



2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref:

Your ref:

23 December 1983

Dear David

PSA RESTRUCTURING

attached

*Just
29/12*

Thank you for your letter of 20 December. Could you note that the figure for maintenance expenditure in the 12th line of ante penultimate paragraph should be £600m, not £600,000.

A copy of this letter has gone to the recipients of yours.

Yours sincerely

John Ballard

JOHN BALLARD
Private Secretary

David Barclay Esq

Civil Service : PSA Restructuring July '82

29 DEC 1982
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cc MASTER SET



FILE

dal/ku

10 DOWNING STREET

From the Private Secretary

20 December 1983

Dear John,

PSA RESTRUCTURING

The Prime Minister chaired a meeting on 19 December to consider your Secretary of State's proposals for restructuring the PSA, which were set out in his letters of 3 November to the Chancellor of the Exchequer. In addition to your Secretary of State, the meeting was attended by the Secretary of State for Defence, the Chief Secretary, Sir Robert Armstrong, Sir Robin Ibbs and Mr. Alfred.

Introducing his proposals your Secretary of State said that he was hoping that the meeting would reach firm conclusions on the way forward. The possibility of restructuring the PSA had been under consideration for some time, and the absence of a final decision was creating management difficulties for the Chief Executive.

Your Secretary of State said that the complicated existing structure of the Agency resulted from the merger of civil, army, navy and air force property services. It had been criticised for being too slow, and in the opinion of the Advisory Board it was too centralised. The Wardale/Touche Ross report had criticised management systems and attitudes. Five separate issues arose from his proposals: dividing the organisation into two parts, civil and military; eliminating a tier of the management structure; providing locally based property management for the civil side; improving financial management and control; and reorganising the design offices. The proposed restructuring would provide clearer lines of command, more definite identification of responsibility and a better design organisation. Staff numbers would be reduced, and grouped into more manageable units. Responsibility for the affairs of a single client would be concentrated, rather than divided as at present.

Your Secretary of State said that these were substantial advantages, but as with any major structural change there would also be transitional costs. The current estimate of the cost was £11 million over 2 years, with a payback period of 3-4 years. There would in addition be a degree of turbulence - it was fair to say that some senior managers thought that this would be considerable. There would inevitably be some dislocation of services to clients.

/ Concluding,

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Concluding, your Secretary of State said that despite the fact that some aspects of the proposals were sub-optimal (for example the remaining element of cross-working) he was convinced that the advantages of the proposed restructuring far outweighed the disadvantages. He judged that there was a powerful case for proceeding. It was important also to bear in mind that the essential changes in PSA management attitudes would be easier to secure if they were accompanied by structural reform. Moreover, the proposals would form a convenient stepping-stone if Ministers were to decide at a later stage to return PSA's military services to the Ministry of Defence and to increase the exposure of the civil side to the disciplines of competition and the private sector.

Commenting, the Chief Secretary said that although he welcomed the proposed removal of a management tier, he felt that the case for dividing the Agency into two had not been made out. Such a re-organisation could lead to rigidity, and would distract management from the urgent task of improving standards within the Agency. The Secretary of State for Defence said that he agreed with your Secretary of State that the Agency in its present form was much too big. This had been the source of endless criticism. He broadly supported your Secretary of State's proposals, especially the removal of a tier of management. If following the division of the Agency it was decided to return military services to the Ministry of Defence he would not object. It would be his intention in those circumstances to put the maximum amount of work out to the private sector by means of a management contract. However, he was not actively seeking the return of military services to his Department - for the present, the priorities should be to provide the maximum degree of privatisation and the maximum element of competitiveness tension.

The Prime Minister said that having studied the papers and heard your Secretary of State's exposition she remained sceptical of the proposed re-organisation. The link between the Agency's objectives and the specific changes proposed had not been adequately demonstrated; and no alternative options for achieving these objectives had been put forward. There had been no real discussion outside your Department of what the Government's objectives for the PSA should be. She had substantial reservations about the performance of the PSA, and she was not convinced that its present role and scale of operations should be maintained. She welcomed the proposals for eliminating a management tier, reducing staff numbers, introducing more commercial accounts and providing a better service to clients; but she did not see why these improvements needed to be accompanied by the division of the Agency into two parts.

Sir Robin Ibbs agreed that the present situation was unsatisfactory, but re-organisation in itself was seldom the answer to defective performance. If the ultimate intention was to move the PSA towards the private sector, it was by no means clear that a two-way split was either the best or the only way of achieving this. The Chief Secretary suggested that it might be helpful to see how private sector companies handled their property services; Unilever, for example, offered its subsidiaries centralised services, but they were free to go out to tender if they felt that they could thereby obtain better value for money. He saw a case for a similar approach within Government, with Departments being given much greater freedom to choose who should provide their property services.

Your Secretary of State argued that the fundamental question in considering the role of the PSA was whether it made sense to have a single body to manage the Government aspect in the interests of the Government as a whole. This arrangement inevitably led to conflict between the PSA's judgement of overall efficiency, and departmental aspirations. If despite past objections the Treasury would be prepared to see a major change in the financial relationship between the PSA and Departments, then the whole context of the debate on structure would be shifted. He personally would welcome greater devolution of responsibility to Departments.

Mr. Alfred said that the removal of a tier of management could not be achieved in the absence of restructuring. The basic difficulty was the lack of a clear line of management responsibility for the affairs of individual clients. The object of the proposals was to retain the advantages of merging army, navy and air force services, while separating out the large and complex civil side. Independent studies had shown that PSA design services were by no means expensive by private sector standards. This was despite the size of the operation; 2,000 people were employed on design work, supervising expenditure of £1.7 billion a year on construction (of which £1.1 billion related to defence). Maintenance expenditure of £600,000 a year was supervised by 4,000 District Works Officers, at an average on-cost of 12%. Currently 100% of work on construction, 50% of design work, and 83% of maintenance work was contracted out. The Prime Minister commented that this level of expenditure was extraordinarily high. It underlined the case for departmental Ministers taking a close look at their expenditure on property.

Summing up the discussion, the Prime Minister said that she was not prepared to agree to your Secretary of State's proposals on the basis of the arguments advanced so far. She invited Sir Robert Armstrong, in consultation with the Department of the Environment, the Treasury and Sir Robin Ibbs, to prepare a further paper. It should start by considering the PSA's role and objectives and go on to consider the case for structural changes as a means of achieving those objectives. A range of options should be put forward, related as appropriate to a range of different definitions of Government objectives for the PSA, and particular attention should be paid to demonstrating the links between objectives and possible changes.

I am sending copies of this letter to Richard Mottram (Ministry of Defence), John Gieve (Chief Secretary's Office), and to Richard Hatfield (Cabinet Office), Sir Robin Ibbs (Efficiency Unit) and Mr. Alfred.

Yours sincerely,

David Barclay
David Barclay

John Ballard, Esq.,
Department of the Environment.