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comments are
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MAJ

PRIME MINISTER

PSA

I am to meet you shortly to discuss the issue of repayment of current costs by Departments to PSA. On that occasion, I would be grateful for a few minutes of your time to consider the wider issues of PSA as we have had one or two recent conversations without seeking to establish our objectives for this organisation.

The PSA was set up following reports by Tim Sainsbury and Herbert Cruickshank (ex Managing Director of Bovis) in 1972. Broadly they concluded that there would be economies if one central building and property management agency were responsible for the whole government estate, rather than having many organisations run by individual Departments.

On 1 October 1972, 47,000 staff (21,000 non industrial and 26,000 industrial) were thus taken in to the new PSA.

Under the Labour Government this 47,000 reduced to just under 40,000 when I took over. You are aware that I have increased the rate of run down and now we are at 35,400. My target is to get to 28,225 by 1984. In order to achieve this I now need to introduce compulsory redundancy as the rate of natural wastage has fallen markedly in the present climate. My objective is partly cost reduction and partly to switch work to the private sector.

It is possible to go faster but only at higher levels of redundancy which as you know increases short term expenditure for long term economies. But most of the work we do would in practice still be done but in the private sector.

I now set out the basic scale of the work we do.

Organisation

The HQ Directorates (in London and Croydon) are responsible for programming, financial control, most major works projects and specialised professional and technical services. But PSA is primarily a territorial organisation, with 80% of its staff working locally. It operates in every part of the UK, including Northern Ireland, and in 132 countries throughout the world in support of the FCO and the Armed Forces. There are ten UK Regions (including Scotland and Wales) and four overseas, of which Germany is much the biggest.

Scope and Scale

PSA is not solely concerned with the Government's civil estate. Over half of its work is in support of the Armed Forces at home and abroad, NATO and the United States Forces in the UK. I attach some facts and figures which illustrate the scale and variety of its operations.

Allocation of Expenditure

We are shortly to discuss this with you as there are obvious attractions in involving Departments more directly in the cost of the services they consume. Derek Rayner has led the work here.

Management Scrutiny

An organisation of this sort is particularly unsuited to be a Government Department. It is subject to all the problems of Parliamentary scrutiny and, in truth, building and estate management tasks are not best run by civil servants who have training and disciplines very different from the usual private sector management routine.

But it is not possible to escape the fact that much of the work must remain in the public sector and all the policy decisions and priorities are essentially for Ministers.

I take the view that we must move to the minimum use of civil servants for building, designing etc but I see no escape from the policy and financial management. It then remains only a question of speed of transition.

In order to give me the best outside advice and experience I have recruited a very good team under Nigel Mobbs. The full team is:

G N Mobbs, Chairman, Slough Estates Ltd
R C Drake, Director Ford of Europe Incorporated
B J Hill, Group Managing Director, Higgs and Hill Ltd
D N Idris Pearce, Richard Ellis, Chartered Surveyors
F C Graves, Francis C Graves & Partners, Chartered
Quantity Surveyors
F G Bennis, General Manager, National Westminster Bank Ltd
N C Baker, Taylor Woodrow
A W Cox, Architects' Co-Partnership Inc
Professor E Happold, Buro Happold, Consulting Engineers
J P D Heywood (Stockbroker, Lloyds, Farmer)
Sir Geoffrey Wardale, ex-Permanent Secretary, DOE
General Sir Patrick Howard-Dobson (retiring Vice-Chief of
the Defence Staff)

It will not achieve miracles but it will bring a new impetus to what I am trying to do.

Is the Agency too big?

There are no absolute answers. Certainly it could be split up but I doubt if faster results would be obtained than we are achieving - or could if redundancy was speeded up - centrally.

Certainly to break up PSA into 20 or 30 units serving individual departments would take us straight into problems of overlapping organisations and duplicated commands and services.

There are some options.

Major Office Developments could go over to Departmental PESC allocations and not mine. In practice my guess is that this

would increase expenditure under this heading and not reduce it as there would be no bidding system as at present where Departments have to persuade PSA to provide funds. This year you will remember I cut the office provision by £19m and had to fight battles across Whitehall to get it through.

Number of Offices

We must get these down at least in line with falling manpower. I have circulated to Departments proposals for achieving such economies which would, over a period of several years, enable us to give up over 80 buildings at present occupied by London Headquarters staff. There is bound to be some resistance and I may in the end, if necessary, have to involve colleagues to get the right results. Nevertheless, even in the current financial year PSA is surrendering nearly 350,000 sq ft of office space in London. Left to themselves, Departments would not make such economies and I conclude that a properly motivated central Agency is therefore important.

PSA/DOE

There is no real link between the two. PSA could, like the Stationery Office, report to CSD. In many ways this would make sense as they are a central service. I am very happy with my responsibility but I must make the point that if it suited any policy purpose such a change could be made. But the issues I have raised will still remain.

I am copying this to Geoffrey Howe, Christopher Soames, Derek Rayner and Robert Armstrong.

W.S.H.

MH

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PROPERTY SERVICES AGENCYSCALE OF OPERATIONS

PSA's main expenditure on works and related matters is divided among clients as follows :-

	<u>1980/81</u>
	£m
Defence	620
Civil Departments	480
Diplomatic	35
NATO/US	100
Post Office	100
Others	50

The main types of work are :

New works - the design (in-house or with consultants) and project management of major new works: offices, prisons, courts, museums, galleries, laboratories, special hospitals, Defence works (airfields, dockyards, barracks, radar installations, hospitals etc) £600m in 1980/81.

Maintenance - maintenance and operation of buildings, plant and machinery on the Civil and Defence estates and for other public sector clients and NATO/US Forces. £600m in 1980/81.

Estate Management - management of the Government estate, Crown-owned and leased, to meet the needs of Government Departments, including all types of land and property transaction and disposal of surplus assets. Rent Bill £165m in 1980/81. Management of the Defence estate, including training areas.

Supplies - supply of furniture and equipment, fuel and transport services. £212 in 1980/81.

The following figures give an indication of the scale of the Agency's current operations :

Major new works - 800 in construction, 1,400 pre-construction

Job orders (maintenance and minor works) about 1,800,000 a year.

Land transactions about 17,000 transactions a year - acquisitions, leases, rent reviews, disposals etc.

Disposals forecast receipts - from sale of surplus land and property 1980/81 Defence estate £60m, Civil estate £20m.

Holdings Civil estate 9,000; Diplomatic estate 1,380; Defence estate (UK) 3,700 establishments plus 90,000 married quarters and 280,000 hectares of land (one "holding" can comprise a number of buildings and one building may be occupied by several Departments).