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Ref. A086/143

PRIME MINISTER

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Property Services Agency

Your meeting on 29 March 1984 on the role and future of the Property Services Agency (PSA) (recorded in Mr Barclay's letter of 2 April 1984) invited me, in consultation with the Secretary of State for the Environment, the Chief Secretary and the Minister of State, Privy Council Office, to set in hand certain further work as a basis for Ministerial decisions on the future of the Agency.

2. It was also agreed that the immediate priority for the new Chief Executive was to improve the quality of management and to promote changes in the nature of the Agency and its relationships with clients and the private sector; and that there could be significant benefits from greater devolution to Departments (coupled with tight control of budgets), more competition with the private sector, and further contracting out, although it was recognised that it would be necessary to resist the natural tendency of client Departments to acquire their own works organisations as PSA's direct involvement diminished.

3. At the direction of the then Secretary of State for the Environment, a paper on the future role and structure was worked out, and was about to be sent to you when he left office. I --- attach a copy of the paper herewith. This did not seem to me wholly to meet the requirement that Ministers had in mind at their meeting in March 1984, and I mentioned to you my thought that we should arrange for a further study to be undertaken by a current or recently retired Permanent Secretary.

4. On further reflection, however, and after discussion with the new Secretary of State, the Chief Executive of the PSA and Sir Robin Ibbs, I have come to the conclusion that the work already done on the preparation of the paper, together with action in hand in the PSA and in the Interdepartmental Committee on Property Repayment Services (PRS), provides sufficient basis for discharging the remit from your meeting last year, provided that very clear directions are given by the Secretary of State on what is expected in output terms from the Agency. In coming to this conclusion I have also had in mind that uncertainty about the future of the PSA has been overhanging it for some considerable time. From the point of view of the effectiveness and morale of the Agency, there would be much to be said for bringing this uncertainty to an end.

5. The present position can be summarised as follows.

#### Restructuring

6. The former Chief Executive proposed that the Agency should be divided between Defence and Civil, and that there should be two tiers of regional management rather than three.

7. On the division between Defence and Civil, it became clear that a clean division was not feasible: there would inevitably remain some primarily "defence" offices undertaking "civil" work, and vice versa. The division would have involved two separate maintenance organisations, and considerable difficulty in making the "civil" organisation effective. I do not believe that the division would make for greater efficiency: probably the reverse.

8. The new Chief Executive has actively pursued the possibility of reducing the number of tiers in regional management of the PSA. District Works Offices in the Agency are being brought more into line with the changing workload and

demands of clients. The functions carried out at two of the tiers (Area and Region) are to be amalgamated. This will result in the closure of about 20 offices with considerable savings in overheads; shorter lines of communication; more effective management of Districts; and a strengthening and concentrating of the design capability in fewer offices.

#### Functions and Contracting Out

9. The main functions of the PSA are:

1. management of the Government estate;
2. management of new building work;
3. management of maintenance work;
4. management of design work.

The last three functions are undertaken mainly for Government Departments but also for outside clients, notably the United States Air Force and the national museums and galleries.

10. It is important that for each of the four functions clear objectives and output targets should be set against which performance can be measured.

11. There seems to be general agreement that strategic control of the Government estate can most economically and effectively be managed centrally; no-one is arguing that this function could or should be privatised. There may well, however, be scope for delegating some operational management. There could usefully be some experiments on this, both departmentally and regionally, and these could include making use of the private sector.

12. The other functions have increasingly been contracted out in recent years. The current situation is that 100 per cent of all new building work and 85 per cent of all maintenance is placed with the private sector, and the proportion of design work undertaken by private consultants has increased from 1/3 to 2/3. The PSA do not believe that it would be possible to reduce the design work undertaken within the Agency much further without impairing its ability to recruit and retain staff of sufficient quality to supervise the large building programme.

13. The effect of these changes and other efficiency savings has been that staff numbers have reduced from 35,200 in 1979 to 24,000 in 1985. The 15 per cent of maintenance work still remaining in-house is done by a reduced directly employed labour force of 10,200. Reductions have been achieved largely through voluntary redundancy and natural wastage, in line with Ministerial policy. The PSA management would like to use more compulsory redundancy, particularly with directly employed labour who are employed in Departments where their presence is inhibiting the development of PRS, but Ministers decided that this should not be done because of the assurances given to staff. Because of these assurances PSA will not be making directly employed labour compulsorily redundant at MOD establishments where PRS-type arrangements are being introduced. It is important, however, that PSA should bring forward plans for continuing the run down of numbers, including ways of redeploying some staff, possibly to the private sector, as an alternative to allowing the assurances to result in stagnation.

#### Management

14. Since your meeting in March 1984, Mr Gordon Manzie has been appointed Chief Executive and Mr Bryan Jefferson, a former President of the Royal Institute of British Architects, has been recruited from the private sector at Deputy Secretary level as Director General of Design Services. By next March all nine

Regional Directors in England and Wales, except London, will have been replaced by younger officers in mid-career since Mr Manzie became Chief Executive.

15. Management has been tightened up, following the Wardale/Touche Ross Report and the National Audit Office reports on the Agency, with special emphasis on personal accountability and responsibility of managers. The Agency have taken steps to strengthen internal audit, including the recruitment on term appointments of seven chartered accountants from the private sector; to speed up the programme of systems audit; to reinstate a rigorous staff inspection programme; and to introduce a new management audit of District Works Offices (District Management Reviews). The Chief Executive will be reporting on the effectiveness of these steps.

#### Relations with Clients

16. The PSA's civil clients have frequently accused the Agency's staff of insensitivity, and the management has therefore been devoting a good deal of time to trying to change attitudes through a series of visits and talks to the staff. The Chief Executive has visited over 100 offices in his first 18 months in post. On the defence side also, much effort has been devoted to improving liaison and procedures and getting better value for money.

17. The main thrust towards changing relations with civil clients will emerge from the Interdepartmental Committee on Property Repayment Services. The initial PRS arrangements established following recommendations by Lord Rayner gave Civil Departments freedom to carry out minor jobs under £500. This was extended to £1,000 in 1984. The Committee is now considering three options, a "traditional" one based on the existing arrangements which some smaller Departments prefer, a "standard" one which would increase the present delegation to

Departments and gives them greater control of internal works in their offices, and a more "radical" option, favoured by two or three Departments only, which might extend delegations for works to as much as £100,000 or more. The Chief Executive is content with the increased delegations to Departments in the standard option, favoured by the majority of Departments, and is also content that there should be experiments with the radical option, involving Departments who want it, so long as all concerned can be satisfied that it is economic and will not lead to wasteful duplication of effort. The Interdepartmental Committee has worked much more effectively since it was enlarged to give more Departments a say in future policy, following a meeting of Permanent Secretaries on PRS which I chaired earlier this year, and the introduction of closer liaison between the Treasury, the Cabinet Office (MPO) and the PSA. Sir Robin Ibbs and I believe it would be helpful if the PSA provided some guidelines on good practice for obtaining value for money on maintenance, including private as well as public sector experience, and distinguishing between what is right regionally and in Central London.

18. Departments are also being given a stronger interest and involvement in major new projects by being asked to nominate, for each new project, a project manager whose business it is to agree a clear definition of the project and to control the Department's performance so as to ensure that it does not generate long delays or increased costs by unnecessarily altering specifications or demanding refinements after the project has been agreed and the contract placed.

19. The relationship with the national galleries and museums is under review and is likely to lead to a substantial reduction of PSA's role with them.

Fraud and Corruption

20. Fraud and corruption are still problems in the Agency, and will attract more publicity in the coming months when some of the long-running cases involving PSA staff and contractors including those brought to light by the News of the World will come to the courts. But there has been a vigorous attempt by the management to identify and sort out fraud and corruption since the appointment of the new Chief Executive. This was recognised by the PAC in their 19th Report when they welcomed "PSA's acknowledgment of the seriousness of the situation, and the new attitude of determination to rectify it ...".

Conclusion

21. This minute and the attached paper show that considerable steps have been taken to improve the Agency's performance since the appointment of the new Chief Executive, although (as he and his senior colleagues are well aware) a great deal more has still to be achieved. The question for Ministers to consider is whether there needs to be further fundamental study of the role and functions of the Agency, or whether the role and functions as now defined and established are acceptable, provided that the process of management change and reform which is under way continues to be vigorously pressed forward, and steady improvement in performance displayed.

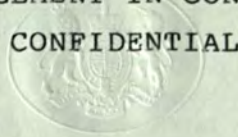
22. I have discussed this with Sir Robin Ibbs. We both think that, while there are some arguments in favour of further fundamental review, that would inevitably take some time and prolong uncertainty, and that at the moment the balance of the argument does not justify giving priority to a further fundamental review. After the uncertainty resulting from the period when Mr Alfred was Chief Executive and from the corruption cases and the Wardale/Touche Ross Report, there are strong management arguments for bringing the period of

uncertainty to an end, so that the management can concentrate with confidence on pursuing the process of improving management and performance upon which they have embarked in the last 18 months. Sir Robin Ibbs and I both accept that there should continue to be central strategic management of the Government estate, and think that under the new Chief Executive the Agency has made and is making steady progress both on contracting out new works, maintenance and design work and on improving management efficiency. On balance, therefore, both of us recommend that Ministers should endorse the policies now being pursued, provided that the Secretary of State and the Chief Executive maintain the momentum of change and improvement in management performance. In order to monitor that, we consider that the Chief Executive should be asked to submit progress reports every six months to the Secretary of State for the Environment, with copies to you, the Chief Secretary, Treasury, the Minister of State, Privy Council Office, Sir Robin Ibbs and me. These should include as far as possible output measures against specific targets. I understand that the Secretary of State agrees that this is the right way to proceed.

23. If this is accepted, you are invited to endorse the policy being pursued to improve the Agency's overall performance, and in particular to agree that:

- (i) the Agency should continue to deal with both the military and civil estates as at present;
- (ii) the Agency should continue to have a strategic central estates management role for the civil estate; and should explore the scope for delegation of operational management;
- (iii) the Agency should develop proposals that would make possible renewed reduction in numbers of staff;





- (iv) the management should proceed with the amalgamation of two tiers of management responsibility and better communications in the Agency;
- (v) the work of the Interdepartmental Committee on Property Repayment Services should continue in order to allow further devolution of responsibility for works services to individual Departments;
- (vi) the PSA should provide guidelines on good practice for obtaining value for money on maintenance;
- (vii) the Chief Executive should report progress every six months on improvements in the Agency's management and performance.

24. I am sending copies of this minute and the attachments to the Secretary of State for the Environment, the Secretary of State for Defence, the Chief Secretary, Treasury, the Minister of State, Privy Council Office, the Director of the PSA and Sir Robin Ibbs.

RA

ROBERT ARMSTRONG

14 January 1986

PROPERTY SERVICES AGENCY

FUTURE OF PROPERTY SERVICES AGENCY (PSA)

At the meeting on 29 March last year Ministers agreed that the first priority should be to improve the Agency's management attitudes and control systems in response to criticisms made by the Public Accounts Committee following the Wardale/ Touche Ross (WTR) Report.

2. Since then Mr Manzie has been appointed as Chief Executive and he has already made substantial progress in implementing major action plans on both WTR and the National Audit Office Reports on Building Maintenance. Annex A explains the scope of the changes that are being made in response to the Reports and other initiatives to improve the Agency's management control and information systems.

3. It was also agreed at the meeting that further consideration should be given to the future role, aims and objectives of the Agency taking account of the options considered in the Cabinet Office paper that was discussed.

4. The Crown Suppliers are not considered in this submission, and a separate review has now been carried out to examine whether the whole or part of their activities should be privatised or, if not, whether their status within the public sector should be changed. The review team's report was submitted to Ministers on 11 November.

CHANGE ACHIEVED TO DATE

5. PSA's role has changed significantly under the policies that the Government has been pursuing since 1979. Major changes have included the establishment of the Property Repayment

Service (PRS), greatly increased contracting-out of design, the relaunch of PSA Supplies as the Crown Suppliers and staff reductions of just over 30 per cent. During this same period the workload of the PSA has increased substantially, and the Agency has become much more a management organisation for the accommodation needs of Governments, increasingly using the private sector for execution of tasks, and devolving to clients responsibilities within their competence including the complete transfer to the Foreign and Commonwealth Office of responsibility for the diplomatic estate. The Agency has, however, retained the essential central strategic role of managing effectively the Government's property and construction interests which include a civil estate of 10.2 million square metres and a total new planning and construction programme (Civil and Defence) of about £5 billion, two-thirds of which is for the Ministry of Defence (MOD).

#### FUTURE ROLE OF THE AGENCY

6. Following the meeting of Ministers in March last year the key issues to be addressed about the future role of PSA were the extent to which contracting out and transfer of responsibility to Departments could be further pursued beneficially, and what arrangements would be likely to meet the Government's drive for efficiency and value for money. The then Secretary of State set the following major aims for the Agency, as a framework for establishing more detailed proposals -

#### MAJOR AIMS

1. Improved attitudes and performance at all levels and the introduction of new systems of control and management information.
2. Maximum use of the private sector where economical and efficient.

3. Transfer to Departments of responsibilities which do not force them to build up their own expertise uneconomically.
4. Value for money for all functions whether undertaken in-house or by the private sector.
5. Changes to PSA's organisation and structure to match changes in manpower and workload and to meet criteria for improved management.

#### IMPLEMENTATION OF PLANS

7. Having agreed these broad aims, the next stage was to produce a clearly defined programme of action reflecting them. Having consulted Sir Robin Ibbs and members of the Efficiency Unit the Chief Executive produced a detailed "business plan" setting out for each PSA function - estate management, maintenance and design - some objectives, targets and timescales by which progress will be made on each aim. This plan is at Annex B.

#### ISSUES FOR DECISION

8. The key issue for decision reflected in the plan is PSA's future relationship with its two major groups of clients - Civil, including a number of repayment bodies, and Defence, who, in addition to the three Services and the Procurement Executive, include the United States Air Force.

#### CIVIL CLIENTS

##### i. PRS Clients

9. PSA's present central estate management role for the Civil estate enables it to make the best use of property by

maintaining flexibility as the needs of Departments fluctuate (most private sector organisations adopt a similar approach). However, since the inception of PRS and the Financial Management Initiative, the question has been raised whether Departments could take greater responsibility for their accommodation. The scope for this would need to be tested against the extent to which Departments would be able to take more decisions that enhanced their accountability without the need to duplicate expertise available within PSA and still get value for money. The balance of argument leads to a clear conclusion that the central estate should continue to be centrally managed. It is only by central management that Departments' legitimate operational requirements can be met with the maximum economy, opportunities found for achieving substantial savings through rationalisation of our holdings, liabilities to landlords kept to the minimum, the value of the assets preserved by timely preventive maintenance, and continuous pressure maintained to secure the prompt disposal or re-use of space which becomes surplus to Departments' requirements.

10. Without departing from the principle of central management, there is greater scope for transferring further responsibilities to Departments. Proposals for the development of PRS have now been circulated for comment to client Departments. Subject to appropriate safeguards these will give a larger measure of responsibility to Departments in respect of minor new work, and non-structural maintenance including internal decoration.

ii. Other Civil Clients

11. As the Business Plan explains, PSA also serves a large number of other Civil clients, some Government and some Government-related. The principal clients are British Telecom (BT), the Manpower Services Commission, the Health and Safety Executive and national museums and galleries coming under the Office of Arts and Libraries (OAL). With the privatisation of

BT there will be a phased withdrawal of PSA work for them (except Crown Suppliers) and following a report of the Select Committee on the Arts, PSA and OAL are conducting a review to determine whether more responsibility for works matters should devolve to museum and gallery directors. Similar considerations may apply elsewhere. When the major BT and OAL issues have been settled it is proposed to conduct a review of PSA's work for all other Civil clients to establish new guiding principles as appropriate to determine long-term policy. As several Departments will have an interest it will be necessary to consult them as well as clients themselves.

#### MINISTRY OF DEFENCE

12. The former Chief Executive's restructuring proposals to split the Civil and Defence activities of PSA were subsequently set aside. There would be no advantage now in pursuing separation of MOD work: that would involve greater upheaval and costs, both financial and in resource terms, than the restructuring proposals themselves. Such a move would also result in a serious loss of advantages from economies of scale, particularly in the Agency's 156 District Works Offices where the separation of work would often result in unviable offices covering ineffectively thinly scattered Civil accommodation in extremely wide territory.

#### CONTRACTING OUT POLICY

14. PSA now contracts out all major new construction, 85 per cent of maintenance, and has greatly increased contracting out in the design field, as well as in contracting out some estate management and maintenance management functions. The plan for the future proposes further initiatives, in the form of experiments, to assess the potential for contracting out of wider maintenance management and MOD estate management functions. This experimental approach is necessary to ensure

that any application on a wider scale would represent an efficient and cost-effective service to Departments. The initiatives will therefore be carefully monitored against suitable criteria of efficiency and value for money.

MAJOR DEVELOPMENTS IN PSA MANAGEMENT CONTROL AND  
INFORMATION SYSTEMS

This Annex describes the major initiatives being taken by the Agency to improve systems of management control and management information. PSA has used a number of such systems for over a decade and for the past five years has operated the MINIS system to ensure that agreed objectives are followed throughout the Agency. Nevertheless in an organisation in which a large proportion of expenditure and resources are in the hands of the United Kingdom Territorial Organisation (UKTO) comprising a network of over 200 offices, there is a need to develop more effective nationally applied systems if the centre is to retain an appropriate degree of control while allowing proper delegation in line with Financial Management Initiative objectives.

## LONG-TERM STRATEGY

2. The PSA Executive Board has endorsed the recommendations of consultants for a long-term information strategy for the Agency. The detailed development and implementation will be the responsibility of a recently appointed Director of Information Technology. Two important elements of the strategy will be the provision of an Agency-wide communications network and a disciplined approach to corporate data management. Some progress has already been made in both these areas. A telecommunications group, with responsibility for voice and data communications, has been formed to manage the PABX replacement programme and to provide suitable network facilities. A Data Administrator has also been appointed.



INTERIM ARRANGEMENTS

3. A large number of immediate improvements are being made to aid effective management control, and especially to assist decision taking in the maintenance and estate management fields. All 156 District Works Offices in the United Kingdom have in the last year had microcomputers installed to hold key information on works programmes, financial information, and works orders. Each Estate Office now has access to a computerised information system (CERIS) which holds information to help in the management of PSA's 13,000 separate accommodation holdings.

NEW DEVELOPMENTS IN ADMINISTRATIVE RESOURCE CONTROL

4. As a start to developing longer-term arrangements the Agency's existing management information systems for control of resource costs are being reviewed with the aim, inter alia, of improving cost comparisons and forecasting of resource requirements. The initial aim will be to establish a basis for more delegated budgeting of administrative resources.

5. A further related initiative is in hand to achieve a merger of Works and resource costs within the vote accounting system. This should enable a better balance to be achieved between work programmes and the associated administrative costs, and enhance overall control.

CONTROL OF MAINTENANCE

6. This is the area that has received the greatest attention to date and the following paragraphs describe the major elements of action plans being implemented in response to several reports on maintenance control arrangements.

7. The maintenance organisation in the UKTO has been the subject of three major reviews, in the recent past, the Rayner

review of resource control in District Works Offices, the Wardale Touche Ross (WTR) Report, and the Public Accounts Committee (PAC) Report on it, and the National Audit Office (NAO) Report on building maintenance and the subsequent PAC Report. These reports resulted in major action plans and over 60 recommendations have been implemented. The actions arising from the three reports are closely linked and principally affect the UKTO and the Directorate of Home Regional Service (DHRS). They are therefore being co-ordinated by a committee of senior staff under a Deputy Chief Executive who will keep all related initiatives under review. This note summarises very briefly the most important subjects for change.

i. Improved Financial Control

A new budgetary system for maintenance is being tested in three complete Areas to run through the financial year 1985-86 and with a view to deciding the most suitable national system to be introduced as soon as possible thereafter. A number of national improvements to aid financial control are being introduced in the meantime.

ii. Other System Changes

A number of other changes affecting contractual, certification, checking and stores procedures are being implemented to improve efficiency and provide greater assurance of the probity of PSA's transactions.

iii. Management Inspection and Review

A new system of District Management Reviews was introduced from 1 April 1985, following selected trials, to provide a co-ordinated review of all the major functions of a

District - technical, administrative, financial and procedural. Other checks and controls will be tightened up to increase their effectiveness as management aids.

iv. Setting of Priorities

Better central guidance has been issued to assist the UKTO in the setting of maintenance priorities as part of the initiative to obtain better value for money and ensure that limited funds are used to best effect across the estate.

v. Performance Measurement

Maintenance Unit costing and standard costing are being further developed as a means of comparing the costs of different maintenance operations and of assisting in estimating and monitoring some maintenance expenditure.

vi. Management Attitudes

An overriding requirement which comes out of the WTR and NAO Reports is the need for changes in attitudes of managers and staff at all levels. There is a need for a more positive approach in managing staff and resources through more rigorous monitoring and reviews of performance as a normal feature of management. There is also a need for managers to instil in those taking decisions about provision of PSA services the requirement to apply more deliberately tests of priority and value for money and to consider the justification of decisions taken. Such changes of attitude and approach are difficult to secure and will require sustained effort by senior management. As one approach to the problem PSA Board members and senior staff are undertaking an extensive programme of visits to UKTO offices, which number some 200, to press these vital needs.

8. As paragraph 7 indicates, many of the recommended changes have already been completed. The Action Programme on the NAO Report and the outstanding WTR and Rayner recommendations will be pursued urgently over the coming year and many more will be fully implemented. Others, such as the national budgetary control system which involve Pilot Studies will take longer to implement but the programme represents the best progress that is possible in each case given the particular needs and the resources available.

## "BUSINESS PLAN" FOR PSA

This Annex describes PSA's proposed "business plan" to meet the major Ministerial aims for the Agency set out in paragraph 6 of the main paper. The plan considers in turn the main functions undertaken, and the principal objectives, specific targets, and timetables for action on each which will be closely reflected in the Agency's separate MINIS Statements for each Directorate and Region. It also describes proposals that are being pursued to achieve some modest organisational and structural changes to reflect changing circumstances of both PSA and its clients. Changes in management control and systems changes are described separately in Annex A.

### FUNCTIONS OF PSA

PSA's major task is to provide, manage and maintain the Government's estate to meet the operational requirements of its clients in a way that optimises the use of property and minimises overall costs. This involves the following four main functions:

- A. Estate management.
- B. Maintenance.
- C. New design.
- D. Procurement through the Crown Suppliers who operate as a trading fund independent of the other functions. (The Crown Suppliers are to be subject to a separate major review and they are not dealt with further in this Annex.)

A. ESTATE MANAGEMENT

1. COSTS AND RESOURCES

PSA manages the Civil Estate comprising some 9,000 holdings and 10.2 million square metres and the Defence Estate covering some 692,000 acres. About 600 professional and technical staff are employed in these tasks.

2. OBJECTIVES

Civil Estate

- i. Managing, developing and maintaining the Civil Estate to provide for accommodation for the operational needs of Government clients as economically as possible within agreed standards.
- ii. Minimising the size and total cost to the taxpayer of the estate.
- iii. Rationalising Departments' holdings to achieve i. and ii. above and to improve the operational efficiency of clients.
- iv. Meeting the needs of "repayment" clients according to their instructions.

Defence Estate

- v. Managing, developing and maintaining the Defence Estate on behalf of MOD to agreed standards of performance, costs and time.
- vi. Meeting particular operational needs including transition to war requirements.

For Both

vii. Securing the timely disposal of surplus land and property.

3. TARGETS

(1) IMPROVED PERFORMANCE

i. Allied office estate reduced by 0.4 million square metres between 1979 and 1984.

Target: to reduce by a further 0.1 million square metres by June 1986.

(This target is based on the current known demands of clients and on their co-operation in achieving economies through rationalisation schemes.)

ii. Surplus space on the Civil Estate December 1983: 5 per cent.

Targets:

- a. to reduce surplus space to 4 per cent by June 1986;
- b. to establish minimum surplus space achievable;
- c. to establish a strategy for achieving b.

(A scrutiny approach is being examined for b. and c.)

iii. Rationalisation of Civil Estate in London yielded savings of £30 million 1979-84.

Target: to increase savings in London to £50 million by 1988.

iv. Defence Estate disposal for 1983-84 valued at £42 million.

Target: Defence Estate disposal for 1985-86 £39.5 million.\*

v. Civil Estate disposals for 1983-84 valued at £10 million.

Target: Civil Estate disposal for 1985-86 £19 million.\*

\*Achievement of these targets depends in many cases on Departments releasing accommodation or land by the dates they forecast.

(2) USE OF PRIVATE SECTOR

Defence Estate

PSA has proposed, and MOD have agreed, the management of a selected Defence agricultural estate should be placed with private agents to compare costs and performance. Planning is in hand for an experiment which will be completed by mid-1987.

(3) TRANSFER OF RESPONSIBILITY TO CLIENTS

i. CIVIL CLIENTS - REVIEW OF PRS ARRANGEMENTS

PSA has conducted a review of PRS with the aim of making recommendations to Ministers on the precise future division of responsibility for accommodation matters between it and Civil clients. The Secretary of State has now written to colleagues about the development of PRS, and proposals have been circulated for comment to client Departments.

A multi-Department Review has also just been completed into Departments' responsibilities for handling of accommodation matters and this will also inform final decisions about the respective roles of PSA and Civil Departments.



## ii. OTHER CIVIL CLIENTS

PSA also serves a large number of other Civil clients, Government and Government related. The largest of these include BT, MSC, HSE and museums and galleries sponsored by the Office of Arts and Libraries (OAL). There are two major initiatives for change already happening: following the privatisation of BT, PSA has proposed a phased withdrawal from their work (except Crown Suppliers); and following a Select Committee of the Arts review a joint PSA/OAL study is considering the issues involved in greater devolution of responsibility to museums and galleries for works services.

The remaining clients represent only a small proportion of PSA's work but nevertheless represent a significant demand on PSA's constrained resources. It is therefore appropriate to conduct an interdepartmental review to determine if any more general changes should be made in the provision of services by PSA to this group of clients. This should ideally begin when the OAL study is completed; target mid-1985.

## (4) VALUE FOR MONEY

An assessment of value for money of estate management must involve many judgmental issues. However, there are some more specific means by which it is demonstrated:-

- i. A sizable number of PSA rent reviews have been put out to agents to handle to establish comparisons of performance. No overall measurable difference in the levels of settlements achieved has been evident.
- ii. PSA's resource costs measured in PSA's staff costing system (PATOCAP) can be compared with the notional fees which private agents would charge and overall PSA's costs are substantially lower.

## B. MAINTENANCE

1. Costs and Resources

PSA will spend some £720 million on the maintenance of the Civil and Defence Estate in 1985-86 with over 80 per cent of the work being undertaken by private contractors. To identify, plan and manage the operation PSA employs about 5,000 staff in a network of over 200 UKTO offices.

Annex A describes, inter alia, important changes that PSA is already making in the way it manages the maintenance functions. This section concentrates on strategic changes for the future.

2. Objectives

- i. To maintain the estate in suitable condition to meet the operational needs of clients.
- ii. To minimise long-term running costs by timely maintenance and execution of "spend to save" initiatives where appropriate.

3. Targets

## (1) IMPROVED PERFORMANCE - CIVIL ESTATE

The above objectives have not been met recently when maintenance funds have been less than required. The consequences of insufficient funds are inefficiencies for clients' operations and increased long-term costs. Ministers have asked for further evidence of the scale of the shortfall and in order to define the problem PSA has taken two major initiatives:

- a. development of a three-year forward maintenance programme to demonstrate funding requirements for essential work;
- b. identification of the backlog of maintenance which is now estimated at a minimum of £90 million.

Production of information of a. and b. was substantially completed last autumn and discussions began with the Treasury about increased provision progressively to tackle these related problems. These have not to date produced the extra funds required to make a significant start in removing the backlog in 1985-86 and the issues will be pursued again shortly in the coming PES discussions.

(2) USE OF PRIVATE SECTOR

NEW TYPES OF MANAGEMENT CONTRACTS - CIVIL AND DEFENCE ESTATES

As a further extension of management contracting PSA is proposing, on a trial basis, to give to contractors or consultants wider responsibilities for defining and executing the maintenance of some selected estates, such as a group of Married Quarters (MQs) or office buildings. Some new initiatives are already in progress and several further options will be tried in 1985-86 with a view to reaching firm conclusions within two years. An experimental approach is necessary because past efforts to establish management contracts either yielded uneconomic offers or resulted in shortcomings of performance.

(3) TRANSFER OF RESPONSIBILITY TO DEPARTMENTS - CIVIL AND DEFENCE

As from April 1984, under an extension of PRS, Civil Departments became responsible for most maintenance work up to £1,000,

representing some 25 per cent of total maintenance expenditure. This new limit is to some extent arbitrary but is based on the view that maintenance work up to this level can be handled without detailed technical knowledge. However, some Civil clients would like to see the £1,000 limit further extended and proposals for achieving this are included in the review of PRS mentioned earlier. MOD have taken part in successful experiments which give them comparable responsibility to PRS clients and the arrangements are now being institutionalised at certain station duty establishments, and further experiments are to be conducted at operational establishments.

#### TRIAL WITH INTERNAL DECORATION TRANSFER TO CIVIL DEPARTMENTS

As part of the separate review of PRS PSA has suggested that a few selected Departments should assume responsibility for decisions on internal decorations in certain buildings from 1 April 1985 leaving them to decide whether to use PSA or another agent to arrange execution. If this trial is successful it could be extended to other Departments.

#### (4) VALUE FOR MONEY - CIVIL AND DEFENCE ESTATES

Several means are available for providing an indication of value for money.

- i. PSA'S resource costs measured in PATOCAP produce performance indicators that enable the resource costs of different offices to be compared.
- ii. Limited information is available about the private sector's resource costs in undertaking maintenance, but, based on quotations received from three national contractors, they seem generally to be much higher than PSA's costs. Further comparisons of costs are proposed.

- iii. Certain tasks such as maintaining MQs can be subject to a unit costing approach. PSA is examining the wider application of this approach to the estates.
- iv. A major programme of new District Management Reviews beginning in April 1985 will examine District performance more comprehensively with emphasis on value for money aspects.

C. MAJOR NEW DESIGN

PSA manages a programme of major new design approaching £5 billion in total value which has risen in volume by about 30 per cent over the last two years largely as a result of growing Defence and law and order programmes. About two-thirds of this work is for MOD and one-third for Civil clients. About 1,600 staff are employed in-house in the function and over 50 per cent of work is now carried out by outside consultants (architects, quantity surveyors etc).

Objectives

- i. Achieving timely and appropriate solutions to client requirements within agreed cost limits.
- ii. Setting and achieving suitable standards of design quality; and developing standard solutions where appropriate.
- iii. Minimising ongoing maintenance costs.
- iv. Developing effective procedures for commissioning work to achieve high standards of performance from external consultants with a minimum use of in-house resources.
- v. Competing on design and fees to enhance quality and improve value for money.

Targets

## (1) IMPROVED PERFORMANCE

Under Ministerial policy, in-house major new design has been reduced from about 65 per cent in 1979 to about 40 per cent by April 1985 together with an accompanying reduction in design staff numbers from about 2,500 to about 1,600. Staff reductions have had largely to be achieved by natural wastage which has produced imbalances between the various design disciplines. At the same time, 17 separate major design offices have been maintained (7 at HQ and 10 in the UKTO). In addition PSA's ?M Area Offices each has limited design capacity to execute mainly smaller schemes. Maintaining design capacity in so many separate units is inevitably producing problems of keeping up efficient production and two particular needs have been identified to improve performance.

- i. establish the correct size and balance of disciplines of HQ and UKTO design office having regard to future ratio of in-house to out-house workload;
- ii. establish the long-term number and location of design offices that PSA should operate.

The newly-appointed Director General of Design Services is examining these needs as a top priority drawing on some work already undertaken on the size and composition of design offices. The report on this major task will be available by about the middle of 1985.

## (2) USE OF PRIVATE SECTOR

The proportion of design work with the private sector reached about 60 per cent in April 1985. It will increase by a further 5-10 per cent in the following year. It is unlikely that,

assuming present workload, the proportion given to consultants could be increased further without putting at risk the ability of in-house staff to deal with essential security work and the provision of effective consultant liaison capacity (see also (3) below).

### (3) VALUE FOR MONEY

PSA's staff costs measures through PATOCAP are compared with the notional fees of consultants and on this basis most offices show a significant surplus.

In 1982 a study was conducted with participation by independent outside accountants which concluded that overall PSA's in-house design costs were about 20 per cent lower than those charged by consultants. The advent of fee competition may change this differential; it is too early to draw any firm conclusions but the position will be carefully monitored, and a further review of comparative costs will be undertaken.

### EVOLUTIONARY STRUCTURAL CHANGES IN THE AGENCY

A number of evolutionary structural changes are under consideration or have recently been decided upon to meet the changing circumstances and workload of the Agency including the greater use of private sector resources. Any significant changes of this sort, which are a necessary and ongoing process in most organisations, had to be put off during the two-year period when major restructuring was being considered. The major review of PSA's design offices has already been mentioned above (C(1)) and the following are the other major issues that are being pursued.

i. UKTO Office Boundary Changes

Changing patterns of work, such as the loss of BT work that is already happening, and is likely to continue, require that the loading of Regions, Areas and Districts should be examined and any necessary adjustments made. Regional Directors are currently considering such adjustments that will enable workloads and resources to be more evenly matched and a start has been made in implementing the changes to take effect in the year 1985-86 financial year.

ii. Study of SE Region

As part of the above process PSA is undertaking a study of the SE Region where, principally, the loss of Navy work at Chatham requires a more fundamental examination of future arrangements. This is providing an opportunity to consider radical structural changes such as the removal of a tier of management or integration with an adjoining Region, and the closer integration of Works and Estimates functions. The study will be completed in mid-1985 with a view to starting to implement changes during 1985-86.

iii. Headquarters Organisation

PSA has already made changes in the Headquarters arrangements for managing the UKTO. This has involved the creation of a much stronger management inspection and review capability within the Directorate of Home Regional Services so that the Deputy Chief Executive has better control of, and information on, the activities of Regions.



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Other changes in HQ organisation have also been made to make single Directorates responsible respectively for all aspects of the management of the Civil and Defence Estates. This will in turn allow for greater integration of estate management and works activities throughout the organisation.

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SUMMARY OF RECOMMENDATIONS

The following is a summary of the main recommendations and points for decision.

- i. PSA should retain the central management responsibility for the Civil Estate, but:
- ii. Civil Departments should assume increased responsibility for determining non-strategic new works and maintenance, the detailed arrangements for which to be pursued separately in the context of the further development of PRS. Ministers will be consulted separately about this shortly.
- iii. PSA should continue to meet MOD's estate management and works requirements, subject to developments to extend MOD's responsibilities for undertaking minor works and maintenance.
- iv. PSA's services to non-Government public bodies should be reviewed to determine the extent to which this role should continue.
- v. Experiments should be conducted to test the scope for and cost-effectiveness of more contracting out of estate management and maintenance management functions.
- vi. Studies should be finalised to determine organisational changes in the Agency to match its changing role and to secure improved efficiency and value for money of its main functions.
- vii. Continued emphasis should be given to developing the Agency's management control and information systems.