



a MASTER SET

10 DOWNING STREET

From the Private Secretary

2 April 1984

PROPERTY SERVICES AGENCY

The Prime Minister held a meeting on 29 March about the Property Services Agency. The papers before the meeting were Sir Robert Armstrong's minute of 6 March (to which was attached a note by the Cabinet Office entitled "PSA - Structural Change and Future Role"), and your Secretary of State's minute of 23 March. Those present at the meeting, in addition to your Secretary of State, were the Secretary of State for Defence, the Chief Secretary, the Minister of State, Privy Council Office, Sir Robin Ibbs, Sir Robert Armstrong and Mr. Redwood, of the No. 10 Policy Unit.

Your Secretary of State said that following the departure of the former Chief Executive there was now an opportunity to consider afresh both the Agency's role and the priorities which should be set for its management. He judged that it would be wrong to proceed with restructuring of the PSA along the lines which had been favoured by Mr. Alfred: the costs would be substantial and the benefits were questionable. Since restructuring had first been proposed, the Wardale/Touche Ross Report on Fraud and Corruption in the Agency had been received. The PAC had been considering the Agency's response, and their Report was expected to be critical. In these circumstances, the immediate management tasks were to restore public confidence, to improve the internal administration of the Agency, and to raise the morale of those who worked for it.

The future role of the Agency was a matter for collective consideration. Among the important questions which arose were the extent to which estate management could be devolved to Departments; the scope for "untying" certain categories of work, leaving Departments free to choose between the PSA and the private sector; the degree of further contracting out (it was already considerable in some areas); the future relationship with PSA's "repayment clients"; and the possible privatisation of the Crown Suppliers.

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It would be necessary to examine the scope for change function by function, and on the basis of more facts than were at present available. In order to undertake such an examination, the senior management of the Agency would need external support, probably from consultants, but with some help also from the Efficiency Unit.

It was argued that there was a potential conflict between the objectives of improved management and higher morale on the one hand, and an increased element of private sector involvement on the other. To maintain morale in an organisation which was being run down was a formidable task. But for as long as particular activities remained in the public sector, the response to criticisms of the Wardale/Touche Ross variety would be to build in additional controls, which would themselves increase costs.

Summing up, the Prime Minister said that further work was required before decisions could be taken on the future role of the Agency. She invited Sir Robert Armstrong, in consultation with the Secretary of State for the Environment, the Chief Secretary and the Minister of State Privy Council Office, to set the necessary work in hand. Meanwhile, the priority for the new Chief Executive was to improve the quality of management. This would be a demanding task, and if he was also to promote changes in the nature of the Agency and its relationships with clients and the private sector, he would need both clear Ministerial objectives and a degree of external support.

I am sending a copy of this letter to Richard Mottram (Ministry of Defence), John Gieve (Chief Secretary's Office), Paul Cann (Lord Gowrie's Office), Richard Hatfield (Cabinet Office) and Sir Robin Ibbs.

(DAVID BARCLAY)

John Ballard, Esq.,
Department of the Environment.

DRAFT LETTER TO JOHN BALLARD, DEPARTMENT OF THE ENVIRONMENT

C O N F I D E N T I A L

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GR

Please type as letter
to JB fms.

10 DOWNING STREET

From the Private Secretary

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2/4

MR. HATFIELD
CABINET OFFICE

As discussed with Sir Robert Armstrong,
I enclose a draft record of the Prime Minister's
meeting on the PSA. I should be grateful if
you could let me have his comments as soon
as possible.

Vanessa Cummings

pp David Barclay

30 March 1984

*Contact - one slight
amendment at bottom
of page 1.*

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SECRET

26 March 1984
Policy Unit

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PRIME MINISTER

PROPERTY SERVICES AGENCY

You now have before you a formidable weight of paper setting out the options for the PSA. These short notes might help you in ruling out some of the more extreme and silly propositions.

Aims and Principles

The challenge is to provide a better service at lower cost which involves reducing the work force, but staff cuts should not be the prime aim.

The figures on the PSA performance are disappointing. 4.7 per cent empty accommodation (on the office % of 88m.sq.ft) is too high. It should be brought down to below 2 per cent. The amount of office accommodation shed between 1979 and 1983 is disappointing in view of the fall in Civil Service numbers. Two prime aims for the new PSA organisation should be a reduction in the amount of void space, and a continuing reduction in the size of the estate at least in line with the decline in Civil Service numbers.

The third aim should be to raise the overall standards of accommodation which are poor, whilst making some economies in the size of accommodation made available, particularly at the higher levels in many London departments. By commercial standards, the space provided is large, but also very scruffy. Savings and improvements could be made by concentrating on this problem.

Now that Mr Alfred has gone, there is a chance to bring in a good manager for the PSA and set him targets. It may also be right to think about a transfer for Mr Chipperfield, Mr Alfred's number two who always disagreed with him, back to the DoE, should Alfred's successor be uneasy about him.

Narrowing the Options

The PSA's role as a provider of buildings. There is no point in forming a separate property company and selling the buildings off collectively or individually. It would be dearer for the Government to lease rather than to own its own properties. The existing policy

SECRET

of concentrating staff in owned rather than leased properties, and surrendering leases whenever possible, is the correct one.

The Wardale/Touche Ross proposals should be taken up with more alacrity. It is vital that a good management information system be introduced more rapidly to improve the quality of the buildings whilst reducing costs. This should concentrate on giving managers the correct information that they need about the relative costs of accommodation throughout the public sector (maintenance costs as well as capital), and the options available in the market for them to be constantly upgrading and lowering the costs of the estate.

← One tier of management has to go: this should be a necessary part of sharpening the control over the service and reducing the overhead costs. Any new manager should be told clearly that he is empowered to do this on his own authority as part of his cost containment programme.

In the field of maintenance all of the work should be put out to competitive tender, with the PSA winning any work where it has a clear cost advantage. The amount of work that has to be kept in-house for security reasons should be kept as small as possible.

There is no great advantage in splitting the MOD off separately. A central organisation should have cost advantages, and it is up to management to try and deliver these.

The Crown Suppliers also needs a more vigorous shake-up from competitive forces. Any department which can buy an item more cheaply directly rather than through the Crown Suppliers should be enabled to do so where it cannot at the moment. No sanction should be given for recruiting new purchasing officers in the departments: it should be done using existing staff. Those running the Crown Suppliers should regard it as a great criticism if they cannot capture the bulk of departmental work as they should be operating on big-scale rebates given the volume of business which they control. They should be free to maintain or extend their business links with other non-departmental bodies, both to improve their volume of purchasing, and to test their prices in the market.

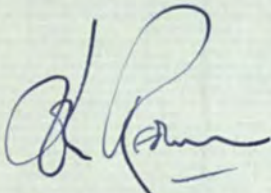
My early observations of Government buying tell me it is done slowly, badly and with little success in lowering the price to the

buyer. It would often be cheaper and quicker to go down the road to a discount store than to order something through the PSA. A management information system should again bring this to light. The PSA should report on the prices of its leading items sold to the departments compared with a typical discount price to the retail customer in the stores. The Crown Suppliers should also be able to develop better relationships with British manufacturing industry, and to pursue an informed domestic buying policy along the lines of Marks & Spencer. It may need strengthened management to assist in this process. Both PSA and Crown Suppliers will need outside commercial people.

Conclusion

The first steps must be:

1. To set out clear and simple objectives separately for Crown Suppliers and PSA, as outlined in this paper.
2. To move rapidly to the appointment of a new senior manager for the PSA and to consider strengthening the management of Crown Suppliers. It may also be desirable to transfer Mr Chipperfield back to DoE from the PSA.
3. To set tough targets for cost reduction and quality improvement for the property estate of the Government, whilst reaffirming the desirability of owning rather than leasing premises.
4. To open maintenance and supplies to full competition.



JOHN REDWOOD

MT



Prime Minister⁽²⁾

PRIME MINISTER

The future of the PSA will be discussed at your meeting on Thursday. But in view of its length you may like to look at this minute setting out Mr Jenkins's views over the weekend. He favours short term concentration on Wardale/Touche Ross criticisms, and a longer term study of PSA's role.

FUTURE OF PSA

1. We are to meet on 29 March to discuss Sir Robert Armstrong's minute of 6 March. I found this minute and the paper on which it is based extremely valuable. In particular, it pointed up much more clearly than anything I had seen hitherto to the risks and costs of proceeding with restructuring without first having agreed the Government's objectives for the PSA. Even before the paper came round DOE Ministers were already having serious misgivings about the practicability of proceeding with restructuring in the time scale advocated by Mr Alfred; the meeting you held on 19 December 1983 indicated clearly that other colleagues shared these misgivings; now, in the light of the arguments in the paper, I do not wish to argue that we should press ahead as Mr Alfred was recommending.

DWB
23/3

2. Indeed, in the written Answer (attached at Annex A) which I issued on March 13 announcing the reasons for Mr Alfred's departure, I have already said that further work on restructuring would be suspended and this has been done.

3. There is a second important issue which has come to the fore since the Cabinet Office paper was circulated. At two hearings of the Public Accounts Committee held on 27 and 29 February, it became clear that the PAC are strongly critical of the PSA's response to the Wardale/Touche Ross Report ("WTR") on fraud and corruption in the Agency. While we have yet to receive their report, there is little doubt that it will reflect the criticisms made at the hearing. The report will

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therefore strengthen the public perception of PSA as an organisation which has recently been managed less than competently, and one which, on account of its size, diversity of functions and unclear objectives, is in need of redirection.

4. In these circumstances therefore I consider that the immediate task of PSA must be to make a more effective response to the WTR criticisms, reinforced as they will almost certainly be by the PAC, and seek to regain the confidence of customers, suppliers and the public. Although there certainly was some substance in Mr Alfred's view that changes in management attitudes can be more effectively achieved if they flow from the general shake up which restructuring would have involved, I believe that this is no longer apposite. I believe, and in this I am supported by Nigel Mobbs, Chairman of the PSA Advisory Board, that any form of major restructuring as a means of securing the change of attitudes is now a dead letter. Instead, PSA management will need to devote more effort directly to implementing the recommendations of WTR and working to secure the changes in management attitudes which that report called for. In my view, this work (which has been going on though heavily overlaid by the restructuring proposals) should now continue as a top priority.

5. In parallel with this, Ministers need to decide as quickly as possible which options, or mix of options, as set out in Sir Robert Armstrong's minute, we wish to pursue. In particular we need to determine the future role of the PSA. Management and staff need clear objectives to work to, and an end to uncertainty. These are essential if efficiency and effectiveness are to be restored.

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6. In coming to a view on these central questions, colleagues should bear in mind the enormous and complex task of the Agency and the great extent to which it already uses the private sector. Details are in Annex B. The crucial point is that the services PSA performs are services that Departments must have. At the moment PSA provides them centrally as an agent for other Departments, although with a direct responsibility to the Treasury for some aspects; if PSA did not provide these services, Departments would have to do so themselves, providing the necessary organisations to do so, and being separately responsible to the Treasury for the work.

7. My predecessor laid down the Government's initial objectives for the Agency back in 1980, and these are set out in Annex C. Substantial progress has already been made, notably in reducing staff numbers. We now need to review and, I believe, bring those objectives up to date. In particular we need to settle the responsibilities for the maintenance and management of the Government civil and defence estates. Do we want centralised estate management, an integrated design and maintenance organisation, and unified control over the bulk of civil maintenance funding? Or do we want to disperse these activities to Departments? The answer depends crucially on whether we think that it would improve matters to increase the responsibility of Departments for managing their own affairs (as FMI might imply) recognising the inevitable risk of duplication, lack of expertise and the difficulty of setting and adhering to common standards.

8. It is possible to argue that the centralised provision of services within PSA is essential to minimise expenditure

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on the estate and to maximise the gains from common design and maintenance policies. However, the results have not prevented much criticism of the Agency as summarised in paragraph 3 of Sir Robert's letter.

9. Sir Robert's letter and the Cabinet Office paper do not give a final answer to the question 'centralisation or dispersal?'; they do however point to some of the important factors which we will need to have in mind. Before we can form a concluded view, I believe we need more detailed information on, for instance,

(i) the implications of increasing further Departments' maintenance responsibility under PRS;

(ii) the implications of transferring total maintenance responsibility to Departments;

(iii) the implications of transferring whole or partial estates responsibility to Departments.

10. If we are to have much greater use of the private sector by contracting out to private companies, something which I am sure we all would favour in principle, we need much more information on the implications, particularly the costs, of contracting out (with or without untying) (a) design, (b) management control of maintenance, and (c) estates management.

11. We need also to consider whether PSA should cater solely for Government Departments or whether it should continue to serve other bodies. At present a wide range of bodies, ranging from museums, to British Telecom, get help from PSA. We could limit this help to a core of Government Departments who cannot help themselves. But this could have serious consequences for some of the other clients. Again,

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I suggest we need further information on the effects of withdrawing services from the 'repayment clients' before we can decide. Many such clients undoubtedly value PSA's services and would be loth to look elsewhere.

12. In the light of our views on these points we would then have to take a view on whether a central estates body, like PSA, is needed at all, and if so, whether it should cover both the Civil and Defence estates and what its precise structure should be.

13. The final question is the cost and timescale of getting from where we are now to the desired solution.

14. Some of the information necessary to answer these questions is in Sir Robert Armstrong's paper; but for other information, further work will be needed.

15. There remains the quite separate matter of the longer term future of the Crown Suppliers (formerly PSA Supplies). This organisation, nearly 2,000 strong, is still part of the PSA but, as a Trading Fund, it is required to act commercially and make a return of at least 5% on its assets. Under its new strategy which I announced publicly in January it aims to secure an increasing proportion of the public sector market and so reduce unit costs for all its customers. Already more than half its business is 'optional'. This proportion is expected to increase as Departments are given greater freedom to buy where they choose and as the Crown Suppliers find new business in the public domain. I believe that we should now begin seriously to consider whether the Crown Suppliers could be privatised during the life of this

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Government. I recognise that the Financial Secretary has already expressed some doubts whether it would be in the public interest to transfer this activity to the private sector. I nevertheless suggest that, as a separate exercise from the review of the main part of the Agency, we should seek outside advice from a merchant bank or other financial experts about the prospects for successful flotation during the next 3 years and what intermediate steps might be taken to create the most attractive package for the market.

16. In conclusion I invite colleagues to consider:-

(i) whether we should now ask PSA management to concentrate
on WTR;

(ii) whether we wish now to consider radically the future
of PSA;

(iii) if so, whether the points above are those that need to be considered;

(iv) if so, how future work should be taken forward;

and, as a separate matter,

(v) whether outside advice should be sought about the prospects for the successful privatisation of the Crown Suppliers.

JH Gallet
for P J

23 March 1984

Approved by the Secretary of State and
signed in his absence.

ANNEX A

75

Written Answers

Written Answers to Questions

Tuesday 13 March 1984

ENVIRONMENT

Property Services Agency

Mr. Watson asked the Secretary of State for the Environment if he will make a statement about the top management of the Property Services Agency.

Mr. Patrick Jenkin: The appointment of Mr. Montague Alfred as chief executive of the Property Services Agency ended yesterday.

Mr. Alfred appeared before the Public Accounts Committee on 27 and 29 February 1984 on matters including the Wardale Touche Ross inquiry into recent cases of fraud and corruption in the agency. When I learnt of the line he had taken in answer to questions, I reluctantly concluded that his answers were inconsistent with the Government's policy on the Wardale Touche Ross report, as set out in a statement I issued on 5 October 1983. It did not seem to me that Mr. Alfred could in these circumstances remain in the Government's service, and his three-year service contract, due to run to the end of this year, has been terminated by mutual agreement. I very much regret this, and would like to thank Mr. Alfred for his services as chief executive since he joined the agency in 1982. Until a successor is appointed, the permanent secretary of my Department, Sir George Moseley, will act as the accounting officer of the agency and the Crown suppliers.

The proposals which Mr. Alfred had put forward for restructuring the agency have already been the subject of wide consultation; many hon. Members have expressed interest in them. It had become evident that the proposals raised questions about whether the existing objectives of the agency should be modified and that questions must be answered before decisions are taken on management and structure. For this reason Ministers are not yet ready to take decisions on restructuring. It is clear, in any event, that the original timetable envisaged for implementing the restructuring proposals is now impracticable. I have therefore instructed the agency to suspend those aspects of contingency planning geared to that timetable.

I am very well aware that the prospect of restructuring has been causing much uncertainty among staff. The Government will make a further statement on the future of the agency as soon as possible.

PSA: ESSENTIAL FACTS

ROLE

1. PSA provides managers and maintains the property used by Government including defence establishments, offices, courts, laboratories, national museums, training centres and some Government-related bodies such as the CAA.

OBJECTIVES

2. PSA's prime objective is to meet the operational requirements of its clients economically and in accordance with standards and costs agreed with the Treasury and Departments.

For the major "common-user" office estate - some 88m sq ft - this requires that PSA manages it as an entity so as to maximise the use of property and minimise total costs.

RANGE OF SERVICES

3. PSA provides 3 major services:

- i) Design of new buildings and supervision of the construction which is undertaken wholly by private contractors.
- ii) Maintenance of buildings military and other installations, largely by use of private contractors.

iii) Estate management of the Civil and Defence estates. In the case of the Civil estate this involves strategic decision taking on eg build, purchase, and leasing options. For the Defence estate PSA provides an advisory service to MOD.

SCALE OF ACTIVITY

4. PSA spends nearly £2 bn annually as follows:

	83/84	£'s M
New Construction	820	
Maintenance	685	
Rents and Services Charges	220	
Fuel, furniture, transport	100	
	<hr/>	
	1825	

USE OF PRIVATE SECTOR

5. Nearly 80 percent of total expenditure is with the Private Sector, eg:

- 100 percent of construction work
- 80 percent of maintenance
- 50 percent of major new design
- (this figure is set to rise to 60 percent)

ORGANISATION

6. To fulfil its tasks PSA's organisation comprises:

8 Headquarter Directorates	-	Central management, policy and major design
10 Regional Offices	-	Management of Areas and maintenance programmes, estate management, delegated design
34 Area Offices)	- Planning and execution of minor works and maintenance programmes.
)	
150 District Works Offices)	

STAFFING

7. At 1.4.84 PSA employed 13,900 non-industrial staff to perform the following functions:-

Major capital projects	2,400
Minor projects and maintenance	8,250
Estate management	950
Design support and advice	500
Central functions, finance, establishments, etc	1,800
	<hr/>
	13,900
	<hr/>

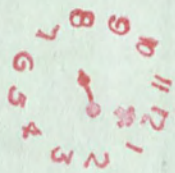
(this represents an 19 percent reduction compared to April 79).

PSA also employs 11,700 industrial staff mainly engaged in operational requirements for the MOD estate. (36 percent fewer than in April 1979).

- (1) Full use of private sector rather than in-house resources.
- (2) Development of the central estate management role, operating as a large property portfolio with regular valuations.
- (3) PSA services to be put on a repayment basis as soon as practicable, costs to be carried by the Departments who use those services.
- (4) Methods of working with the private sector to be geared to -
 - (a) reducing PSA's involvement in detail
 - (b) developing PSA's "procurement" role
 - (c) improving private sector capability and performance.
- (5) Continuing staff reductions as these measures take effect but without resorting to compulsory redundancy: any cases where such redundancy was considered unavoidable to be referred to the Secretary of State.

Civil Service July 82

PSA Wardale



23 MAR 1984