

CONFIDENTIAL

PRIME MINISTER

PSA RESTRUCTURING

The basic proposals are:

- (i) dividing the PSA into two parts, one civil and one defence
- (ii) cutting out one tier of the present management structure
- (iii) introducing commercial accounts on the civil side

Opinions are divided on the merits of these proposals, with the Policy Unit in favour, Sir Robert Armstrong against, and Sir Robin Ibbs agnostic. All are agreed however that the central issue is one of confidence in Mr. Alfred. Since he will be present, frank discussion of this aspect could be difficult. You may need to reconvene a smaller group of Ministers to consider his position, if the consensus is to reject his proposals.

Papers are attached as follows. You will wish to look in particular at those marked with an asterisk:

- \*A Personal note from Sir Robert Armstrong
- \*B Brief by Sir Robert Armstrong
- \*C Note by the Policy Unit
- \*D Note by Sir Robin Ibbs
- E DOE proposals
- F Letter from the Lord Chancellor
- G Letter from the Chief Secretary

*DMB*

16 December 1983

CONFIDENTIAL

Ref. A083/3486

MR BUTLER

--- I attach a brief for the Prime Minister's meeting with the Secretary of State for the Environment on 19 December to discuss his proposals for restructuring the Property Services Agency (PSA).

2. These proposals have been extensively discussed round Whitehall, and it has to be said that the Chief Executive has not disposed of the reservations which are very generally felt, particularly about the proposal to divide the PSA into two parts, one serving mainly civil Departments, the other mainly defence clients. The breakdown cannot be absolutely tidy, and there will have to be a certain amount of cross working between the two parts. Many Departments fear that the reorganisation will do nothing, particularly in the short term, to improve PSA service and will simply distract its staff from their main duties. There is no reason to suppose that it will contribute significantly to dealing with the problems that were thrown up by the Wardale/Touche Ross Report. Nor, so far as we can see, will reorganisation remedy the weaknesses of the information system in PSA.

3. But, as Sir Robin Ibbs has made clear, there is a fundamental issue of confidence in the Chief Executive, Mr Alfred. He is deeply committed to these proposals. In that sense a challenge to them is a challenge to his <sup>competence</sup> ~~confidence~~. It would be difficult to reject them without calling in question the Government's confidence in him to do the job. It has to be said that there are a good many people about who do not have unreserved confidence in him.

4. Mr Alfred was appointed for a term of three years, which expires about the end of 1984.

RA

ROBERT ARMSTRONG

16 December 1983

Ref. A083/3473

PRIME MINISTER

You are meeting the Secretary of State for the Environment on 19 December to discuss his proposals for restructuring the Property Services Agency (PSA). The Secretary of State for Defence, the Chief Secretary, Sir Robin Ibbs and the Chief Executive of the PSA will also be present.

Flag E 2. The proposals are set out in detail in the paper attached to Mr Jenkin's two letters of 3 November to the Chancellor of the Exchequer. They are:

- (a) To divide the PSA into two parts, one serving mainly civil Departments, the other mainly defence clients. There would be a certain amount of cross-working between the two parts, and the PSA would retain a single Chief Executive and common finance, establishments and design support services.
- (b) To cut out one tier of the present management structure of 10 Regions, 34 Areas and 156 Districts by merging Regions and Areas into 28 new "controlling Tiers".
- (c) To introduce commercial style accounts on the civil side.

The Secretary of State believes that these changes will together significantly improve PSA's efficiency and so provide both more economic and efficient management of the Government estates and a better service (after some small transitional disruption) to Departments. He believes that the proposed split between civil and defence work will allow subsequent privatisation of the civil side of the Agency without any further restructuring.

The Issues

3. The main question on which you will wish to be satisfied before taking a decision is whether the proposals are consistent with the Government's view about the future role and indeed need for the PSA. A major restructuring of the kind proposed will absorb a significant amount of management time during implementation and inevitably take time to produce any benefits. It

would clearly be wrong to go ahead with it if Ministers were likely to want radically to change the PSA in the next few years or so in a way which was not consistent with the restructuring or to which the restructuring was itself largely irrelevant.

4. Secondary, but important, questions are:

- (i) Are the proposals likely to improve PSA's performance as a manager of substantial public assets and as a central accommodation and agency for Government?
- (ii) Are the proposals likely to help the PSA put right the deficiencies in its internal management which were severely and publicly criticised in the recent Wardale/Touche Ross report?

Future of PSA

5. The PSA paper is written on the assumption that the Agency's basic role and range of functions will remain broadly the same. But it also implies that the restructuring proposals are robust both against a decision to transfer back defence estates and works functions to the Ministry of Defence and to a decision to privatise the civil side of the Agency. The suggested introduction of "commercial style accounts" may be regarded by Mr Alfred as a first step to a Trading Fund arrangement for the civil side which could provide a basis for flotation.

6. The case for a transfer back of the defence work is dealt with in section 12 of the paper, which argues that although there are some arguments in favour, the balance of advantage is probably against transfer. The Secretary of State for Defence may wish to comment on the merits. An important point which the paper does not bring out is that, because of the extent of cross-working provided for even under the dedicated option, 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. Efficiency considerations therefore argue strongly that a decision should be reached on future responsibility for defence work before any particular pattern of reorganisation is implemented.



7. A decision to transfer a significant part of PSA's current work to the private sector could provide an additional argument for transferring some defence work, which might not be thought appropriate to the private sector, to the Ministry of Defence. But both the Chief Secretary and Sir Robin Ibbs have expressed doubts to you about the kind of "privatisation" such an argument would imply. The Chief Secretary suggests that the most likely "privatisation" course for the PSA consists of further contracting out of functions, and doubts whether the restructuring will help move the work to the private sector. Sir Robin Ibbs has pointed out that the civil side looks too large and diverse to be readily privatised en bloc and that there must be an equally good case for privatising parts of the defence side. He concludes that a reorganisation other than a simple split between the civil and defence sides may well be better in terms of potential privatisation.

8. The main question seems to me whether it is realistic to think of floating off the civil side of PSA more or less as currently constituted or whether, if Ministers wish to reduce the amount of the public sector resources now consumed by the PSA, the right course is not to consider other options, such as reducing the size of the owned estate, and looking to the private sector to provide Departments directly with much of the office provision and management now handled by the PSA. That is a function which could be provided by the many estate agencies and companies now operating in the private sector and there would seem little benefit in floating off a modified version of PSA to compete with them. There would however in that event be a continuing function of planning and monitoring requirements for which some central Government capacity would need to be kept.

9. You may wish to invite the Chief Secretary and Sir Robin Ibbs to question the Chief Executive more closely on these aspects.

PSA Management and Efficiency

10. The answers to questions about the effect of the restructuring and related proposals on the PSA's own efficiency and



internal management are very much matters of judgment. They depend in large part on the confidence Ministers have in the Chief Executive's judgment and capacity. You may want to look particularly at Sir Robin Ibbs's comments here. He notes that because Mr Alfred is committed to the proposals he has a strong personal interest in ensuring that the benefits he claims for them are achieved. But he points out that there is no evidence that the form of reorganisation chosen is necessarily the best nor that the split between civil and defence work is essential to achieve the removal of a tier of management which is the main source of the manpower savings.

11. Relevant questions here are the extent to which the civil/defence client split and the transitional dislocation will affect the service given to client Departments, and the extent to which restructuring will divert attention from the improvements in PSA's internal management systems recommended by the Wardale/Touche Ross report. On the first you will have noted the anxieties the Lord Chancellor has expressed on this point in his letter of 9 December. On the second, the Chief Secretary set out his concern in some detail in his letter of 25 November. You may wish to ask the Secretary of State to comment on these points.

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The Choice of Options

12. The basic options seem to be:

- (i) To accept the Secretary of State's proposals in full. That would be the right course if you were satisfied that PSA's role and functions as a central service agency for both civil and defence Departments were unlikely to change in the foreseeable future or that the restructuring would be consistent with any changes that might take place, and that the benefits of the restructuring and other changes would outweigh the costs of change.
- (ii) To defer a decision on restructuring, pending a decision on the location of the defence work and on the likely future options for further privatisation. This would need further work, in which the central Departments

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would need to play a major part. One possibility which you could consider would be a short Griffiths style inquiry into the functions now discharged by the PSA which would be charged specifically with looking at the scope for further transfers of work to the private sector and the advantages of central agency versus departmental provision.

(iii) Reject the restructuring proposals and proceed with a review as (ii).

Both (ii) and (iii) would in some measure call in question the Chief Executive's capacity and judgment. Both would also mean further delay and uncertainty for the PSA which has already spent some time in preparing for restructuring. These disadvantages would need to be weighed against the advantages which might come from a more radical look at the PSA's future.

ROBERT ARMSTRONG

16 December 1983

CONFIDENTIAL

PRIME MINISTER

PSA

The proposals for restructuring the PSA represent only a fraction of the story. The restructuring proposals in themselves are to be welcomed in principle as long as:

- (a) they reduce the total number of staff;
- (b) they reduce the very long lines of communication from top to bottom of the organisation;
- (c) they improve the accounting and management information;
- (d) they provide a better and faster service to the client.

In an ideal world, Mr Alfred's restructuring - particularly reducing the number of areas and regions and concentrating them into a lesser number of controlling tiers, and probably the segregation of defence work from civil work - would make sense.

However, the PSA world is not an ideal world. Mr Alfred's second in command, Mr Chipperfield, and several other of the senior managers, fundamentally disagree with Mr Alfred's restructuring proposals. As career civil servants themselves, they dislike some of Mr Alfred's private sector management style. They believe that the restructuring would result in unnecessary upheaval, and would impede the progress that could be made in improving management systems and experimenting modestly with other reforms. With this opposition on his main Executive Board and in the senior levels of his management, the chances of Mr Alfred succeeding are greatly reduced.

The important objectives which Mr Alfred seeks should be welcomed. The PSA has not concentrated on the costs of running particular buildings, on the style of accommodation that should be made available, or on the total costs of maintaining and running that accommodation. It does not have access to the right management information. // Its whole ethos is dominated by what the Wardale Report calls "management complacency". It lacks understanding of individual responsibility under the pretext of putting its clients' needs first. In practice, it often serves its clients less well than would be normal in the private sector, and with less attention to cost.



What Mr Alfred thinks he needs to make his proposed reorganisation successful is:

- i. to end common citizenship of staff between the PSA and the DoE/DTP to maintain greater continuity in PSA staff;
- ii. to recruit some of his senior managers and his operational managers from outside to try and change the attitudes and culture within the PSA. In particular, he wishes to seek an outside Finance Director and a Director of Property Management;
- iii. to untie the remaining section of PSA's supplies which has captive clients;
- iv. to introduce a more commercial system of management and to challenge the management deficiencies and complacency analysed in the Wardale/Touche Ross survey.

Our conclusion is that if the restructuring is to be acceptable, the above points have to be agreed, and the following conditions should also be met:

- (a) Mr Alfred should be given freedom to change his top management, with those senior managers who are in disagreement being allowed to pass back into the Civil Service as and when openings arise.
- (b) You should be satisfied that Mr Alfred will make all due speed in introducing the better management information systems which he desperately needs in order to carry out the improved management of the PSA estate and the other reforms recommended by Wardale.
- (c) Further progress should be made in testing PSA estate management and supplies effectiveness using more private contractors and competitive tenders.

It would be quite futile to have a long meeting about structural issues without getting down to the nitty gritty of the personalities involved and the steps needed to make restructuring on Mr Alfred's lines work. The whole success or failure of the project will depend upon the people and their motivation. With the staff now there, the chances of success are slim.

  
JOHN REDWOOD/DAVID HOBSON



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The Rt Hon Patrick Jenkin MP  
 Secretary of State  
 Department of the Environment  
 2 Marsham Street  
 LONDON SW1

*abpm*  
*Dms*  
*13/12*

13 December 1983

*Patrick Jenkin*

REORGANISATION OF PSA

You sent me a copy of your letter to Nigel Lawson dated 3 November, with which you forwarded a paper giving the latest proposals for the restructuring of PSA.

I am ready to give my support in principle to the proposals and I agree that an early statement to the House about them would be desirable.

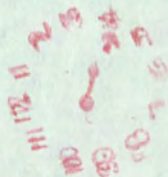
However it will be essential to ensure that restructuring does not disrupt the working relationship on the ground between PSA and client departments, especially at District level. This is particularly important to my department in the case of the UBO expansion programme and I would view with great concern any delays in this area caused by restructuring. You will also not need reminding that the process of adaptation to PRS is still not complete and that further changes will be taking place next year. I consider that this is another area where the benefits of restructuring will have to be carefully weighed against the possibility of disruption at a rather critical stage.

I am sending copies of this letter to the recipients of yours.

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Card Service: Long Term RM, Pt 14

13 DEC 1985





HOUSE OF LORDS,  
SW1A 0PW

9 December 1983

The Rt Hon Patrick Jenkin MP  
Secretary of State for the Environment

My dear Patrick.

PSA RESTRUCTURING

Thank you for your letter of 23 November, which contained much useful information on the effect which your restructuring proposals might have on my Department.

I do not dispute the figures which you quote about the proportion and the value of the work which would fall to be executed by the defence dedicated DWOs; nor do I argue with your proposition that in an arithmetical sense we are already served by a high proportion of DWOs with a predominantly defence load. But predominance is one thing and dedication quite another. I have no doubt that your Civil Controlling Tier will do all in its power to broker our arrangements with the relevant defence dedicated offices; and that may be quite satisfactory for planned annual programmes of construction and maintenance. But what if we have unexpected and urgent needs? The cost of having a courtroom out of use for want of some building work can be very high when one includes the time of judges and court staff; to say nothing of the adverse effect it can have on the backlog of cases which we are always seeking to reduce. Who is going to determine the priorities when unforeseen work required by my Department intrudes on the programmes of work for defence departments to which a District Office is dedicated? It is not a question of how much the work costs or what proportion of the whole it represents; it is a question of its incidence and the consequences in resource terms of not getting it done promptly.

So while I am grateful to have your further assurances I cannot say that they have allayed my anxiety to the point where I can say I am satisfied that my Department will not suffer a deterioration in the standard of service we enjoy at present.

If others share my continuing concern perhaps we should think again about the way in which the civil and defence work can adequately be separated.

I am copying this to Cabinet colleagues and Sir Robert Armstrong.

Yrs:

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## Property Services Agency

*Motion made, and Question proposed, That this House do now adjourn.—[Mr. Douglas Hogg.]*

10 pm

**Mr. Tim Smith** (Beaconsfield): I am grateful for this opportunity to raise the subject of the Wardale inquiry into recent cases of fraud and corruption in the Property Services Agency.

The PSA was set up in 1972. It is responsible to the Secretary of State for the Environment and for the provision to other Government Departments of property management services, building construction and management and appropriate supplies. My hon. Friend the Under-Secretary of State for the Environment was kind enough to send me a copy of the PSA's annual report for 1982-83 recently. It shows the substantial scale of the PSA's operations.

In 1982-83, expenditure on major works totalled £455 million, on smaller new works it totalled £144 million and on maintenance it totalled £684 million. That represents a grant total of £1.277 billion. That total is estimated to rise to £1.493 billion this year and £1.625 billion next year. At 31 March this year the PSA employed 28,631 people. That represents a 26 per cent. drop as compared with 31 March 1979.

In the foreword to the annual report, my right hon. Friend the Secretary of State for the Environment comments:

"Of course in a major organisation of this size there are problems, not least when the Government asks that the rising volume of work should be handled by reduced numbers of staff." It is worth quoting the PSA advisory board's review of the year. That advisory board is an independent review body. It says:

"The Advisory board believes that the PSA generally fulfils its many tasks in a satisfactory manner and that it is staffed by competent people who take pride in their work. The Board has seen much to be encouraged about in the Agency. However, there is scope for improvement in some areas such as financial control, management methods and career planning."

That is the context into which we must put the Wardale inquiry report. On 29 April 1982, my right hon. Friend the Secretary of State for Defence, who was then the Secretary of State for the Environment, announced that he had commissioned Sir Geoffrey Wardale and Mr. Anthony Herron, a senior partner of Touche Ross, chartered accountants, to carry out a review with the following terms of reference:

"To investigate the circumstances of recent cases of fraud and corruption in PSA and to recommend what changes in procedures or organisation are desirable in the light of your findings."

The Secretary of State emphasised that, in his opinion, the vast majority of PSA staff carried out their duties honestly and conscientiously and that there were no questions about their integrity. I am sure that is correct.

As well as being a former second permanent secretary at the Department of the Environment, Sir Geoffrey is a member of the PSA advisory board. Therefore, I do not think that it can be said that he could have it in for the Civil Service in general or for the PSA in particular. That is why I think that his report makes alarming reading.

The alarming aspect is not so much the fraud as the attitude of management towards it. The report, in paragraph 4.2.1 says:

"PSA has as its object the construction, maintenance and furnishing of buildings required by Government departments who are its clients. It is understandable that satisfying the

demands of those clients is treated as a high priority and we are informed that political pressures may reinforce this. On the extent of the success of PSA in satisfying its clients we were not, in our enquiries, directly concerned. It appeared, however, that other management problems, such as effective staffing and financial control as we understand it, took a lower priority, and did not seem to command the attention they deserved. We were concerned to discover that there was sometimes a reluctance to acknowledge that problems existed in these areas and a lack of vigour in pursuing them when they were identified. Further, and as a facet of this, management's approach towards dishonesty and fraud does not always seem satisfactory. These are attitudes which collectively we can only call complacent. We have also noted a lack of understanding of both individual responsibility and the delegation of authority."

The House will understand why I felt that I should raise the matter. Not only have problems not always been recognised, but paragraph 4.2.2 of the report says:

"Where problems have been recognised and remedial action taken, there often seems to be a lack of vigour in following it through. A good illustration of this is the introduction of the 5 per cent. check of all works orders by the District Works Officer which is represented by senior management to be a major measure against irregularities. The implementation of this check has been slow and moreover it has a number of fundamental conceptual defects."

The 5 per cent. check has also been concerning the Comptroller and Auditor General for some time. In a memorandum to the Public Accounts Committee in May 1982, he reported that the PSA internal audit department had noted in October 1980 that it had been commenting for three years prior to that on the degree of failure by district works organisations to carry out their 5 per cent. checks.

More generally in that memorandum, the Comptroller and Auditor General said that he was becoming concerned about the time that it was taking to determine revised systems of controls and to secure general compliance with them. Following that memorandum, the Public Accounts Committee, in its 25th report, during the parliamentary Session 1981-82, expressed concern that the PSA had been taking so long both to act on audit evidence that prescribed checks were not operating properly and to implement revised controls.

The Comptroller and Auditor General returned to the subject in his report on the Appropriation Accounts for 1982-83. He concluded that while the PSA was making good progress in increasing the extent of DWO spot checks and improving its control over stores, serious deficiencies in control remained. I understand that the Public Accounts Committee is likely to take oral evidence on that subject early in the new year. I am glad that it is continuing to pursue the matter.

As well as calling for changes in management attitudes, Wardale made six principal recommendations. First, a budgetary control system should be introduced for all expenditure. Secondly, new management information systems should provide the information necessary for proper financial and budgetary control. Thirdly, regional management inspection teams should be formed to give regional management an annual assurance of the proper operation of its area and district. Fourthly, in the management of contracts the respective responsibilities of all staff should be recognised. Fifthly, management should take a more commercial approach to its activities where existing controls may not be cost effective. Sixthly, a more dynamic approach to saving, training and disciplinary matters is required.

According to the Comptroller and Auditor General, the PSA was finalising actions planned to deal with those

of which £2 billion will be spent on equipment. Even when expenditure on Trident is at its peak, we still plan to spend more on the conventional Navy than we spent in 1978-79.

It is with pride that I wind up this debate on the Royal Navy. Today's Royal Navy is more professional than it has ever been. It is the most potent naval force in the world after the two superpowers.

Our Navy honours its Alliance responsibilities and yet maintains an independent capability around the world. The Government have given sustained backing to our Navy in terms of pay, new ships and new, improved weapon systems.

We salute those who sail under the White Ensign. They continue our great maritime traditions. They have never let us down in peace or in war and this House has a duty to give them the backing and support that they so richly deserve.

As Charles II said:

"It is upon the Navy, under the Providence of God,—

*It being Ten o'clock, the motion for the Adjournment of the House lapsed without question put.*

### Statutory Instruments, &c.

**Mr. Deputy Speaker (Mr. Harold Walker):** Order. With the leave of the House I shall put together the Questions on motions 2 to 10.

*Motion made, and Question put forthwith pursuant to Standing Order No. 79(5) (Standing Committees on Statutory Instruments, &c).*

### INCOME TAX

That an humble Address be presented to Her Majesty, praying that the Double Taxation Relief (Taxes on Income) (Trinidad and Tobago) Order 1983 be made in the form of the draft laid before this House on 27th July.

That an humble Address be presented to Her Majesty, praying that the Double Taxation Relief (Taxes on Income) (Tunisia) Order 1983 be made in the form of the draft laid before this House on 27th July.

That an humble Address be presented to Her Majesty, praying that the Double Taxation Relief (Taxes on Income) (Netherlands) Order 1983 be made in the form of the draft laid before this House on 3rd November.—[*Mr. Douglas Hogg.*]

*Question agreed to.*

*Addresses to be presented to Her Majesty by such Members of this House as are of Her Majesty's most Honourable Privy Council or of Her Majesty's Household.*

*Motion made, and Question put forthwith pursuant to Standing Order No. 79(5) (Standing Committees on Statutory Instruments &c.).*

### LEGAL AID AND ADVICE

That the Legal Aid (Financial Conditions) (No. 2) Regulations 1983, dated 8th November 1983, a copy of which was laid before this House on 8th November, be approved.

That the Legal Advice and Assistance (Financial Conditions) (No. 2) Regulations 1983, dated 8th November 1983, a copy of which was laid before this House on 8th November, be approved.

That the Legal Advice and Assistance (Prospective Cost) (No. 2) Regulations 1983, dated 8th November 1983, a copy of which was laid before this House on 8th November, be approved.

That the Legal Aid (Scotland) (Financial Conditions) (No. 2) Regulations 1983, dated 10th November 1983, a copy of which was laid before this House on 14th November, be approved.

That the Legal Advice and Assistance (Scotland) (Financial Conditions) (No. 3) Regulations 1983, dated 10th November 1983, a copy of which was laid before this House on 14th November, be approved.

That the Legal Advice and Assistance (Scotland) (Prospective Cost) Regulations 1983, dated 10th November 1983, a copy of which was laid before this House on 14th November, be approved.—[*Mr. Douglas Hogg.*]

*Question agreed to.*

recommendations. The Minister will recall that I asked him about that in a parliamentary question. On 31 October, he told me that decisions resulting from the programme of action would be implemented as quickly as possible. He also told me:

"To ensure that the lessons learnt from the report are fully understood throughout the agency, a series of meetings for staff at all levels of management, attended by senior officers of the agency has been arranged."—[*Official Report*, 31 October 1983; Vol. 47, c. 265.]

In addition, both the PSA's annual report and the section on the PSA which appears in the White Paper on the financial management initiative, contain several positive proposals for structural changes in the PSA. I hope that they will be changes for the better. The British Civil Service is mercifully free from corruption. However, in response to observations made by the PSA, the Public Accounts Committee said:

"Having regard to the nature of some of the offences, we believe PSA are on weak ground in playing down the significance of the detected cases in their regional organisations. We do not consider that comparison of these cases with the broad statistics for convictions in the country as a whole can be meaningful; nor do we think it realistic to compare frauds involving long-term collusion or conspiracy among civil servants, where the losses are uncertain, with measurable 'shrinkage' in department stores."

That was the comparison that the PSA tried to draw.

People expect the highest standards from civil servants. Generally speaking, the Civil Service is free from corruption, but the Wardale report highlighted an exception to that general rule. Therefore, it is essential that its conclusions and recommendations are taken seriously and implemented as soon as possible. I should be grateful if, in his reply, the Minister will give me as much detailed information as he can about the response of the PSA to the principal recommendations of the Wardale inquiry.

10.13 pm

**The Under-Secretary of State for the Environment (Sir George Young):** I am grateful to my hon. Friend the Member for Beaconsfield (Mr. Smith) for providing this opportunity to debate the Wardale report. My hon. Friend made a cogent and persuasive case, as one would expect of him.

We are rightly proud of our Civil Service and its traditions, and it must be a matter of great concern to any Government when performance falls below the standard expected, especially in regard to honesty of conduct. We were therefore determined that, however uncomfortable the report's findings might be, they should be brought to public notice, and my right hon. Friend the Secretary of State for the Environment took an early opportunity to publish the report, to expose it to press comment, and to outline his proposals for change.

The Property Services Agency has been in existence in its present form since 1972. It brought together the works and other activities of the three defence services and the former Ministry of Public Buildings and Works as a self-contained agency within the Department of the Environment. Since 1976 the supplies area of the PSA has operated as a Government trading fund. The agency has at present about 28,500 staff worldwide, of whom about 13,000 are industrial grades. It handled in 1982-83 about £1.6 billion of expenditure on new construction, maintenance, rents and supplies.

In the United Kingdom the basic unit of organisation is the district works office. There are 153 district works

offices. The district works officer is directly responsible for most of the maintenance and much of the minor new works associated with all the Government's buildings and installations in his district and, usually, a number of buildings of clients, such as British Telecom, for which the agency does work on repayment terms. He carries a heavy responsibility for management and the execution and control, including financial control, of those works services. The district works officer reports to an area officer, of whom there are 34, and they in turn report to the eight regional directors in England, the director of the central office for Wales in Wales, or the director, Scottish services, in Scotland. This organisation as a whole we refer to as the United Kingdom territorial organisation, which is in turn answerable to Ministers.

My hon. Friend mentioned the report of the Comptroller and Auditor General, who commented on the position within the PSA before the final Wardale report was submitted. His comments do not take into account the steps that we have taken, or are planning to take, following Wardale, which I shall outline.

The 61 cases, or alleged cases of fraud or irregularity, which were the occasion of the Wardale inquiry, arose mainly at the district level in various parts of the United Kingdom territorial organisation during the period 1976 to 1982. They were mainly in maintenance, including stores, and minor new works. The aggregate value of the cases is estimated at £600,000. Several of them involved only people outside the PSA. Many of the cases did not involve fraud, but, where they did, people were dismissed. I should like to add that all Wardale-related convictions have resulted in dismissal, save where the officer has resigned or retired before the court hearing.

About 170 PSA staff have been involved directly or indirectly in cases of theft, fraud or irregularity in the past five years, and 61 have been dismissed. Although the press has linked all 61 dismissals with the serious cases of fraud and corruption, about half of those dismissed were guilty of the theft of miscellaneous items of no great financial value. To put this in a context—in the light of what my hon. Friend said, I do not wish to make too much of this—the expenditure in UKTO on maintenance and minor new works in 1982-83 alone was about £660 million and the number of staff at district level in UKTO was more than 17,000.

By any standards this is a low incidence of misdemeanour, but cases occurring in the agency are always treated rigorously. Approximately 100 staff have been involved in irregularities but have not been dismissed, because of the minor nature of the irregularities, such as the theft of property valued at £3.40 or the payment of two night's subsistence where only one is applicable. In those cases the staff concerned received formal reprimands.

In view of the public interest shown in the cases of fraud and irregularity that occurred my right hon. Friend the former Secretary of State—now Secretary of State for Defence—decided that there was need for an independent investigation into the circumstances of the cases. We were fortunate in obtaining the services for Sir Geoffrey Wardale, formerly second permanent secretary at the Department of the Environment, and Mr. Anthony Herron, a partner in Touche Ross, chartered accountants, to undertake this. They were commissioned in April 1982 and submitted an interim report in February 1983 based upon their investigations in four regions. The Secretary of



[*Sir George Young*]

State decided that the investigations should be pursued in the remaining six regions, and the final report was submitted on 3 August 1983. In all, Sir Geoffrey and Mr. Herron reviewed 49 of the 61 cases. Several of those involved anonymous allegations, and in eight cases they were not substantiated.

The burden of the Wardale recommendations was plain from the interim report. As my hon. Friend said, they revealed within the PSA an attitude of mind and operating systems which allowed fraud to exist and led to a wider study than one would expect fraud to require. When we knew the main thrust of the study team's proposals from the interim report, we set up a working group to develop a provisional plan for management action on the recommendations pending the receipt of the final report.

The report makes many recommendations ranging from the financial and management control procedures for works stores expenditure to the agency's policies for staffing and training for district work officer appointments, taking in on the way management information systems, audit controls, certain contractual matters and disciplinary procedures. Those are all important subjects, but underlying them was a more general criticism that management was not sufficiently alive to the existence of problems, and that this was exemplified by a concept of financial control which lacked an adequate budgetary element, the existence of management control techniques which were deficient in some respects, and insufficiently rigorous policies for disciplinary action against staff and third parties. My hon. Friend rightly drew attention to the problem of attitudes, which are often more difficult to change than are procedures. My hon. Friend rightly asks what is now happening to put things right.

When he announced the publication of the report on 5 October my right hon. Friend stressed the seriousness with which he took it and his determination that any necessary changes in management systems and management attitudes should be carried through.

Our first job has been to impress on staff the seriousness with which Ministers take the report. We have taken urgent steps to ensure that staff at all levels of management have received and read the report and understand the action that is required on the report's recommendations. To secure the change in attitudes that is required, a series of meetings has been held for all regions, involving the regional senior staff and area officers with top management from PSA headquarters. To take the message down to district level, a further series of meetings is taking place in the regions now.

The regional meetings have shown that the management staff of the agency are anxious to respond to the Wardale report criticism. From my two years in my present post, I can say that I am impressed by the high calibre and dedication of the PSA staff that I have met. It is in their interest to accept that the management of the agency can and should be improved. Their and my concern is that the vital work that they do in maintaining the essential services of government should be carried on to the same high standard that exists, while improving management attitudes as well. This will not be easy, given the pressures on us, but we are determined to make progress. In addition to changing attitudes, a number of special changes have been introduced and I can give my hon. Friend some examples.

First, on contract notation limits, Staff have been reminded that the notation limits for contractors must be properly observed and monitored. In particular, no firm should be invited for a contract the value of which is more than 15 per cent. above the firm's notation without agreement. Care is being taken to ensure that contractors are not overloaded with PSA work. Checks are being carried out on existing contracts, where notations may have been seriously exceeded, and corrective action taken wherever possible.

Secondly, there is the 5 per cent. check of work and stores orders, which my hon. Friend mentioned. Revised arrangements for 5 per cent. check were issued on 1 July 1983, stressing DWOs' overall responsibility and the need to keep under review small works orders generally, in addition to 5 per cent. check.

Thirdly, on floor laying contracts, PSA supplies ordering officers have been reminded to issue orders with adequate details of the work required and to give guidance on the checks to be made before certifying invoices. Certification for all such orders must be by an officer superior to the ordering officer. Departmental accommodation officers have been reminded of their responsibility for certifying that the work has been carried out properly.

Some recommendations, for example, those relating to stores procedures and to issuing guidance clarifying the respective roles of professional and technical officers and quantity surveyors in relation to measured term contracts, can be implemented fairly easily. Other recommendations that make continuing resource demands—for example, separating the duties of ordering work on jobbing contractors and certifying for payment—are more difficult. But we can and will make progress.

The report recommends the introduction of improved budgetary control arrangements for maintenance expenditure, including the budgeting of such expenditure by individual buildings or by small groups of buildings. The PSA already has a job by job system of control for all work which individually exceeds £2,500—in all, 75 per cent. of PSA's total works expenditure. As I have said, the main problem lies with the bulk maintenance below that threshold. Much—although not all of this—typically comprises a mass of small orders down to a few pounds in value, and is devoted to the repair of defects which arise through the normal wear and tear in buildings and cannot be identified in advance of their occurrence, although we can predict the scale of expenditure that is likely to arise in adequately large aggregations of the estate. While we accept the need for all maintenance expenditure to be effectively budgeted, there is a real practical question, which we are urgently examining, about the degree of disaggregation which it is useful and cost-effective to seek in devising improvements to our existing systems.

The report also makes recommendations on audit arrangements.

We are concerned that the recommendation for the creation of a regional management inspection body might involve some confusion between the functions proper to line management and the necessarily independent role of internal audit. There is a danger of blurring the responsibility of line management to ensure that adequate control systems exist and operate effectively, and to initiate suitable inspection and checking arrangements. However, in the general spirit of the report's recommendations, the PSA will be considering how,

without compromising the independence of internal audit, its work might be developed to provide line management with a stronger feedback on the effectiveness of its operations and also whether the present arrangements for management inspection checks at various levels can be strengthened and more effectively co-ordinated.

If my hon. Friend would like further details of the follow-up to the report, I shall be happy to supply them in correspondence. I have, of course, taken note of the additional points that he made. I regard the Wardale report as a constructive, helpful and salutary report. My colleagues and I and the senior officers of the agency are determined that it shall be acted upon with all the speed we can muster.

The report has been treated with the seriousness that it deserves from other levels of management in the agency, and I am convinced that all our staff will do their best to implement its recommendations in the best traditions of public service as and when decisions are taken on them by management and generally to act in a manner calculated to obviate any future criticisms of the kind Sir Geoffrey Wardale and Mr. Herron felt constrained to make.

*Question put and agreed to.*

*Adjourned accordingly at twenty-five minutes past Ten o'clock.*

Confidential

SE NO



b/t for meeting  
on 19 Dec  
Dus  
28/11

Treasury Chambers, Parliament Street, SW1P 3AG

Secretary of State for the Environment  
Department of the Environment  
2 Marsham Street  
LONDON SW1P 3EB

25 November 1983

Dear Secretary of State,  
RESTRUCTURING OF PSA

Thank you for your letter of 3 November covering a paper on the restructuring of the Property Services Agency.

I agree that radical change is required there; I am very much concerned about weaknesses revealed by the Wardale/Touche Ross Report and by the difficulties which there have been with PRS. I must confess, however, that I am not clear that what is now proposed will remove the current problems, or help with moving work to the private sector.

We must certainly have in mind the desirability of transferring as much work as possible to the private sector when that makes good management sense. I have in mind not so much the sale of the government's estate (except those parts which are surplus to requirements) but rather contracting out of functions where that is economic. PSA have made some progress on this (para 3 of your paper), but more un-tying and contracting out should still be possible. It would be wrong to settle on an organisation now if there were a serious prospect that it would have to be reordered in the near future - because, for example, we concluded that defence work should go back to MOD. But if you have satisfied yourself about this, and if other colleagues are content, I should not wish to pursue it further.

That apart, my main concerns are that the major investment of management resources into restructuring will divert attention from improving PSA's information and management systems, and hence from the tightening up of control which Wardale/Touche Ross will require - and from the improvement of PRS. Furthermore, whilst I accept that major improvements in PSA's accounting practices are entirely appropriate, I am sure that we must beware of thinking that a simple change in the form of accounts will resolve its difficulties. It is essential first to improve the basic data; when that is done we shall need to consider what performance indicators will be most

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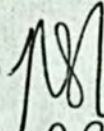
appropriate for a common service supplier to government departments; for the next few years commercial-type accounts will be at best a supplement to normal vote accounting.

I can see the attractions of the removal of a management tier; and the reductions in manpower numbers and costs which that part of your proposals will produce are obviously most welcome. I believe however that the paper makes rather too much of the simplicity of organisation which will flow from a division of PSA into civil and defence parts, and I do not see how that will contribute materially to the resolution of the current pressing problems. But if colleagues generally are content that as clients they will not suffer a materially reduced level of service, and that the proposed organisation will meet the Government's overall needs, I should not wish, subject to one condition, to object.

I believe that irrespective of what happens on restructuring you will need to press ahead with the development of a satisfactory information and accounting system. That is perhaps the most important of the Wardale/Touche Ross recommendations, and I am only prepared to set aside my doubts about the form of the proposed reorganisation if I can be assured that those systems will proceed straightaway. Whatever course is adopted I would wish my officials to be kept in close touch on the detailed implementation.

Copies of this letter go to recipients of yours.

yours sincerely



M P REES

(Approved by the Chief Secretary  
& signed in his absence).

Civil Service.  
Long term.  
Pt 14



28 NOV 1983



cc S of S  
 PS/M Cow  
 PS/Sir George Young  
 Charles G. C.  
 PS/Remond  
 1008  
 77  
 MARSHAM STREET  
 LONDON SW1P 3EB  
 Tel: 212 3434  
 My ref:  
 Your ref:

9.

Dear Quilkin,

23 November 1983

PSA RESTRUCTURING

In your letter of 16 November to Nigel Lawson supporting the proposed 2 tier structure for PSA you sought more information about the extent to which, under the dedicated approach, it will be possible to separate civil and defence work and secure a fully effective service to your Department. I fully understand your concern and I can assure you that our proposals have been developed with providing an enhanced service as the prime objective.

As you know at Headquarters and controlling tier levels the new organisation will provide a wholly dedicated service.

Under our proposals we estimate that 89% of PSA expenditure for your Department will also be carried out by Districts Works Offices managed by the Civil Property Directorate. Of the 40 LCD properties on which PSA spends more than £30,000 each year on works services, only 2 would fall to be served by Defence DWOs under our plans.

The remaining 11% of expenditure will be executed by Defence-managed DWOs. As you say, in numbers terms these represent slightly more than half the total numbers of DWOs serving you - 42 against 40 Civil Managed DWOs. This results from the fact that overall, because of the size and patterns of workloads, there will be more Defence managed DWOs than Civil and in the less populated areas it will usually be more efficient to use the Defence DWO organisation than create separate Civil Districts with very wide geographical responsibilities, but thinly spread work.

In an arithmetic sense the minority client concern is with us now; and our proposals will lessen it. Currently of the 101 DWOs serving LCD about one half have a predominantly Defence load, yet I believe we have been able to give your department adequate priority and service in these cases. One reason for this is that the funding for Civil and Defence clients is separate and will, of course, remain so. Another reason is that in many cases Districts with minority Civil clients have outstations with staff serving one or a group of local civil clients and we see distinct advantages in continuing this where geography makes it the most convenient arrangement.

Under the proposals you will however be able to look to the Civil Controlling Tier to be responsible for arranging the funding and programming of all work whether executed by a Civil or Defence DWO. In the small proportion of cases where a Defence DWO executes work for you the Civil CT will agree with its Defence counterpart, on an annual basis, the amount of work to be done, and the resources needed to secure its timely execution. The Defence CT will through this arrangement contract its DWO to carry out an agreed programme of work and will be equally committed to its Civil clients' work as to that for Defence clients. The Civil CT will also have an ongoing responsibility during any year for securing proper progress on work undertaken by Defence DWOs and we have designed monitoring arrangements to facilitate this. There will also be clear arrangements for new or changed requirements to be fed into the programme. The details of these arrangements have been explained in detail in notes circulated at official level but further elaboration can be provided if required.

I am convinced that under the restructuring proposals PSA will be able to maintain and progressively enhance the service provided to you and other clients. The wholly dedicated Headquarters and Controlling Tiers will be capable of greater responsiveness to the needs of Civil clients and through the arrangements described will be able to ensure a complete local service at District level with an increased proportion of work handed by offices with predominantly civil work.

I would add that LCD is not untypical of the situation for all Departments; overall some 85% of work for civil clients will be carried out by DWOs in the Civil Property Directorate.

I hope this lessens your anxiety.

I am copying this letter to Nigel Lawson.

*Yours  
Patrick*

PATRICK JENKIN