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My ref:

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25 May 1989

Dear John

PES 89 - PSA PROPERTY HOLDINGS AND OTHER SERVICES TO GOVERNMENT VOTE

In my statement last May about the future of PSA, I made clear that the Agency's role as landlord of the Civil Estate (Property Holdings) was to be separated from those parts (PSA Services) of the organisation offering property services on payment. An important aspect of this is the split of the former Vote covering the whole of PSA's civil accommodation into two. One new Vote will cover funding for Property Holdings i.e. the cost of central portfolio management, notable capital works, maintenance, rents payable, fees payable to PSA Services (or outside agents) and Property Holdings' own resource costs—all offset by income notable from rents receivable and disposals. It will also cover certain functions outside portfolio management but which cannot be dealt with commercially by PSA Services. The second Vote will deal with the PSA Services.

In this letter, I will set out my proposals for public expenditure provision for Property Holdings' programme for 1990-91 to 1992-93.

The bid is set out in the agreed format in the table at Annex A and I hope this presentation can serve as the basis for our future discussions. Although at first sight we are asking for a large increase in expenditure (£131m in 1990/91, £193m in 1991/92 and £206m in 1992/93) much of this is accounted for by factors outside our control. Recent legislation enabling landlords to opt to levy VAT on rents and the need to pay VAT and superannuation on charges for work done by PSA Services force me to ask for £73.1m in 1990/91, £94.6m in 1991/92 and £98.4m in 1992/93.

We must again bid for substantial increases in rents of £12.5m in 1990/91 rising to £64.5m in 1991/92. These are, in part, due to the likely rises through reviews which are a condition of existing leases and in part because of the need to replace old, but advantageous, leases which have now expired. But whatever the cause, these payments will just have to be faced. I would emphasise that events in the past few years have shown that we have, if anything, underestimated the movement of the market in this volatile area, and to some extent the bid represents both a catching up with the past, and sensible provision for the future. These increases cannot be funded at the expense of the works programmes, which I discuss below, without undermining the very continuity which these programmes demand if they are to be effective and provide value for money. The very large element of rents in the bid is of course offset so far as Property Holdings is concerned by increases in receipts of accommodation charges levied on other Departments.

On major new works (Part 1) I would propose increases of £18m in 1990/91, £13m in 1991/92 and £11m in 1992/93. This is made up of three components, those which must (for health and safety, lease-expiry or other unavoidable reasons) go ahead; those meeting the specific criterion for the Spend to Save Estate Rationalisation programme (pay back to the Estate in 5 years), and those which although outwith this criterion still represent value for money either in estate rationalisation or departmental operational terms. The last two I consider particularly important in allowing Property Holdings to develop effective portfolio management strategies.

As a further means of enhancing the portfolio management capacity I would wish to propose as a new item in the Part I bid some provision for freehold purchases to diminish future exposure to the continuing rent increases. These increases have to be paid as long as such a high proportion of the Estate is leased rather than Crown Freehold property, a point made forcibly by the NAO and Environment Select Committee in reports on the PSA. I make the bid fully aware of the excellent co-operation we have had from you and Treasury staff in reacting to purchase opportunities as they arise; and certainly I would wish this to continue. But I think it is worthwhile to ensure that Property Holdings can be pro-active as well as reactive in obtaining value for money through purchases. I would like to propose a small fund of £15 million a year. In 1988/89, £12m was spent on purchases outside London.

Offsetting these increases in Part I expenditure, I am proposing a further increase in the disposals baseline in each of the survey years. We continue to give disposals a high priority, and have improved our systems for identifying likely sales. But Departments will assume responsibility for disposals on the Departmental Estates. Thus our area of activity will reduce to the Common User Estate (although in the first two years of the survey there is some carry in of disposal of other vacant property and the results of existing spend to save schemes) but even so, we expect to achieve sales worth £48m in 1990/92, £56m in 1991/92 and £52m in 1992/93.

So far as maintenance (Part III) is concerned, I propose that the baseline should be increased by £12m in 1990/91 and £16m in each of the later years. This would give a level of spending that should put the estate on course to eliminate the maintenance backlog by the mid 1990s. The outturn in 1988/89 shows that PSA services are capable of achieving this level of spend. The maintenance baseline is to be divided up between Property Holdings and Departments at the end of June and augmented in the early autumn by any increases we agree in the survey. From 1 April 1990, Property Holdings and Departments will be untied from PSA Services and hence will also have the choice of using the private sector directly for Part III work. I think it important that, given this separation of responsibilities we ensure that the funds are available to keep up the momentum to improve the fabric of the estate.

The bulk of my bid for £16-17m per year for Property Holdings administration is technical. The first division of the total PSA baseline limited Property Holdings to present staff in post in central administrative divisions. Work is advancing on defining the full organisation and this has already given rise to a need to re-order the baseline to provide for funds for administration rather than for payment to PSA Services under other headings. Decisions on the structure of Property Holdings are not final and further PES and running cost transfers between Property Holdings and PSA Services must be decided. Discussions are taking place at official level to decide the number of staff for central support functions (establishments etc) and to cover for tasks which, although not related to Property Holdings main estate role, will become its responsibility. I shall write to you again when we have more

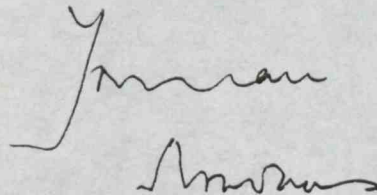
details and in the meantime, would be grateful if you would accept that the bid for administration, and consequently the running cost limit, will need to be adjusted upwards. This will to a large extent be compensated by savings on the PSA Services side. In ascertaining the cost of Property Holdings I am alert to the likelihood of loss of economies of scale as we move to smaller organisational units. Thus my bid includes an estimate (currently of £4m p.a.) for the amounts needed to cover the extra staff, systems and support required. This figure will clearly have to be refined in the light of decisions on staffing referred to above.

Until the initial organisation of Property Holdings and its responsibilities is decided, it is of course impossible to finalise a forward management plan or to give a target for the level of annual efficiency savings. However a first 3 year management plan has been prepared. I attach a copy. It should, I believe, be regarded this year as the base on which a fuller strategic plan can be built in the 1990 Survey.

For the QE II conference Centre Agency, I expect higher receipts than previously forecast and thus am bidding to reduce the forecast baseline (formal Agency status should be achieved on 24 June 1989).

The Parliamentary Works Programme remains highly sensitive. I am seeking £11.577m in 1990/91, £5.266m in 1991/92 and £9.246m in 1992/93, and can offer offsets in each year through increased receipts of £0.729m, £0.737m, £0.695m respectively. There are three main elements, for the major schemes, which have been agreed in principle in previous rounds, we now have better estimates of the cost. These include the Bridge Street redevelopment and the Victoria Tower stonework repair. Secondly a number of new requirements including energy conservation, and renewal to the fire alarms have emerged. These medium sized requirements cannot be included in the existing baseline. Thirdly there are a number of technical items, maintaining the transfer of funds from Programme 14.2, which involve no new money.

/ I am copying this letter to the Prime Minister, and other Cabinet colleagues and to Sir Robin Butler.



NICHOLAS RIDLEY

PES BASELINES 1990-91 TO 1992-93

Km

Area of expenditure	Manager	1989-90 provision	1990-91			1991-92			1992-93		
			Old baseline	Proposed change	New baseline	Old baseline	Proposed change	New baseline	Old baseline	Proposed change	New baseline
A Acquisitions and New Works		83.1	94.1	39.0	133.1	85.0	34.5	119.5	87.2	33.0	120.2
B Maintenance		222.9	227.3	12.4	239.7	233.6	16.4	250.0	239.4	16.6	256.0
C Rents		356.5	423.1	63.5	486.6	456.4	125.8	582.2	467.8	139.4	607.2
D Administration and Repayment											
Admin		1.1	1.1	16.6	17.7	1.1	17.0	18.1	1.1	17.2	18.3
Repayment		.0	.0	.0	.0	.0	.0	.0	.0	.0	.0
E Allied Services		.1	.1	.0	.1	.1	.0	.1	.1	.0	.1
F Conference Centre Agency (Net)		2.6	3.1	-8	2.3	3.1	-5	2.6	3.1	-4	2.7
<b>GROSS TOTAL</b>		<b>666.3</b>	<b>748.8</b>	<b>130.7</b>	<b>879.5</b>	<b>779.3</b>	<b>193.2</b>	<b>972.5</b>	<b>798.7</b>	<b>205.8</b>	<b>1004.5</b>
AZ Disposals (see footnote)		-55.5	-43.5	-5.0	-48.5	-49.3	-7.0	-56.3	-50.5	-1.6	-52.1
BZ Service Charge Receipts		-47.3	-42.6	.0	-42.6	-43.8	.0	-43.8	-44.9	.0	-44.9
CZ Rent Receipts		-712.1	-794.9	-1.6	-796.5	-859.8	-18.0	-877.8	-881.1	-70.3	-951.4
DZ Repayment Receipts		.0	.0	.0	.0	.0	.0	.0	.0	.0	.0
EZ Allied Services		.0	.0	.0	.0	.0	.0	.0	.0	.0	.0
<b>TOTAL RECEIPTS</b>		<b>-814.9</b>	<b>-881.0</b>	<b>-6.6</b>	<b>887.6</b>	<b>-952.9</b>	<b>-25.0</b>	<b>-977.9</b>	<b>-976.5</b>	<b>-71.9</b>	<b>-1048.4</b>
<b>NET TOTAL</b>		<b>-148.6</b>	<b>-132.2</b>	<b>124.1</b>	<b>-8.1</b>	<b>-173.6</b>	<b>168.2</b>	<b>-5.4</b>	<b>-177.8</b>	<b>133.9</b>	<b>-43.9</b>

Footnote:

Baseline for total disposals on CUE and DE :-

90/91	91/92	92/93
-50.1	-65.2	-66.8

15/05/89

## PES 89: PSA PROPERTY HOLDINGS:

## DETAILS OF BID BY SUBHEAD

## A. ACQUISITIONS, NEW WORKS AND DISPOSALS

Essential Works.

	1990/91	1991/92	1992/93
REQUIREMENT	51.2	40.1	32.5

1. The "essential works" programme is necessary to cover projects to rehouse Departments whose present accommodation must be replaced:

- a) on health and safety grounds
- b) because the lease is unlikely to be renewed
- c) to enable the departments to carry out their basic operational functions.

This programme is summarised in the annexed table. As in previous years's PH must bid again for some projects that were identified in earlier PES rounds. These are described as "known" in the table. However because the PES settlement is always made in broad terms, it has not been Treasury's custom to hold us to a list of specific projects.

2. In 1990/91 the baseline is only just sufficient in 90/91 to cover the carry in expected from currently planned starts, but including the refurbishment of Marlborough House, although no baseline for this was provided during PES 88. Within the programme of new starts proposed is the rehousing of DOE/DTp (ex LBH) in Great Westminster House, for which expenditure would be needed in the last two PES years.

Estate Improvement.

3. In addition to the "essential" works described above, funds are also sought to enable projects to be carried out which will result in better value for money from the Civil Estate. An important element of this is the continuing "Spend to Save Estate Rationalisation" programme (STSER) under which schemes which show a "profit" on Estate costs within about five years are carried out. However, as both the Environment Committee and the PAC have recommended, savings can also be achieved for the Estate through increasing the amount of the property held freehold.

Finally, there are a number of projects which, although they do not meet the strict STSER criterion, to rationalise the stock of property in joint occupation while, at the same time providing Departments with accommodation in line with their current operational priorities.

Spend to Save Estate Rationalisation

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	1990/91	1991/92	1992/93
REQUIREMENT	19.1	10.0	9.3

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4. This programme continues to provide up to date property for departments while facilitating the disposal of space surplus to Government needs. To maintain its momentum additional funding of £5.6m and £1m is sought in the years 1 and 2 of the Survey period. The peak expenditure in 1990/91 is needed to cover substantial projects in Canterbury, Devon and West London, which have now been firmly identified with substantial savings accruing. Also an additional sum of £5.5m must be provided either to dispose of the lease or to make fit for Government use Norfolk House, East Kilbride, which has been vacant for some years.

## Freehold Acquisitions

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	1990/91	1991/92	1992/93
REQUIREMENT	15.0	15.0	15.0

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5. Our bid in PES 88 for a £5m annual provision for the purchase of the freehold of properties that we were occupying under leasehold, in order to increase the freehold proportion of the civil estate and thereby reduce our exposure to continuing rent increase, was unsuccessful. Each case had to be treated on its own merits and funding provided from savings elsewhere in the Vote or balanced by excess receipts.

6. On this basis we were able last year to acquiring freeholds as opportunities arose, spending some £11.5m on six properties with a total ALA in the region of 24,000 sqm. With this track record, a bid of £15m a year, would allow PH to purchase suitable freehold buildings that represent good value for money. In addition, opportunities for larger purchases may arise at anytime (as has happened over the past two years) and will need to be considered with Treasury individually. Arrangements of this sort, would present positive policy and actually seek freeholds rather than wait for opportunities to arise (with the consequent need to make decisions very quickly). Development of a positive rather than wholly opportunistic strategy for increasing the amount of freehold on the Estate would accord with the line taken in the Treasury response to the PAC on this question.



Operational and Rationalisation Schemes

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	1990/91	1991/92	1992/93
REQUIREMENT	2.2	8.3	16.2

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7. Twelve schemes have been identified to provide better usage of accommodation on the Common User Estate. Rationalising the Estate is a major objective, for example the Marsham Street infill project, which will provide significant extra space in an area much in demand. But meeting Departments current operational priorities, eg for example through the co-location of personnel, is a further prime consideration.

Major New Works and Acquisitions - Summary

8. In summary the bid for the Major New Works, Spend to Save/Estate Rationalisation and freehold acquisitions is as follows:-

	1990/91	1991/92	1992/93
BASELINE	54.8	45.2	46.4
REQUIREMENT			
Essential	51.2	40.1	32.5
STSTER	19.1	10.0	9.3
Freehold Acquisitions	15.0	15.0	15.0
Operational	2.2	18.3	16.2
Total	<u>87.5</u>	<u>73.4</u>	<u>73.0</u>
BID	32.7	28.2	26.6

Minor New Works

	1990/91	1991/92	1992/93
BASELINE	39.3	39.8	40.8
BID	NIL	NIL	NIL

9. The existing baseline should cover requirements for minor new works, STSER and Acquisitions.

Major and Minor New Works and Acquisitions - Summary

10. In summary the bid for major and minor new works, STSER and acquisitions is as follows:-

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	1990/91	1991/92	1992/93
BASELINE	94.1	85.0	87.2
BID			
Major Works	32.7	28.2	26.6
Minor Works	NIL	NIL	NIL
TOTAL BID	32.7	28.2	26.6

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11. As mentioned in paragraph 6, Property Holdings will pay PSA Services for all professional services provided including superannuation and VAT on PSA Services in-house resource costs. Additional funds will be required to cover this and the total bid incorporating this effect is as follows:

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	1990/91	1991/92	1992/93
BASELINE	94.1	85.0	87.2
BID			
New Works/Acquisitions	32.7	28.2	26.6
Superannuation on Resources	1.8	1.8	1.8
VAT on Resources	4.5	4.5	4.6
TOTAL BID	39.0	34.5	33.0

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## Disposals

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	1990/91	1991/92	1992/93
FORMER BASELINE (CUE & DE)	50.1	65.2	66.8
NEW BASELINE (CUE ONLY)	43.5	49.3	50.5
BID (CUE ONLY) (ie. enhanced receipts)	5.0	7.0	1.6

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12. The former baseline contained predicted receipts from disposals foreseen across the entire Civil Estate for the PES period. This has to be split between predicted receipts in respect of property which will pass from 1 April 1990 to the Departmental Estate, and which will therefore feature in other Departments' baselines; and predicted receipts in respect of property which will remain on the Common User Estate. The latter comprise the major part of our new baseline, though by agreement with the Treasury this also includes receipts from disposals:

- a. arising from already identified spend to save schemes;
- b. of those vacant properties on the existing estate which PSA has accepted from Departments (and is therefore already responsible for the accommodation charge, regardless of previous use).

Taking into account the result to date of the valuation of the Civil Estate, we believe that enhanced receipts can be found from Common User Estate disposals. The "bid" is therefore a prediction of additional receipts which would contribute to offsetting the additional expenditures sought elsewhere.

## B. MAINTENANCE AND OTHER OPERATING COSTS.

13. The Civil Estate is to be divided between the Departmental and Common User Estates. Departments may opt to take on enhanced responsibilities in respect of the maintenance of their sole occupancies on the latter. But full information to enable the proper division of the existing baselines in this sub-programme will not be available until June. As a result the bid is made, as in previous years, with PSA speaking for the whole estate. (Departments have the option of bidding immediately, and separately from PSA, for their Departmental holdings, but none has so far indicated that it wishes so to do). At the end of June, current baselines will be divided between Property Holdings and Departments on the basis of:-

a) composition of the Departmental Estate and the Common User Estate; and

b) the amount of responsibility assumed by Departmental tenants on the CUE for maintenance of these holdings which they alone occupy.

Following bilaterals between the Secretary of State and the Chief Secretary, any successful bid for maintenance funds will be divided between PH and Departments on the same basis as the baseline.

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	1990/91	1991/92	1992/93
BASELINE	227.3	233.6	239.4
BID	22.8	26.8	27.0

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14. This sub-programme can be considered in two parts, maintenance and other operating costs. The latter comprised professional and advisory services, landlords's service charges (excluding rents) and rates, fuel and utilities in respect of sub-let or vacant accommodation. The existing baseline of £67m in 1990/91, £72.2m in 1991/92 and £74m in 1992/93 seems adequate and no further bid is envisaged.

## Maintenance

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	1990/91	1991/92	1992/93
BASELINE	160.3 (120.5)	161.4 (121.7)	165.4 (124.8)
BID	12.0	16.0	16.0

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Note: Figures in brackets are maintenance works costs only and do not include resources.

15. Last year, the main constraint on maintenance expenditure on the civil estate was thought to be PSA's resources. In the event the 1988/89 provision has been substantially overspent, and the Treasury's doubts last year about whether the provision this year can be fully spent have not been sustained. The UKTO has geared up to the higher level of spending, but it would seem imprudent to bid for substantial additional funds in 1990-91. The backlog of maintenance has regularly attracted the attention of the Environment Committee and the increased baseline, fought hard for in previous surveys, and the proven ability to spend have stabilised and possibly started to reduce the backlog. The figures will not become clear however until the UKTO reassess this in a few months time as part of the annual estimates exercise. If the 1989/90 level of funding is continued in real terms it will be about 7 years before the backlog is eliminated. Our bid should enable us to improve upon our rate of reduction of the backlog.

16. The present provision for that year already represents a cash increase of 50% compared with expenditure in 1987-88 (a real increase of about 40%). However, cash provision levels off in 1991-92 and 1992-93, and we should make a case for real spending to go on increasing in those years by perhaps 5% per annum. There is a particular need for additional resources since we will have to make provision for the additional spending. Departments will want to undertake on the DE or under new freedoms for singly occupied buildings. This would require additional funding of about £12 million in the first year and £16m in later years.

17. Further as discussed in paragraph 8 above, there must be provision for VAT and Superannuation on services provided by the PSA Services Businesses. These gave rise to bids of £10.8m in 1990/91 and 1991/92 and £11m in 1992/93. A technical adjustment of the bid has been made and the resources reallocated to Section D (Administration and Repayment Services) of the Vote. This reallocation which takes into account the estimated staffing requirement for Property Holdings results in the following:-

	1990/91	1991/92	1992/93
BID	22.8	26.8	27.0
REALLOCATION OF RESOURCES TO SUBHEAD D	10.4	10.4	10.4
NET BID	12.4	16.4	16.6

## C. RENTS

### Rent Payments

	1990/91	1991/92	1992/93
BASELINE	423.1	456.4	467.8
BID	12.5	53.6	64.5

18. Last year, the rapid rise in rents in London and the South East was underestimated and a substantial bid of the order of £12.5m, £54m and £65m may have to be made for the three PES years respectively. We will have to treat the bids as unavoidable. These increases reflect the continuing ending of extremely favourable leases taken on in the 1960s where we are now having to negotiate current market rents or take on new hirings. We have allowed for the slowing down in the London property market in calculating the bid. We do not propose to make a bid for rates on vacant properties although in common with other departments we are awaiting the promised Treasury PES paper on the impact of various changes to the basis of future contributions to Local Authorities.

19. Most landlords are likely to opt to tax rents paid by PSA with effect from 1 August 1989 and a bid to cover the VAT element will be required. We should seek Treasury agreement to treating this as a technical bid. This is reflected as follows:

	1990/91	1991/92	1992/93
BASELINE	423.1	456.4	467.8
BID Rents	12.5	53.6	64.5
VAT on Rents payable	52.5	74.2	77.5
TOTAL BID	65.0	127.8	142.0



VAT and Superannuation.

20. Additional funds will be required to cover the payment by PH to PSA Services of superannuation and VAT on in-house resource costs. Again we would argue these are largely technical and are as follows:

	1990/91	1991/92	1992/93
BASELINE	423.1	456.4	467.8
BID Rents	12.5	53.6	64.5
VAT on Rents payable	52.5	74.2	77.5
Superannuation	1.0	1.0	1.0
VAT on Resources	2.5	2.5	2.5
TOTAL BID	68.5	131.3	145.5

21. A technical adjustment of the bid has been made and the resources reallocated to Section D (Administration and Repayment Service) of the Vote. This reallocation which takes into account the estimated staffing requirement of Property Holdings results in the following:-

	1990/91	1991/92	1992/93
BID	68.5	131.3	145.1
REALLOCATION OF RESOURCES TO SUBHEAD D	5.0	5.5	5.7
NET BID	63.5	125.8	139.4

### Rent (PRS) Receipts

22. This bid has been established on the assumption that there will be no changes to the PRS rules over the PES period.

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	1990/91	1991/92	1992/93
BASELINE	794.9	859.8	881.1
BID	1.6	18.0	70.3

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23. Although passing rents and PRS rents are decoupled the emphasis on rising prices in supporting the passing rents bid puts pressure on the PRS rent assumptions. Reflecting the higher than expected rent increase, PRS receipts are expected to increase more quickly than assumed in PES 88. Receipts are expected to be higher than the baseline by £1.6m, £18m and £70.3m, respectively.

24. Last year the estimates assumed that the London estate would contract by 1% per annum, but remains static elsewhere. Our present assumptions are that the size of the estate has stabilised and effects of the dispersal initiative, much of which remains to be firmed up in the later PES years, will only have a minor net effect throughout the country with respect to PRS.

D. ADMINISTRATION AND REPAYMENT SERVICES.

	1990/91	1991/92	1992/93
BASELINE	1.1	1.1	1.1
BID	NIL	NIL	NIL

25. To establish a baseline for the restructured Civil Vote, assumptions were made about the size and organisation of Property Holdings in advance of decisions by Ministers on the ultimate size of PH and its location. As a result the figures included refer to the present staffing of DPM. Thus they do not take account of the potential Property Holdings requirement for HQ Estate Surveying staff as well as personnel to cover London and in other locations through the UK. Although decisions have yet to be made in total it is estimated that, for its basic function, Property Holdings will require about 400 staff.

26. A technical adjustment based upon these assumptions would result in the following:-

	1990/91	1991/92	1992/93
BID	NIL	NIL	NIL
REALLOCATED RESOURCES FROM			
* MAINTENANCE	8.5	8.5	8.5
* RENTS	4.1	4.5	4.7
NET BID	12.6	13.0	13.2

\* These figures are net resource costs and have been generated from gross resource costs at paras 27 and 30 by removing superannuation and VAT.

27. Personnel for other activities will be additional. But these functions are a continuation of existing activities for which there is resource cover in Section B (rents) and Section C (maintenance) of the Vote, and thus any change to this bid in the future will be more of a technical adjustment between sub programmes than a request for extra funds.

28. The "baseline" for Property Holding's administrative capital (£10000) is wholly inadequate. A major requirement will be for IT to allow for systems which were already part of PSA's IT Strategy when that was formulated to cover all of the Agency's present activities. Provision of £1.9m per annum is requested in the bid to cover this expenditure.

**E. OTHER ALLIED SERVICES.**

Other Allied Services

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	1990/91	1991/92	1992/93
BASELINE	0.1	0.1	0.1
BID	NIL	NIL	NIL

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29. At present this sub programme comprises only the European School at Culham, although other Allied services may in due course be accommodated on the PH vote. The baseline is not significant in overall vote terms. It is broadly adequate to meet all priority requirements.

**F. OTHER SERVICES TO GOVERNMENT**

QE II Conference Centre Agency

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	1990/91	1991/92	1992/93
BASELINE	3.1	3.1	3.1
BID	-0.8	-0.5	-0.4

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30. The forecast is for a minimal bid which is largely the result of higher than previously forecast receipts for the years 90/92 to 92/93. Formal agency status will be achieved by the centre on 24 June 1989.

PROPERTY HOLDINGS AND OTHER SERVICES TO GOVERNMENT VOTEMAJOR NEW WORKS PROGRAMME

	£ MILLION		
	(Works and Resource Expenditure)		
	90/91	91/92	92/93
<u>CARRY IN</u>			
Projects started prior to 89/90	17.7	4.8	1.1
Projects starting in 89/90	20.4	9.3	2.2
Projects starting in 90/91	3.6	6.7	3.6
Projects starting in 91/92	0.3	2.1	2.8
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Carry In (Sub Total - 1)	42.0	22.9	9.7
<u>NEW STARTS</u>			
Priority 1 - Known	0.6	2.8	4.1
- New Bids	5.2	11.0	15.3
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- Sub total - 2	5.8	13.8	19.4
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Feasibility Resources (Sub total - 3)	3.4	3.4	3.4
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<u>Total Requirement</u>	51.2	40.1	32.5

## MANAGEMENT IN CONFIDENCE

## THREE YEAR RESOURCE MANAGEMENT PLAN 1990/91 - 1992/93

## SECTION 10

## PROPERTY HOLDINGS

1. The agreed strategy for the future of PSA is to separate those functions which are inherently Government roles from those of a commercial nature. The governmental function will form "Property Holdings". The question of whether, from 1 April 1990, these functions and the relevant staff should transfer from PSA to DOE (C) is at present under consideration.

2. The major responsibility of Property Holdings will be to manage the "Common User" Civil Estate. Property Holdings may also need to act, as agent of the Treasury in discharging specified responsibilities for the Departmental estate (eg. operation of a database, collection of accommodation charges). But, in addition, there are a number of further buildings/services, mainly, but not exclusively accommodation related, for which PSA is currently responsible, which must remain within Government, and which distinct from management of Common User Estate, but for which there is no other obvious client Department (e.g. the Palace of Westminster, the Whitehall Standby Power and ring main heating systems and the Government Car Service). It should also be noted that responsibility for certain current PSA functions on standard setting and some central services (eg approved list of consultant/contractors) may have general application across the whole of the Government. The location of such functions will be dependent on the outcome of discussions with the Treasury and with PSA Services who might continue to provide some of these services on payment terms.

Objectives

3. The core of Property Holdings activities will be, as a Common Service to Government as a whole, the management of the "Common User" Estate. In carrying out this role its main aims will be:

- to provide suitable premises of the right type, in the right location and at best value for money in response to the operational need of departments.
- to identify and exploit the maximum usage of the estate and the minimise net overall accommodation costs.
- to ensure that departments meet the full economic cost of

their accommodation.

4. Generally, the aims for any "Central Estate Service" responsibilities must be to provide the particular service required by Departments as economically as possible for Government as a whole and to ensure that, where appropriate, user departments pay the full economic costs. However decisions still have to be made about Property Holdings' full role and responsibility and this functions involved.

5. Initially Property Holdings will be Vote funded, although trading fund financing is a later possibility. From 1 April 1990, Property Holdings Vote will be entirely separate from that of the other PSA businesses.

#### Proposed Revision

6. The management structure and resource requirements of Property Holdings from 1 April 1990 must reflect the priority given by Ministers to the effective implementation of the aims set out in paragraph 3. Organisational terms however, Property Holdings will be structured to perform the following key functions:

- a. active property and portfolio management on the Common User" Estate;
- b. financial management including the establishment of a new charging system for accommodation on the CUE;
- c. proper liaison with occupants and potential occupants;
- d. establishment of an itelligent customer capability to ensure value for money in commissions and contracts let by Property Holdings;
- e. corporate planning and management
- f. responsibility for other buildings accommodated related services

7. An essential element in the corporate planning and management of Property Holdings will be the development and monitoring of a business Plan. The plan will cover the period of the current Public expenditure survey. It will set out in detail Property Holding's operational aims over that period, the means proposed to implement them and measures against which to assess outturn performance. It will be updated regularly as part of a formal corporate management review process.

#### Performance Indicators

8. It will be essential to evaluate the costs and benefits



to Government of the central management of the "common user" estate. The formulation of appropriate performance indicators as part of the Business Plan must be a key feature of active portfolio management. Performance indicators can be expected to be defined relating to the overall objectives given in paragraph 3 and as the management information systems are brought into operation can be expected to take account, among other things, of:

- a) size of CUE and asset value.
- b) percentage of CUE that is vacant.
- c) new build/in-going works - schemes keeping to cost and time.
- d) cost in use of buildings and staff density
- e) progress towards a target ratio of freehold/leasehold property
- f) return on "spend to save" investment.
- g) rental income

#### Resources

10. Manpower To carry out its prime function it is expected that Property Holdings will need to be geographically dispersed throughout the UK. The exact number of locations needs has still to be determined but will not necessarily mirror the present PSA Regional structure. Managerially these are expected to be treated as outstationed parts of the HQ rather than established as a separate geographic organisation. Their internal structure will reflect that of Property Holdings at HQ. To provide for this in the region of some 400 staff may be required. Other building/accommodation related services may require a further 160 non-industrial and some 1,100 industrial staff. Decisions on central support functions (eg. accounts, establishments) may give rise to further resource needs. While the bulk of these should be able to be met by technical transfer of PES and or running costs between the PSA Services and Property Holdings' Votes, loss of economy of scale could give rise to perhaps a further 150 staff.

11. Funding The table at Annex A shows the bids which we are now making for funding in PES 89. For most headings, these bids relate to the entire civil estate and will therefore have to be redistributed (along with some parts of the existing baseline) as individual departments take over responsibilities for their occupations, notably only in respect of maintenance.

12. IT The establishment of Property Holdings will entail

both the development of new and the refirement of existing, IT systems. This will involve expenditure of the order of £1.9m on hardware, software, consulting and bureaux operations.

13. The intention will be to streamline Property Holdings' operations to ensure that it provides maximum value for money. But it has to be acknowledged that, in the separation of PSA into Property Holdings and Service businesses, economies of scale will be lost, with consequent additional calls for resources. However, once set up, Property Holdings will be looking to make the standard 1½% efficiency gains within its activities in the later years of the Survey period.

#### **Other long-term Government Functions**

14. In addition to the functions concerned with the common-user estate there are a range of roles and responsibilities which will remain as long-term government functions and are not therefore appropriately part of PSA Services. These include:

- Palace of Westminster
- Occupied Royal Palaces and services for ceremonials
- A range of other buildings
- Provision of Whitehall standby power and ring main heating system
- Custody guards service
- Provision of security works

15. For the time being these functions are taken as forming part of Property Holdings and have been incorporated in this plan. Certain of these functions, however, may become the responsibility of other Departments, or perhaps be carried out by PSA Services on a payment basis for Property Holdings or some other Departments.

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