

CONFIDENTIAL

Full



10 DOWNING STREET

From the Private Secretary

SIR ROBIN IBBS

PSA RESTRUCTURING

The Prime Minister was grateful for your minute of 17 November commenting on the Secretary of State for the Environment's proposals for re-organising the PSA.

The Prime Minister has decided to convene a meeting to consider the reorganisation further, and she would be grateful if you could attend this. We will be in touch shortly to arrange a time, and I will remind the Prime Minister about your note before the meeting takes place.

I am sending a copy of this minute to Richard Hatfield (Cabinet Office).

IBB

21 November 1983

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Sub

10 DOWNING STREET

From the Private Secretary

MR. HATFIELD

The Prime Minister has seen Sir Robert Armstrong's minute of 15 November to Robin Butler about PSA restructuring.

The Prime Minister has agreed to convene a meeting to discuss the Secretary of State for the Environment's proposals, along the lines Sir Robert suggests. I should be grateful for your advice on attendance. Presumably we need the Secretary of State for the Environment, Mr. Alfred and Sir Robin Ibbs, but you may wish to suggest that one or more departmental Ministers, and perhaps a Treasury Minister, should also attend.

MR. D. BARCLAY,

21 November 1983

CONFIDENTIAL



FCS/83/238

SECRETARY OF STATE FOR THE ENVIRONMENTRestructuring of the Property Services Agency

1. Thank you for sending me a copy of your letter of 3 November to Nigel Lawson about your proposals for restructuring the PSA. I have no objection to your proposals and agree that an early statement should be made in the House about them.

2. I was particularly pleased to see that you consider the changes will enhance the service the Agency can provide. There is certainly room for this. The projected reburishment of this building has already been delayed by several months. The history of the recent redecoration of the Ambassador's entrance to my office seems to be a case study in how not to conduct such an operation: though this, characteristically, seems to have surprised nobody - and produced no sense of shock in the Agency!

3. It was as a result of similar experiences that I was able, some years ago, to secure freedom for the Deputy Master of the Royal Mint to handle many such transactions direct with outside contractors. I very much hope, therefore, that you will be working in the direction of as much privatisation as possible of what is at present a very unimpressive in-house DLO.

/In the

in PM's BOX 16/11
Yes. For weekend.

nbpm
DMS
17/11



4. In the same spirit I welcome your indication that the proposed changes will enable PSA to handle developments in PRS more effectively, since mistakes in the distribution of financial resources bore heavily on us in 1983/84 and could be compounded by any arbitrary rental adjustments in 1984/85. I look forward eagerly to the proposed further improvements.

5. I am sending copies of this minute to the recipients of yours.

A handwritten signature in black ink, appearing to be 'G. Howe', written in a cursive style.

(GEOFFREY HOWE)

Foreign and Commonwealth Office

17 November 1983

RESTRICTED

Civil Service long term policy
A14

JULY 1983



PRIME MINISTER

PSA Restructuring

I attach advice from Sir Robin Ibbes (Flag A) and Sir Robert Armstrong (Flag B) about Mr. Jenkin's latest proposals for re-structuring the PSA (Flag C).

Sir Robin Ibbes thinks the key considerations are likely to be the personal position and commitment of Mr. Alfred, and the importance attached to plans for privatisation.

Sir Robert Armstrong has considerable doubts about the DOE proposals, and suggests a meeting to consider wider aspects, together with any remaining departmental reservations.

Agree we set up a meeting, to include Sir Robin Ibbes? ✓✓✓

Yes not

Doub

dic RH

grateful
agrees to a meeting
will be in touch to
set this up

dic Sir R1

Then setting up a
meeting will need
PM of you in the

17 November 1983

PRIME MINISTER

PSA RESTRUCTURING

7/15/83
16/11?

You have received copies of Mr. Jenkin's two letters dated 3rd November 1983, covering Mr. Alfred's proposals for dividing the PSA into civil and defence wings in a similar way to his earlier proposals.

2. I have been involved in some of the discussions of this matter by officials. My own views are:

- (a) There is clear evidence that the present organisation of the PSA is not satisfactory.
- (b) Mr. Alfred is personally strongly committed to these proposals. They also have the support of the PSA Advisory Board (with the possibly significant exception of Sir Geoffrey Wardale).
- (c) Because Mr. Alfred is committed to the proposals he has a strong personal interest in ensuring that, given acceptance, the benefits he is claiming are achieved - although these may not go as far as Ministers might reasonably expect.
- (d) There is no evidence, even though the proposals if implemented should result in some improvement, that this form of reorganisation would necessarily be the best.
- (e) In particular, there is no evidence that the split between civil and defence is essential in order to achieve the removal of a tier which is the main source of savings, nor that a fundamental study of organisational alternatives has been undertaken.

(f) It is hard to accept Patrick Jenkin's contention that if the PSA is restructured on a client basis, "the civil side could be privatised without any further restructuring." Surely, the civil side looks too large and diverse to be readily privatised en bloc? Equally, there must be a good case for privatising parts of the defence side, and it may well be that a reorganisation other than a single split between the civil and defence sides would be better in terms of potential privatisation.

(g) The strongest argument for accepting the proposals appears to be that Mr. Alfred is committed to them and is likely to deliver some benefits from them. Furthermore rejection of the proposals would indicate a lack of confidence in him and the implications of this would need to be assessed.

(h) If the proposals are accepted it will be important to monitor their implementation in terms of:

(i) The savings actually achieved.

(ii) Improvement in the property repayment system (PRS) and more efficient use of accommodation by departments.

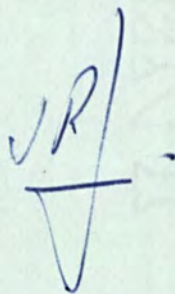
(iii) Correction of the managerial deficiencies identified in the Wardale/Touche Ross report.

There will be little point in accepting the proposals unless they are considered to be helpful in these three respects.

- (i) The main argument for rejecting the proposals appears to be that they may well be sub-optimal both in terms of departmental efficiency and potential privatisation. (However, there would be further delay and a search for the best can of course be the enemy of the good.)
- (j) If the proposals are rejected, it would be appropriate to insist on a proper organisational study of PSA against a clearly defined statement of its objectives and the future plans for it including privatisation.

3. As the decision appears likely to turn on considerations such as Mr. Alfred's position and the importance attached to plans for privatisation, I do not offer an overall recommendation as I am not well informed on these aspects.

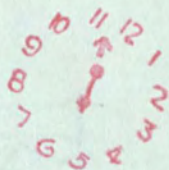
4. I am sending a copy of this minute to Sir Robert Armstrong.

A handwritten signature in blue ink, consisting of the letters 'R' and 'I' intertwined, with a horizontal line underneath and a vertical line extending downwards from the center of the horizontal line.

Robin Ibbs
17th November 1983

Civil Service long term
P+IF

17 NOV 1983



Clean copy in PM's
w/E box 18/11



~~Prime Minister~~

~~Sir Robert Armstrong has doubts
about the DoE proposals (below)
and suggests a meeting to
consider wider aspects, plus any
Departmental reservations.~~

Ref. A083/3251

MR BUTLER

PSA Reorganisation

~~Agree we set this up?~~
JMB
15/11

Since your minute of August 1, PSA have been pursuing the detail of their proposals with client Departments, and there have been extensive consultations involving central Departments and the Efficiency Unit. Permanent Secretaries discussed the proposals on October 19.

2. On the principle of client dedication, which your minute questioned, the PSA paper reports MOD support, but makes no reference to the views of civil Departments. My impression is that, while some continue to have reservations about effects on the level of service (particularly during the transition), they are now prepared - albeit reluctantly - to see the proposals go forward. It can be questioned whether, in the light of the recent highly-critical Touche Ross/Wardale Report, reorganisation of any kind should be attempted now. Reorganisation will not tackle the specific weaknesses identified in that Report, and will divert management energies from tackling them. But overall, if the whole issue were simply one of the most efficient future organisation for the PSA, I think it would be right now to back the judgment of Mr Alfred and his team.

3. But I hesitate to recommend this. My concern is that - despite the extensive consultations with central Departments - the paper does not focus clearly enough on the wider implications of the proposed restructuring for the future role and functions of the Agency. I have in mind particularly the following aspects.

4. First, your minute of August 1 said that the Prime Minister was asking "why we need a separate organisation to handle the defence estate when the Ministry of Defence could undertake this task". On this, the paper argues that, while this course would



have some advantages, it would also have some disadvantages compared with the dedicated option; the paper refers to current discussions with MOD. What the paper does not make clear is that a decision to return the work to MOD, if taken after implementation of client dedication, would involve considerably greater costs and disruption than would be implied by simply transferring a number of dedicated offices to new management. This is because of the extent of cross-working provided for even under the dedicated option: on the civil side, this is expected to be 16 per cent across the estate as a whole, rising to 24 per cent outside London. Efficiency considerations argue strongly that a decision should be reached on future responsibility for MOD work before beginning implementation of any particular pattern of reorganisation.

5. My second reservation concerns the Secretary of State for Environment's suggestion that client dedication would facilitate later privatisation of civil work. I am not sure that I understand his intention fully, but I suspect that the proposal may reflect some misunderstanding of PSA's role, which goes wider than the provision of services. Much work connected with the latter - in both civil and defence sectors - has already transferred to the private sector, and this will go further under the Property Repayment System developed by Lord Rayner.

(Under PRS, Departments are free to contract directly for minor works and maintenance up to £500 per job. There are proposals to raise this limit to £1,000 per job and, in due course, to give Departments full responsibility for internal decoration.)

6. More radical proposals - to reduce the size of the owned estate, and/or that Departments should negotiate property leases directly on the market - could also be considered, although the short and long term costs and benefits would need to be most carefully weighed. But I should find it hard, in any event, to conceive of dispensing with the function which PSA currently performs as, in effect, a "central Department", of planning and monitoring requirements, arbitrating on conflicting Departmental



priorities, and otherwise acting to ensure optimal use of the Government estate and ensuring the timely release of surplus space to the fullest extent possible. This is not a role which could be performed by the private sector.

7. The Prime Minister may think it would be desirable, before deciding on the proposals, to convene a meeting with Ministers most directly concerned, Mr Alfred and Sir Robin Ibbs, to consider these wider aspects and also to give Ministers the opportunity to voice any continuing reservations about implications of the proposals for services to their Departments.

A handwritten signature in black ink, consisting of the letters 'R' and 'A' in a stylized, cursive font.

ROBERT ARMSTRONG

15 November 1983