

PRIME MINISTER

REPAYMENT FOR PSA SERVICES

1. You asked me to make proposals on repayment for PSA services, in consultation with the Secretary of State for the Environment and others, for consideration by Ministers. I am sorry that the necessary consultations delayed my reporting to you sooner.
2. This introductory minute is intended to focus on the main issues and to report on my consultations. My proposals are described in more detail in the attached self-contained minute covering the report of a small group of officials who helped me in my work.
3. Very briefly what I propose is:
 - a. The United Kingdom Civil Estate to be on repayment, but on a simpler, less bureaucratic basis than applies to existing repayment clients.
 - b. All Departments to pay PSA Supplies direct for furniture, transport etc; also to pay PSA for fuel and utilities.
 - c. Existing arrangements with regard to the MOD Estate and FCO Diplomatic Estate overseas broadly to stand. But they should be thoroughly reviewed to identify ways of improving MOD and FCO awareness of the value of the assets they are using.
4. The Chancellor of the Exchequer and the Lord President of the Council support my proposals.

5. I had a useful discussion with a group of Permanent Secretaries in November. The Permanent Secretaries of some of the larger Departments argued that, if they are to bear the costs of accommodation, they should be given greater freedom and responsibility and a say on the allocation of the money available for accommodation purposes. I am very sympathetic to these views.

6. The Secretary of State for the Environment supports the objective to ensure that Departments are alive to the cost of accommodation services they require. Whilst accepting repayment for PSA supplies he questions its need in respect of the United Kingdom Civil Estate. He is concerned at the staff cost of operating the repayment system on that estate (estimated by PSA at 45 staff, £573,000 pa) as against the unquantifiable benefits at a time when there is already in his view a greater cost consciousness generally in Departments. He has suggested instead that the new costing system proposed by the group should be used as the basis for an improved method of "attribution" in Estimates (ie a more refined supporting statement) which the Secretary of State is advised the PSA could operate without substantial additional staff. He suggests that this should be just as effective in encouraging cost-consciousness in Departments without the added complexity of repayment and Vote accounting. He has also suggested the further option of proceeding in two stages - improved attribution first, and a move to repayment later, if that proves to be a necessary reinforcement, when the new costing system is well established.

7. I myself am convinced that a pre-requisite to effective management is that Departments should pay for everything they consume. It is good business practice that costs should fall where they arise and where they can be most easily controlled. There is a world of difference in management terms between knowing what it costs somebody else to provide you with goods and services and having to find the money for these from your own budget. There is no satisfactory half-way house

in my view. Attribution, for example, would still leave PSA picking up the Departments' bills and would be little more than a public statement of what Departments are already being told in the annual scrutiny of running costs. For similar reasons I see little point in the two stage approach of attribution first, repayment later.

8. In the face of the civil service manpower policy the repayment system proposed has been designed to keep the operating costs to the absolute minimum. Even so, in the present climate, I can understand the concern of the Secretary of State as Minister with responsibility for PSA. But as I have said in other papers, it is sometimes necessary to spend money in order to save it. I would regard any extra cost of operating the repayment system as an investment to achieve savings of manpower and money through a sharpening of responsibilities and more effective management.

9. I accordingly recommend acceptance of the repayment system proposed as providing a sound, practicable and unbureaucratic basis for promoting in Departments a greater awareness of and changed attitudes towards the cost of accommodation and related services. The proposals are capable of refinement and development to take into account the points put to me by Permanent Secretaries and others - and I recommend establishing a Development Group for this purpose - but I believe it is important first to get the proposals accepted by Ministers and on the road towards implementation.

Agreed

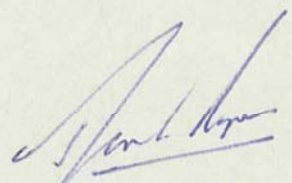
Recommendation

10. I invite you to agree that my proposals should be brought forward for Ministerial consideration and that this should be done by circulating the attached minute and accompanying report to all Ministers in charge of Departments. You might think that the most effective way of dealing with the proposals would be at a meeting of Cabinet. If so, I should be glad to make myself available to explain the proposals and to answer questions if you thought that might be helpful.

Agreed

Ames

11. You might as a first step wish to discuss this with the three Ministers so far concerned and me. I am therefore copying this to the Chancellor of the Exchequer, the Lord President of the Council, the Secretary of State for the Environment and Sir Robert Armstrong.



DEREK RAYNER

23 January 1981

PRIME MINISTER

REPAYMENT FOR PSA SERVICES


1. You asked me to report on the possibility of providing PSA's services on repayment terms.

Report by officials

2. I have been greatly helped by a small group of officials chaired by Mr Peter Kemp (Under Secretary, Treasury) and including representatives of the Property Services Agency, the Civil Service Department, the Rating of Government Property Department and my office. I attach their report to me which I think is excellent.

3. The group's advice is this:

- a. Office, storage and specialised accommodation (the "United Kingdom Civil Estate") should henceforth be provided by PSA on "repayment" terms, but on a simpler, less bureaucratic basis than applies to existing repayment clients.
- b. All Departments (except the Foreign and Commonwealth Office, in respect of the Diplomatic Estate overseas) should pay PSA Supplies direct for furniture, transport, furnishing etc; they should also be charged for fuel and utilities.
- c. Existing arrangements with regard to the Ministry of Defence Estate and the Diplomatic Estate overseas should broadly stand for the present. (The cash outgoings are already borne on the two Departments' PES). But ways of keeping the Ministry of Defence and Foreign and Commonwealth Office aware of the value of the assets they are using should be devised.



4. I disagree with officials on one point only - their proposal to exempt the Foreign and Commonwealth Office's Diplomatic Estate overseas from paying direct for the goods and services provided by PSA Supplies. I cannot readily envisage the "administrative complications" which caused them to make this exemption and incline to recommend that they be put on the same footing as everyone else. However, further insight should be provided by a recently commissioned joint FCO/PSA review of the FCO Diplomatic Estate overseas, due to report at the end of January. I advise Ministers await that report before moving to a final decision.


Recn 1

5. Subject to that point I recommend acceptance of the Group's proposals as a sound and practicable basis for action soon in promoting efficiency and economy in the use of accommodation.

The need for repayment on the office, storage and specialised estates

6. My philosophy is simple: the provision of goods and services free on demand discourages efficiency and economy in their use. This is the fundamental weakness of the "allied service" system of providing accommodation and associated services in Government, even when supported by the annual scrutiny of departmental running costs.

7. The present arrangements on the United Kingdom Civil Estate are that Departments define their accommodation and related requirements year by year and PSA pick up the bill. (In 1979/80 this amounted to £427 million and the Rating of Government Property Department also incurred expenditure on behalf of Departments of £173 million). Departments are thus generally free from the practical necessity to consider the cost of accommodation as part of the price of their own administration and to define need with an eye to cost. PSA on the other hand are subject to budgetary pressures and constraints. This gives neither party complete satisfaction in the efforts to balance needs and availability.



8. Of course, the simple act of paying for something will not of itself ensure efficiency and effectiveness in the use of resources. But it is an essential ingredient to sound management with the rest being provided by managers questioning costs against a firmly controlled budget. That act of management is most effectively done at the point where the costs are determined, trade-offs can be made against other administrative expenditure and control can most easily be exercised ie in the Departments. There is no incentive for such management if, as under present arrangements, the costs are borne outside the Departments in PSA.

9. I therefore readily endorse, and commend to Ministers, the group's proposal (paragraphs 4.1 and 4.2) that for office and storage accommodation Departments should bear on their own PES programmes and Votes the cost of rent (current market equivalent by rental zone levied on owned and rented property alike), rates, maintenance and minor works and, in the case of the specialised accommodation (eg courts, laboratories), should in addition to paying the ongoing costs bid in PES for major new capital works.* Departments would also bear the cost of fuel and utilities (para 4.8).

10. Similarly, I endorse the proposal (paragraph 4.7) that Departments should pay PSA Supplies direct for furniture, transport etc. PSA Supplies are already a Trading Fund but at present sell their services to the rest of PSA for distribution to departments occupying the Civil Estate free on allied service terms. I can see no advantage in retaining the role of PSA as a middle man to set against the advantages of a change to direct trading, which are as for charging for accommodation generally. Moreover the services of PSA Supplies are similar in nature to those of HMSO, which went onto repayment in April 1980.

*The cost of major new works on the "common user" office and storage estate would continue to be borne on PSA's Vote and PES, but this is under review at the moment.




11. There is, to my mind, no effective intermediary step between the present "allied service" system and "repayment" (though, as I will argue below, my proposals are capable of refinement).

12. The group rejected - and I agree - the less radical alternative to present arrangements of "attributing" costs to user Departments' Votes ie as a supporting statement in Estimates (paragraph 3.8). To display publicly information along the lines of that recently made available to Departments in the annual scrutiny of running costs - which is what "attribution" means - would be of limited benefit in securing greater efficiency in the use of accommodation. Departments would still be in the position of defining and defending their needs in the absence of a budget, with the onus of questioning costs and accommodation usage continuing to reside in the PSA, one step removed from where they occur. Yet attribution would involve PSA in some extra staff costs to put together the management information and to respond to Departmental questioning of their accommodation needs. In my view these costs are better absorbed into a system of repayment to sharpen more greatly Departments sense of responsibility for the resources in their charge. For there is a world of difference in the incentive to sound management between knowing what it costs somebody else to provide you with goods and bearing it yourself.

The mechanics of the repayment system proposed and its cost


13. The mechanics of the repayment system proposed have been designed to keep the costs of operating the system to a minimum whilst meeting the objective of greater cost consciousness through making Departments pay for what they consume. In particular the calculation of the accommodation charge levied by PSA (covering rent, rates, maintenance and minor new works) will avoid a detailed building-by-building, job-by-job analysis.



For example, on the office and storage estates, the rent per square foot will be an average current market rental by geographical zone (of which there will at first be 12) taking into account the mix of properties in each zone, rather than being specific to each property. With regard to maintenance and minor new works Departments will not be billed for each job carried out on their properties. Instead, the total PSA maintenance and minor new works bill for each estate will be allocated to Departments according to the square footage occupied.

14. To do otherwise for the 8000 plus holdings on the United Kingdom Civil Estate would be cumbersome and expensive in PSA and Departmental staff effort, as has been experienced with existing repayment clients. I have tried to tread a middle course, bearing in mind Civil Service manpower policy. The group estimate that to operate the proposed repayment system would require 45 staff (£573,000) in PSA and 15 staff (110,000) in PSA Supplies, though it is expected that some of these costs would be absorbed within existing allocations. The costs to Departments are thought to be marginal.

15. I cannot second-guess these estimates from here. It will be for the Secretary of State for the Environment and PSA management to satisfy themselves that the staff costs are kept to the necessary minimum and where possible absorbed. I would expect some off-setting staff savings through, for example, the effect of Departments approaching PSA to tell them of available unoccupied space rather than, as under present arrangements, PSA having actively to investigate Departments' accommodation use and to persuade them to adjust their requirements. Also as repayment causes accommodation to be reduced PSA will save the staff effort currently directed at running and maintaining that accommodation. And if the system proves successful there could be read-across to existing repayment clients to cause less staff effort to be involved there.




16. But any system of accountability requires staff effort. It is the price to be paid for effective budget control - the sprat to catch the mackerel. I believe the extra staff would represent an investment to achieve more effective control over the substantial cash outgoings on accommodation of £427 million by PSA and £173 million by the Rating of Government Property Department in 1979/80. And even these large sums do not mirror the true costs to Government since they make no allowance for current market rents or for the value of assets tied up in Crown-owned property (about half of the Civil Estate).

The distribution of responsibilities

17. What the proposals mean in practice is that Departments will be able to influence their accommodation costs by varying the space occupied and the geographical location. Moving buildings within a rental area will not directly affect the costs borne by Departments. Nor will varying the quality of accommodation occupied. But I believe adjustments in the amount of space occupied to be a priority and an area where there is likely to be the greatest scope for savings in the first instance. Providing an incentive to reduce space will become all the more important as the size of the civil service reduces.

18. PSA will retain their responsibility for central estate management, and therefore for matching clients' precise requirements with available space, and for maintenance on the estate. Thus Departments will have no more freedom of choice than now on the precise accommodation occupied, and they will remain tied to PSA. I would however expect a better informed business relationship as Departments begin to question for themselves the costs of their accommodation and approach PSA for advice on how these costs can be reduced and their accommodation requirements more efficiently and effectively satisfied.



19. PSA will also retain control over the provision of major new works on the office and storage estates, the expenditure being borne on PSA's PES and Vote. The satisfaction of these Departmental requirements will thus continue to be dependent on the amount of money available to PSA for these purposes, decisions on which will remain with the Secretary of State for the Environment. There will however be greater freedom for departments in respect of small maintenance and minor works jobs as they will be able to order the work for themselves from contractors and pay cash for it from their own budgets.

Too blunt an instrument?

20. The repayment system as proposed is capable of refinement. The group recognise this in their report (section 9). I myself lay particular emphasis on the need to refine the rental zones to cover a smaller geographical area and so more accurately reflect market conditions, (especially in London). I also have much sympathy with the argument that if Departments are to bear the costs they should have a greater say in determining priorities and influencing the amount of money available for accommodation purposes. Ways need to be found, for example, to ensure that departmental demands for the rearrangement of accommodation, aimed at reducing the overall cost of administration, are not frustrated by a shortage of PSA money. I am particularly keen to see Departments, rather than PSA, bid in PES for expenditure on major works. And the small maintenance and minor works jobs, for which departments will have greater responsibility, should be as broadly defined as possible whilst respecting PSA's estate management responsibilities.

21. I believe that all this should be registered for consideration and development if Ministers decide to adopt the repayment proposals and once they are on the road towards implementation - a big enough step and task in itself. There is time before the system is fully operational to weave in extra refinements and the experience of the trial run in 1982/83 will enable any detailed points about the application of the

accommodation charge to be sorted out.

Taking the proposals forward

Recn. 2

22. I recommend that if Ministers accept the proposals PSA should be authorised to set up the new system for a trial run in 1982/83 with a view to going live (ie incorporation in estimates) in 1983/84. I also recommend that the group of officials which has helped me should be charged with the task of refining and building upon the repayment system proposed. They have the expertise to enable them to do so. The group would need to be expanded somewhat to include representatives of the client departments. I suggest that it should report to the Secretary of State for the Environment and me.

Recn. 3

MOD Estate and FCO Diplomatic Estate overseas

23. Officials do not propose putting the Defence and Diplomatic Estates onto repayment. There are practical problems in squeezing such large and diffuse estates into the repayment mould designed for the Civil Estate. In particular, because the properties are often highly specialised the computation of current market rents would require valuation of individual holdings. This would be a costly exercise when one considers for example that the Ministry of Defence estate covers 432,000 hectares of land at home and abroad, being a mixture of airfields, training, agricultural etc, and that the overseas estate is scattered across 132 countries.

24. These estates are already part way down the repayment road in that annual cash outgoings (£679M in 1979/80) are borne on the Departments' PES. But as the report points out, this does not create any charge in respect of owned assets and, in the case of rented accommodation, it does not reflect current market rents. The Departments thus only have a partial picture of the resources tied up in their accommodation.

Recn. 4

25. Accordingly I advise acceptance of the group's proposal that ways of keeping MOD and FCO aware of the value of the assets they are using should be devised. I recommend that a more specific study of each estate should be undertaken. These should be got on with quickly. The terms of reference and the method (including who should do the work) will have to be devised carefully. That concerning the Diplomatic Estate overseas will need to take into consideration the outcome of the joint PSA/FCO review to which I referred in para 4 above.

Conclusions

26. I recommend Ministers to accept the repayment proposals.

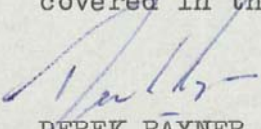
27. I also recommend that:

a. PSA should be authorised to get on with the necessary accounting arrangements with a view to a trial run in 1982/83 (which will mean being geared up and ready to go in time for Estimates - late Autumn - 1981) and going fully alive in 1983/84.

b. The group of officials that has helped me should be retained to recommend to the Secretary of State for the Environment and me ways in which the system should be further developed.

c. The Secretaries of State for Defence and Foreign and Commonwealth Affairs should be invited to set up the recommended studies of the Defence and Diplomatic Estates.

28. I shall be happy to give such advice as I can on any point covered in this Minute.


DEREK RAYNER

23 January 1981

Enc: Report of an Interdepartmental Group on Repayment for Services Provided by the Property Services Agency