



PRIME MINISTER

COST OF BALHAM JOB CENTRE

I have seen your Private Secretary's minute of 20 May about this case, following Jim Prior's minute to you of 8 May and Leon Brittan's of 18 May.

Under present repayment arrangements, PSA must recover the full costs of the service: it has no funds of its own to spend on repayment services. But it does offer an arrangement under which a client like MSC can pay an insurance premium in return for which PSA accepts liability for extra costs established to be its responsibility (MSC had the opportunity to enter this arrangement, but did not pursue it). We can certainly consider with the Treasury ways of extending these arrangements.

The new "PRS" repayment system is quite different. Essentially, with a few exceptions, it levies on Departments an inclusive accommodation charge designed to reflect their space requirement and its location; the charge derives from unit rates, and does not log up against Departments individual items of expenditure made on their behalf. Major new works and acquisitions are still carried by PSA itself. I certainly accept that in the context of PRS we need to find ways of improving cost awareness in both PSA and client Departments, whose delays and changes of mind can equally impose extra costs. But the system itself cannot allocate those costs directly.



As regards the Balham case, PSA's original advice to MSC was against taking the property. On being pressed by MSC to reconsider its suitability, in view of the urgent need and the lack of any alternative, PSA arranged for a further survey of the property to be carried out, using consultants for the structural survey. The consultants failed to discover the basement and their report raised no serious doubts about the structure. As the building was suitable in other respects, it was concluded that it could be accepted. In the event this proved to be a mistake because it had not been possible to carry out a sufficiently detailed examination of the structure and it was subsequently found to be in worse condition than appeared in the survey. The survey was not as complete as it should have been because the firm then in occupation of the premises refused to allow a thorough examination. In those circumstances MSC should have been warned of the limitations of the survey - and, indeed, PSA would not normally take a building if proper access for survey was refused. But it was thought that the degree of risk was acceptable and that proved to be wrong. PSA have since issued instructions to avoid any such risk in future.

As Sir Richard O'Brien recognised in his letter of 7 January, this case has to be seen in the context of the whole job centre programme, where PSA has provided and equipped some 680 Job Centres - some involving very difficult negotiations in securing the kind of premises and locations that MSC wanted. This does not excuse the mistake made at Balham but it sets it in perspective.

I am sending copies of this minute to Jim Prior and Leon Brittan.

*W. S. H.*