing over £150,000

(2) Minor Part II works are individual projects costing up to £150,000.

* Includes all work on Married Quarters

D. MANAGEMENT OF CONSTRUCTION - TARGETS 1986/7 TABLE 14

1. QUANTITATIVE

i) To provide an adequate HQ site control service within the staff targets of 90 PSA staff plus 78 staff for US Forces;

ii) achieve target date set at contract let stage for practical completion on 85% of major projects;

iii) complete 75% of minor projects (£50,000 to £150,000) within one month of initial construction completion target date;

2. QUALITATIVE

i) For several years the Agency has required that, wherever possible building components specified for PSA projects should be subject to a third party Quality Assurance Scheme, where an independent body carries out checks and can give reassurances on the continuing quality of production. There has been increasing interest in extending this approach to the actual construction of buildings and to their design. In 1986 a Quality Assurance Scheme will be established, on an experimental basis, in the Design Standards Office with the intention of eventually extending it to other design offices.

ii) a number of the qualitative targets in section C (New Design) apply equally to construction management, ie the review of the way in which project management is carried out in PSA with particular reference to the role of Project Managers their selection and training (see page 16) and the staffing of design offices in the light of the changed circumstances resulting from manpower reductions and the increased use of consultants (see page 17)

iii) following an internal review of site control arrangements the PSA Advisory Board reported on the proposed arrangements to the Secretary of State in 1985. During 1986/7 work will continue to develop a strong central role on site control matters generally and to establish a common approach across the UKTO to organising and utilising site control staff. The work will include visits to UKTO directorates to monitor regional site control and promulgate guidance on best practice. This work will be provided within a staff cost: construction expenditure ratio of 1.4%.

iv) Use of Private Sector

All construction work (other than maintenance) is carried out by private sector builders. The balance of site control work not handled by PSA staff is also carried out by consultants. Consideration is being given to contracting out of this work - in the light of management contracting procedures - within the constraints of a national shortage of suitably qualified people.

E. COMMENTARY ON VALUE FOR MONEY

TABLE 15

1. There are a number of systems which PSA adopts on major projects to assist in the achievement of value for money:

(1) Investment appraisal: The requirement for a project is established by the Client but PSA has a responsibility for meeting that requirement in the most economical way and investment appraisal procedures are used to appraise, for example, new build options to meet the same objective or new build versus modernisation/purchase/leasing. Investment appraisal techniques are also used to establish the most suitable and economic heating option in new build and modernisation schemes. During the financial year 1985/6, 311 appraisals were carried out on MOD and Civil projects valued individually at £100K or more. PSA's Investment Appraisal Monitoring Unit is responsible for improving the standards of investment appraisal by undertaking audit style visits to ensure that appraisals are carried out where appropriate and that technical procedures are complied with.

(2) Reference Costs Systems (MOD): There is a cost limit system for most of the common types of accommodation in the three services and the cost limits are kept under regular review.

(3) Cost Limits: Cost limits systems are used for major civil programmes such as Courts and Prisons.

(4) Standard Designs/Layouts: have been developed for certain types of accommodation (eg Courts, Prisons, computer buildings and the modular suite Junior Ranks' living accommodation, physical and recreation centres for MOD) and further developments are under consideration. The use of standard design solutions results in resource cost and programme savings.

(5) Use of Method of Building Standard Components: Standard components are available for windows, partitions, doors, sanitary appliances and suspended ceilings. There is also an approved list for hardware.

(6) Resource Costs: The PATOCAP system provides performance measures which compare PSA's own costs with those that a private sector consultant could be expected to charge for carrying out the same work. The comparison is kept under close scrutiny. Recently the advent of fee competition has tended to reduce consultants costs. However PSA costs are currently some 10% lower than outside consultants.

2. Minor Works and Maintenance

(1) District Management Reviews which cover all aspects of the running of District Works Offices including the way staff inspect the building, settle requirements and plan and executive work. The reviews are carried out on a 2 year cycle in all 154 District Works Offices. 60 were completed in 1985/6;

(2) Maintenance Economy Reviews: a further round of 17 MER's were carried out on the Defence estate in 1985/6.

(3) Married Quarter Maintenance targets are set for Officers and Other Ranks accommodation in each UKTO Directorate and results monitored regularly and through MINIS;

(4) Budgetary Control of Bulk Maintenance: pilot schemes are in hand in selected DWO's to test the value and cost effectiveness of budgetary control on a property by property basis. The total annual expenditure involved amounts to £250M and comprises individual items of expenditure under £2,500;

(5) Works Intermediate System: this computer system became operational in all 154 DWO's in the UK during the year, and is being installed in 11 sub-DWOs in Germany. It provides a range of information on DWO activities which is used to measure output and performance.

(6) DWO Check of 5% of works and stores orders. The full 5% check was achieved in 130 DWO's.

(7) The DELPAC system was progressively introduced in UKTO to monitor and control the Directly Employed Labour force; it provides an effectiveness ratio and various targets including accommodation occupied by DEL, overtime ceilings and support to productive ratios.

(8) Investment Appraisal procedures are also adopted on maintenance schemes. In the financial year 1985/6, 218 such appraisals were carried out on Defence and Civil maintenance work.

(9) Further Developments: during the year proposals were approved to develop MINIS style objective and target setting down to DWO level. the system will begin on 1 April 1986 and will involve UKTO Directors, Area Works Officers, Area Estates offices and DWO's in reporting progress quarterly through the line management chain on a number of prescribed objectives and targets.

EXTERNAL INVESTIGATIONS SINCE 1983 AFFECTING PSA

1983-84

Wardale Touche-Ross Report (Fraud and Corruption)
PAC hearing on Wardale Touche-Ross (resulting from NAO inquiry)

1984-85

Environment Committee examination of estimates
PAC hearing on building maintenance (resulting from NAO inquiry)

1985-86

Review of Consultancy Inspection and Review (CIR) services
Environment Committee examination of estimates
PAC hearing on construction of Falklands Airport (resulting from NAO inquiry)
PAC hearing on construction of courts and prisons (resulting from NAO inquiry)
Multi Departmental Review of Accommodation
Future of PSA (report to the Prime Minister)
Property Repayment Services - report on charging civil Departments for accommodation (internally chaired)
Multi-Departmental Review of budgetary control
Efficiency Scrutiny: surplus space and disposals

1986-87

Environment Committee examination of estimates
Treasury inquiry into capital expenditure contracts
NAO inquiry into management of the defence estate*
MOD bid to assume responsibility for defence estate management
MOD bid to assume total responsibility for MOD-occupied office accommodation*
NAO inquiry into management of the civil estate**
Environment Committee inquiry into PSA**
Multi-Departmental Review of competitive tendering
Central Unit on Purchasing: Review of Government purchasing

*not yet finished

**not yet fully under way

MANAGEMENT IN CONFIDENCE
CONFIDENTIAL

LOAKR

File

10 DOWNING STREET

18 March 1986

From the Principal Private Secretary

Dear Richard,

PROPERTY SERVICES AGENCY

The Prime Minister has seen your Secretary of State's minute of 11 February commenting on Sir Robert Armstrong's minute of 14 January. It arrived, of course, after the Prime Minister had seen Sir Robert's minute and endorsed its conclusions, as you will have seen from my letter of 10 February to Michael Stark. Since your Secretary of State minuted, there have been further discussions between the Cabinet Office and your Department.

On the points in your Secretary of State's minute the Prime Minister has noted:

(i) the work of the interdepartmental committee on Property Repayment Services is concerned with the development and improvement of that system, including the responsibility for funding of major new works. It is not intended that this work should cover the relationship between the Property Services Agency (PSA) and client Departments in the way envisaged in paragraph 6 of your Secretary of State's minute. But if there are issues of this kind specific to MOD, they could be pursued bilaterally with PSA.

(ii) The forthcoming report of the National Audit Office (NAO) into the management of the defence estate will provide an occasion for reviewing the relationship between the Ministry of Defence and the PSA in this area. Once the report is available, the Prime Minister hopes that its conclusions and recommendations can be the subject of discussion between your Department, the PSA and the central Departments.

(iii) The Prime Minister has noted that your Secretary of State would like to pursue the possibility of transferring back to the Ministry of Defence responsibility for the management of the defence estate. She understands that defence estate management work has been progressively integrated

/with the

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with the PSA's civil estate management work, and she is not convinced that the benefits of separation would outweigh the costs and disadvantages. She is asking Sir Robert Armstrong to consider this question, as a machinery of Government issue, in consultation with your Department, the PSA and the Treasury, and to report to her in due course.

Subject to these points, her endorsement of the conclusions in Sir Robert Armstrong's minute of 14 January stands.

I am sending copies of this letter to the Private Secretaries to the Secretary of State for the Environment, the Chief Secretary to the Treasury and the Minister of State, Privy Council Office; and to the Chief Executive of the PSA, Sir Robin Ibbs and Sir Robert Armstrong.

Yours ever,

Nigel Wicks

N. L. WICKS

Richard Mottram, Esq.,
Ministry of Defence.

Prime Minister!
Agree we should write as at Flag C?

Ref. A086/847

MR WICKS

Yours N.L.W. 17.3

Property Services Agency

On 7 March I discussed with the Prime Minister the proposed reply to the Secretary of State for Defence's minute of 11 February. You recorded that discussion in your minute of the same date.

Flag A
Flag B

2. I have now discussed the matter further with the Ministry of Defence, and have ascertained that they would be content to receive a reply on the lines of the draft attached to my minute of 26 February to Mr Addison (A086/661).

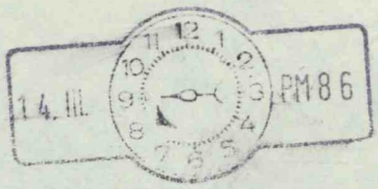
Flag C

RA

ROBERT ARMSTRONG

14 March 1986

CIVIL SERVICE : PSA : Pt 2.



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10 DOWNING STREET

From the Principal Private Secretary

SIR ROBERT ARMSTRONG

PROPERTY SERVICES AGENCY

The Prime Minister discussed with you this morning the future of the Property Services Agency (PSA) on which you had minuted her on 14 January. The Secretary of State for Defence had subsequently, in his minute of 11 February, expressed concern about the PSA's operation in the past and had suggested, among other things, that the PSA staff involved in land management on MOD's behalf should be brought into MOD.

As you know, the Prime Minister saw some advantage in postponing decisions on the future of the Agency until after Ministers had had time to study the report of the National Audit Office. You pointed out that this report was not expected to be completed until June or July and that it would not be considered by the PAC until after the Summer Recess. If decisions on the Agency's future were delayed that long, the consequent uncertainty would be damaging for the effective management of the organisation. The Prime Minister was, nevertheless, reluctant to proceed with the recommendations set out in your minute of 14 January when one of the Agency's major customers was dissatisfied. You therefore undertook to discuss the matter further with the Ministry of Defence and report.

The Prime Minister agreed to await your further advice.

(N.L. WICKS)

7 March 1986

PRIME MINISTER

PROPERTY SERVICES AGENCY

You said you would prefer to await the NAO Report before you finally decided the future of the PSA. I have spoken to Sir Robert's Office about this. (Pages attached for information only)

The difficulty is that the NAO expect to complete their Report in June or July, and it would go before the PAC after the Recess. The end result would therefore be to delay decisions on the future of the PSA for a year or so. This would inevitably mean that some of the reforms which the PSA ought now to be undertaking in the name of greater efficiency would need to be put on one side, and the savings which they should generate would be delayed.

Sir Robert is firmly of the view that your original decision to end the uncertainty hanging over the PSA, and to encourage it to continue the improvements in its performance, was the right one.

Would you like to have a word with him about this on Friday?

Yes

Mark Addison

Mark Addison

5 March 1986

DG2AWR

JA1ALP

MS(RTA) to find out when MOD intend to sign

PRIME MINISTER

PROPERTY SERVICES AGENCY

You endorsed the conclusions reached by Sir Robert in his report on the PSA. A copy of his report and my covering minute is attached at Flag A.

Immediately after I had written out with your decision, MOD chipped in challenging the review on a number of points. Their contribution was both unexpected (they had been properly consulted by Sir Robert before he submitted his report to you) and late.

The MOD minute (Flag B) expresses concern about PSA's operation in the past, a view which departments generally share. It also puts a number of specific points:

(i) that the interdepartmental committee on property repayments services should look again comprehensively at the relationship between the PSA and customer departments.

(ii) that decisions on the future of the PSA should await the NAO report into the management of the defence estate.

(iii) that PSA staff involved in land management on MOD's behalf should be brought into MOD.

MOD's proposals would mean that the PSA continued in a state of uncertainty about its future. Ending that uncertainty was a key element of the proposals in Sir Robert's original report, which you accepted.

Sir Robert advises that the Defence Secretary's minute does not call for a reopening of your decision. He suggests I should write back on the lines of the draft at Flag C.

Content?

MEN

Mark Addison

28 February 1986

I should prefer to await the NAO report. MOD is the biggest customer of PSA now

MS to care back on
Pt 3, page 2
MoD will be written to.

Ref. A086/661

MR ADDISON

Property Services Agency

The Secretary of State for Defence's minute of 11 February to the Prime Minister arrived the day after you had yourself written to say that the Prime Minister had endorsed the conclusions in the minute which I sent her on 14 January.

2. I do not think that the Defence Secretary's minute calls for a reopening of the Prime Minister's decision. I suggest that you should write to the Defence Secretary's Private Secretary on the lines of the attached draft.

RCA

ROBERT ARMSTRONG

26 February 1986

L04
ACR

NL Wicks

DRAFT LETTER FROM M E ADDISON TO R C MOTTRAM ESQ, PS TO SECRETARY OF STATE FOR DEFENCE

Property Services Agency

The Prime Minister has seen your Secretary of State's minute of 11 February commenting on Sir Robert Armstrong's minute of 14 January. It arrived, of course, after the Prime Minister had seen Sir Robert's minute and endorsed its conclusions, as you will have seen from my letter of 10 February to Michael Stark. Since then Secretary of State's statement to the House has been published.

[discussions between the Cabinet Office and the Department.

On the points in your Secretary of State's minute the Prime Minister has noted:

1. The work of the interdepartmental committee on Property Repayment Services is concerned with the development and improvement of that system, including the responsibility for funding of major new works. It is not intended that this work should cover the relationship between the Property Services Agency (PSA) and client Departments in the way envisaged in paragraph 6 of your Secretary of

State's minute. But if there are issues of this kind specific to MOD, they could be pursued bilaterally with PSA.

2. The forthcoming report of the National Audit Office (NAO) into the management of the defence estate will provide an occasion for reviewing the relationship between the Ministry of Defence and the PSA in this area. Once the report is available, the Prime Minister hopes that its conclusions and recommendations can be the subject of discussion between your Department, the PSA and the central Departments.

3. The Prime Minister has noted that your Secretary of State would like to pursue the possibility of transferring back to the Ministry of Defence responsibility for the management of the defence estate. She understands that defence estate management work has been progressively integrated with the PSA's civil estate management work, and she is not convinced that the benefits of separation would outweigh the costs and disadvantages. She is asking Sir Robert

Armstrong to consider this question, as a machinery of government issue, in consultation with your Department, the PSA and the Treasury, and to report to her in due course.

Subject to these points, her endorsement of the conclusions in Sir Robert Armstrong's minute of 14 January stands.

I am sending copies of this letter to the Private Secretaries to the Secretary of State for the Environment, the Chief Secretary, Treasury and the Minister of State, Privy Council Office; and to the Chief Executive of the PSA, Sir Robin Ibbs and Sir Robert Armstrong.

Civil Service : PSA Restructuring
Pt 2 :

CCBC

MO 10

11 Brunt RTA response.
MEA 13/2

PRIME MINISTER

PROPERTY SERVICES AGENCY

at flap PT1.

The Cabinet Secretary copied to me his minute (A086/143) of 14th January about the future of the Property Services Agency (PSA).

2. I have a major interest, since my Department is the Agency's largest customer, responsible for over 60% of its expenditure. We have long been anxious to see major improvements in the efficiency and effectiveness with which Defence work is carried out, and we have viewed with concern the Agency's troubles in recent years. We have been particularly troubled by the increased level of overheads which are charged to this Department, with little information on how the charges are arrived at.

3. There is also, I believe, an urgent need to sort out the role of PSA and its relationship with all of its customers over the civil estate. We have encountered some problems in relation to London offices, and I gather other Departments are also dissatisfied.

4. I accept that under its present management considerable efforts have been made, with some success, to bring about the improvements that we all recognise are needed in the field of work services. I therefore sympathise with Sir Robert Armstrong's view that it would be better to allow the Agency a period of stability in which to consolidate its gains and seek more improvements. But I must caution against complacency. Much still needs to be done, as Sir Robert has noted, and we shall be looking very closely at the proposed six monthly progress reports to ensure that the vital improvements being predicted are in fact achieved.

5. Moreover, the National Audit Office (NAO) is now close to completing a major investigation into the management of the Defence Estate, including works. It has focused on our own internal organisation and on the relationship and lines of responsibility between MOD and PSA. It has been particularly interested in the division of financial responsibility between the Accounting Offices of the two Departments. I believe we should take stock again once the NAO report is available, and consider whether it affects any of the conclusions we have reached.

6. I also believe that the inter-departmental committee on property repayments services should reconsider in full the relationship between the PSA and customer departments and not simply the question of increased devolution as recommended by Sir Robert at paragraph 23(v).

7. One other small, but important, exception to my general support of the Cabinet Secretary's proposals concerns land management. Whereas for works matters MOD decides the requirement but PSA is financially accountable for meeting it, in lands matters the MOD retains both policy and financial accountability, using the specialist staff of PSA to implement decisions. The number of PSA staff involved is relatively small and it would, I believe, simplify the management structure if they were brought within MOD, provided satisfactory arrangements can be worked out.

8. Finally, I should emphasise my support for the transfer back from PSA to MOD of responsibility for minor routine maintenance items. This should lead to a simpler and much more straightforward approach, with greater delegation to our local commanders. It would be wholly consistent with the principles embodied in the Financial Management Initiative to go further down this road.

9. In summary, I regret that we have had past cause to be dissatisfied with the service that we have received from the PSA and I very much hope that we can look for a continued and sustained improvement.

10. I am copying this minute to the Secretary of State for the Environment, the Chief Secretary to the Treasury, the Minister of State Privy Council Office, the Chief Executive of the PSA, Sir Robin Ibbs, and the Secretary of the Cabinet.

G.4.

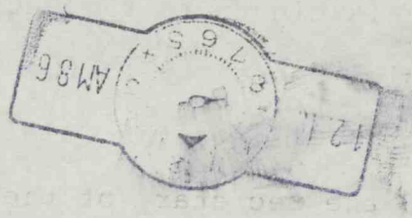
Ministry of Defence

11th February 1986

CONQUEROR
LONDON

CIVIL SERVICE PT2

PSA



MJ

10 DOWNING STREET

From the Private Secretary

10 February 1986

Dear Michael

PROPERTY SERVICES AGENCY

The Prime Minister has seen Sir Robert Armstrong's minute of 14 January, and subsequent minutes from the Chief Secretary and the Minister of State, Privy Council Office.

The Prime Minister has endorsed Sir Robert's conclusions, in particular the recommendations he sets out in paragraph 23 of his minute, and she welcomes the progress which the PSA has already taken to improve its performance. She has noted the Chief Secretary's view that the PSA should develop a clear strategic plan for priority objectives, and she has asked for a report following the conclusion of the discussions between the Treasury and the Department of the Environment on this point. She has also asked that the six monthly progress reports (paragraph 22 of Sir Robert's minute) should cover the disposal of surplus property, the improvements being secured in the supervision of contracts (whether for clients or for internal purposes) and the improvements in working conditions for civil servants which have been secured.

I am copying this to Robin Young (Department of the Environment), Richard Mottram (Ministry of Defence), Richard Broadbent (Chief Secretary's Office), Paul Thomas (Privy Council Office), the Director of the PSA and Sir Robin Ibbs.

Yours ever

Mark Addison

Mark Addison

Michael Stark Esq
Cabinet Office.

PRIME MINISTER

PROPERTY SERVICES AGENCY

In March 1984 you chaired a meeting to dicuss the future of the PSA, at which Sir Robert Armstrong was invited to conduct a further review of PSA's role to provide a basis for Ministerial decisions on its future.

Sir Robert's report is attached at Flag A. It covers a Department of Environment report on the future role and structure of the Agency. Sir Robert was initially doubtful that this report met Ministers' remit. But he has now concluded after discussion with the Secretary of State, the PSA's Chief Executive and Sir Robin Ibbs that it does in fact do so. You do not need to go through that report in detail unless you wish to. Sir Robert's covering minute summarises its conclusions and makes recommendations to you on the right way forward.

Sir Robert's broad conclusion, with which the other Ministers concernced are content, is that the PSA under its new Chief Executive has made good progress towards improving its performance, giving better value for money, and generally adopting a more businesslike approach; there is still, however, still some way to go. Sir Robert does not believe that a further fundamental review would be the right course, and he notes the arguments in favour of ending the uncertainty which still hangs over the PSA.

Sir Robert's conclusions are summarised in paragraphs 21-23 of his minute, and his detailed recommendations are in paragraph 23.

The Minister for the Arts agrees that attention should now be focussed on further measures to improve the PSA's performance (Flag B). The Chief Secretary is content on the understanding

that further changes to improve performance are pursued vigorously (Flag C). He argues that the PSA should have a clear strategic plan with priority objectives in addition to providing regular reports on output against targets as Sir Robert suggests. His officials are discussing this further with Mr. Baker.

The Policy Unit (Flag D) are also content generally with Sir Robert's conclusions. They are, however, concerned that the PSA's six-monthly reports should also cover the area of supervision of contracts (whether for clients or for internal purposes), and that the PSA should have particular regard to tackling the disposal of surplus estates, and to bringing working conditions for civil servants to an acceptable standard.

Content:

(i) To endorse Sir Robert's conclusions, in particular the recommendations set out in paragraph 23 of his minute, and to welcome the progress which the PSA has made;

(ii) To note the Chief Secretary's view that the PSA should develop a clear strategic plan with priority objectives, and ask for a report following the conclusion of the discussions between the Treasury and the Department of the Environment.

(iii) To request that the six-monthly progress reports should also cover the disposal of surplus property, the improvements being secured in the supervision of contracts, and the improvements in working conditions for civil servants which have been secured?

Mark Addison

MEA

Yes - thankyou

7 February, 1986.

JD3AIZ

018/2768

MANAGEMENT IN CONFIDENCE

CONFIDENTIAL

cc BG

FROM: CHIEF SECRETARY
DATE: 6 February 1986

PRIME MINISTER

PROPERTY SERVICES AGENCY

Sir Robert Armstrong copied to me his minute to you of 14 January.

2 I agree that it is important to end the present uncertainty over the future of the PSA. On the understanding that the changes in progress or planned are pursued vigorously, I am content with his general conclusion, subject to one point.

3 Discussions between the Treasury and the PSA over the last few months have shown that there are a significant number of areas, especially in the context of finance, where there is considerable scope for improvements in present arrangements. I think it important therefore that there should not only be regular reporting of output against targets as Sir Robert suggests, but also that PSA should have a clear strategic plan with priority objectives, which would be regularly updated, and against which performance would be assessed.

4 What I have in mind is the need in practice to keep up the pressure on management to improve their information and control systems; to maximise opportunities for disposals; to keep the commercial aspects of estate management to the fore, drawing on private sector expertise wherever possible; to improve their accountability to customers; and generally to seek further efficiency savings as a matter of course. I hope this can build as far as possible on the arrangements PSA already have in hand. I am asking my officials to discuss this further with Kenneth Baker.

5 I am copying this minute to Kenneth Baker, George Younger, Richard Luce, Sir Robert Armstrong and Sir Robin Ibbs.

JM

JOHN MacGREGOR

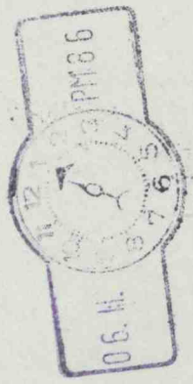
MANAGEMENT IN CONFIDENCE

CONFIDENTIAL

CIVIL SERVICE

PSA

7/82



CONFIDENTIAL

File

10 DOWNING STREET

4 February 1986

PROPERTY SERVICES AGENCY

Will you please refer to your letter dated 21 January which we discussed last week.

I share your feelings that we are very much in the hands of PSA when it comes to paying for the work they do. As far as their estimates are concerned I can do little but accept them. However when large sums of money are involved I stipulate that the original figure must not be exceeded without prior reference to me. This provides some check on additional costs which, as you observe, have a tendency to appear in the final bill.

Once I have established that the necessary funds are available and have placed the order, all invoices etc. are sent direct to the Cabinet Office/MPO Finance Officer for action. I keep him informed of developments so that he can also keep a check on the financial aspects. There is nothing else I feel I can usefully do.

P.S. JOCE

Colonel P.A.W.G. Durrant,
Protocol Department,
Foreign and Commonwealth Office.

CONFIDENTIAL

10 DOWNING STREET

From the Private Secretary

3 February 1986

PSA ADVISORY BOARD

The Prime Minister has seen your letter to me of 24 January. She has noted your Secretary of State's proposal to abolish the Advisory Board, and to include three or four private sector people directly as members of the PSA Board itself.

(Mark Addison)

Miss Sue Vandervord,
Department of the Environment.

PART 1 ends:-

MEA to PM Undated

PART 2 begins:-

MEA to DOE 3.2.86

Grey Scale #13
C
Y
M
A 1 2 3 4 5 6 M 8 9 10 11 12 13 14 15 B 17 18 19