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Len Pate,

17 August 1983

PROPERTY REPAYMENT SERVICES (PRS)

I enclose the interim report of the Inter-Departmental Committee which was established earlier this year to consider how the PRS system might be improved.

The report recommends a number of changes for introduction in April 1984. It also indicates further possible developments in 1985-86, which will be the subject of another report later this year.

I draw attention particularly to the proposal that departments' financial and management responsibility for minor work should be increased from the present limit of £500 to £1000. There was some pressure for this limit to be higher when the PRS arrangements were introduced, and I hope the proposed increase will be welcomed. While I share the concern of the Committee about the severe constraints on resources available for minor work of this kind, I do not believe that this problem, which arises irrespective of where responsibility lies, should hold up implementation of the higher limit.

I should be glad to know that you are content that these changes should be brought into effect next April.

As the report explains, the proposals will have consequential for PES and Estimates. In order to allow sufficient time for these adjustments to be made, I should be grateful if any comments could reach me by 16 September.

I am copying this letter to the Prime Minister, and all members of the Cabinet and other Ministers in charge of Departments; to Grey Gowrie at the MPO; and to Sir Robert Armstrong and Sir Robin Ibbs.

Handwritten initials and scribbles

IAN GOW

INTER-DEPARTMENTAL COMMITTEE ON PROPERTY REPAYMENT SERVICES (PRS)

INTERIM REPORT

Introduction

1. The Property Repayment Services system (PRS) results from one of a number of initiatives by Lord Rayner, aimed at giving the civil service manager a greater degree of awareness and responsibility for the overhead costs incurred in administering programmes and policies. Because PSA provided its accommodation services on allied service terms, departments lacked the information and financial incentive to exercise judgement on the consumption and efficiency of use of these resources.

2. An inter-departmental group under Treasury chairmanship was set up in 1980 to make recommendations regarding the transfer of costs of services provided on allied terms by PSA to a repayment basis. It was asked to look for a simple model other than full repayment, avoiding wherever possible bureaucratic petty cash accounting. The group's recommendations were accepted by Ministers in 1981 and the first stage was implemented from 1 April 1983. An outline of the arrangements is given at Annex A.

3. It was recognised that the initial system would inevitably have rough edges (a pilot run before introduction was not possible), and that various developments could be considered for introduction in the light of experience. The present Committee was therefore established, at the initiative of the central departments, in April, with the following terms of reference:

"To consider how PRS may be developed and improved and to make recommendations."

The Committee is chaired by the Principal Finance Officer of PSA, with representation from Treasury, MPO, PSA, Inland Revenue, DHSS, Department of Employment and MAFF.

Scope of Report

4. This interim report is mainly concerned with changes in PRS arrangements which the Committee recommends for implementation in 1984-85. Firm decisions on these changes are needed by early autumn so that the necessary adjustments to PES and Estimates provisions can be made. The Committee recognises the undesirability of continual tinkering with PRS arrangements over a succession of years. However, it has concluded that a number of possible changes under consideration must be held over until 1985-86, either because their introduction requires more preparatory work by PSA, or because their implications require further detailed consideration. In some cases, there is a difficult balance to be struck between the desirability of making departments more responsible and accountable for the resources they consume (in line with the philosophy of the FMI), and PSA's overall responsibilities for securing the economical, effective use of the government estate.

CHANGES IN PRS ARRANGEMENTS PROPOSED FROM APRIL 1984

5. The Committee recommends that the following changes should be implemented next April.

Better information for departments

6. For 1983-84, departments were not given details by individual property of areas of office and storage accommodation occupied by them. Neither were they provided with the unit rates in respect of rents, minor works and maintenance work (over £500), PSA administration charge, and rates, which were used in the calculation

of the accommodation charge. Hence, in many cases it was impossible for departments to identify this charge to their own organisational management units. For 1984-85 and future years, it is envisaged that departments will be provided with areas of occupation of office and storage accommodation by individual property and also the unit rates used for the calculation of the accommodation charge. Areas and costs by individual specialised properties will continue to be provided.

Basis of calculation of accommodation charge

7. For 1983-84 the accommodation charge was calculated on the basis of the assessed areas of occupation as at 30 September 1982, with a forecast of the likely changes in those occupations up to 30 September 1983 (the mid-point of the financial year). Whether or not the forecast changes occurred, departments would pay the Agency the accommodation charge so calculated, and the transfer of funds from PSA's PES programme enabled that charge to be met. For 1984-85 and future years, it is proposed that departments will only pay an accommodation charge to the PSA for the actual areas of accommodation as at 30 September each year, thus avoiding the need to forecast changes which may or may not take place (other than in the context of the normal PES and Supply Estimates procedures).

8. Departments will be asked each year to agree with PSA the actual areas they occupy at 30 September of that year. These area figures will serve 3 purposes:

- (i) to calculate the actual accommodation charge recovered from departments for that year;
- (ii) to forecast the accommodation charge for the following year's Estimates;
- (iii) after taking account of any significant changes foreseen, to assess future provision in the following summer's PES round.

The schedule at Annex B illustrates the cycle from 1984/85 Supply Estimates through to 1986/87 PESC forecasts.

9. To meet the funding needs of RGPD, PSA will continue to claim the accommodation charge in 4 quarterly instalments in advance, but the first three quarters' payments will be treated as payments on account. For the fourth quarter, the total accommodation charge for the year will be re-calculated on the basis of the agreed actual September occupations in that year and any balance claimed. There will be no changes in the unit rates used for this re-calculation.

10. The Committee's recommendation that this revised method of calculating the accommodation charge should take effect in 1984-85 is on the understanding that satisfactory agreements can be reached between PSA and client departments on current areas of occupation in time to meet the timetable for preparation of next year's Supply Estimates. The change will not in itself create the need for further PES adjustments between PSA and occupying departments.

Handling of vacant space not available for disposal by PSA

11. Under PRS for 1983-84 the costs of vacant office and storage space on the Civil Estate not earmarked for disposal were surcharged to all Civil departments by the accommodation charge. For 1984-85 and future years it is proposed that unoccupied space of this nature which the Agency accepts as viable units for reallocation or re-use in one way or another will not be charged to occupying departments but will be borne on the Agency's Vote. This change will involve a PES transfer from departments to PSA, matched by a reduction in the accommodation charge.

Minor works limit

12. Under PRS for 1983-84, departments were given full responsibility for ordering, supervising and meeting the costs of minor work (as described in the Handbook for Accommodation officers) up to £500 per job, subject to a number of excluded maintenance-type works which required specialised or technical expertise for which the Agency would remain fully responsible. The objectives were to relieve highly qualified PSA staff and to give departments direct control of a mass of day-to-day housekeeping work, for which the specification and ordering demands no specialised knowledge and training. Though such work is not readily identified by value, it was accepted that setting a cost ceiling was the only practical method of definition, consistent with the general objective that the operation of PRS should be relatively uncomplicated. PSA transferred about £20m to client departments to enable them to carry out this work; 4% of PSA's civil expenditure.

13. A number of departments asked for a higher cost limit, and it was subsequently agreed that departments should have authority in 1983-84 to place orders up to £1000 where they could find extra resources for this within their own budgets and PSA could not fund the work.

14. The Committee is satisfied that there is not likely to be a significant difference in the character of jobs in the £500-£1000 band, and that the ceiling for full departmental responsibility could be increased to £1000 without raising new administrative, contractual or technical problems. It would seem reasonable to proceed on the basis that jobbing contracts would continue to be used. (PSA itself limits jobbing contracts to £500, but this figure is under review). Departments would need to satisfy themselves that their public accounting responsibilities were adequately safeguarded,

notably by obtaining competitive quotations in writing wherever possible. Raising the limit above £1000 would, however, give rise to a number of difficulties, including 'departments' lack of technical expertise to decide when a job needs to be done, and the need for more formal contractual arrangements, including competitive tendering using standard government conditions of contract. Establishing small scale works organisations in departments to remedy these would involve wasteful duplication of PSA resources.

15. If an increase in the limit from £500 to £1000 is agreed, PSA will take account of this change in calculating its charges for 1984-85 for retained minor new works and maintenance. (At present these charges cover work in the £500 - £1000 band for which PSA is responsible). Estimates of spending on jobs in the £500 - £1000 range are currently being sought from PSA Regions to enable the Agency to notify its charges to departments. It would then be for departments to determine the allocation of funds to their new minor works responsibilities.

16. However, PSA's view is that the present level of funding is inadequate to achieve a proper standard of maintenance. Unless more resources are made available in the 1983 Survey (PSA has entered a bid of £35m per year for extra maintenance spending), the funds available to departments from the reduction in the accommodation charge will be very limited.

17. Adequacy of funding is an issue which arises irrespective of how the question of future responsibility for work in the £500 - £1000 range is resolved. Nevertheless, bearing in mind the extra administrative burden which will arise for them, client departments represented on the Committee have expressed strong reservations about assuming enhanced responsibilities without an

assurance that adequate resources can be made available. If resources remain severely constrained, representatives of client departments see some arguments for leaving present responsibilities unchanged, so that PSA can continue to assess priorities across the Government estate. On the other hand, the change would enable departments to determine their own priorities for this category of expenditure within their overall budgets and also provide opportunities to save time in getting work done.

18. On balance, the Committee recommends an increase to £1000 in the job limit for minor works from April 1984, while stressing its concern about the availability of resources.

19. The PSA is prepared to consider offering to individual departments discretion to utilise the Agency's services for work under £1000 provided mutually acceptable arrangements for this can be devised. This will require further discussion between PSA and any departments which might be interested in taking up this option.

Grounds Maintenance

20. A number of classes of work were excluded from the transfer of responsibility for minor works up to the £500 limit, generally on the grounds that some kind of specialised or technical knowledge was required. However, there are many civil properties where the task of grounds maintenance, particularly as regards grass cutting and similar services round offices, is relatively simple. The Committee therefore recommends that from April 1984 the minor works category should be extended to include this work, with appropriate adjustments to the accommodation charge.

MATTERS STILL UNDER CONSIDERATION FOR POSSIBLE IMPLEMENTATION IN 1985-86

21. The Committee is still considering the following matters, which will be the subject of a further report later in the year.

The Working Environment

22. The Committee has considered whether financial responsibility (above the proposed new general £1000 limit) for maintenance work of a non-structural character affecting the working environment could be transferred to departments. It has identified internal decorations as the most promising area for transfer of financial responsibility. This is the aspect of maintenance which probably has the most direct impact on the working environment. It is mainly cosmetic and has little effect on the preservation of the building, and the rate of deterioration is directly dependent on the behaviour of the occupants and users of the building. Nor is it essential for uniform standards to apply throughout jointly occupied buildings. A basic standard of decoration may of course be required by the terms of a lease and if, on change of occupancy, decorative standards were found to be unreasonably poor, PSA would need to have the right to remedy this at the expense of the responsible department.

23. The Committee favours the transfer of full financial responsibility for internal decoration to departments. But various practical considerations - including constraints on the Agency's accounting system, identification of the value of work to be transferred, the need for advance planning of major painting schemes, and problems associated with jointly occupied buildings and existing contractual arrangements - have led the Committee to conclude that this change could not be introduced as early as April 1984. In coming to this view, it has also had in mind the resource constraints discussed in paragraphs 16 - 17 above.

24. The Committee is considering further whether financial responsibility for any other aspects of maintenance work within the working environment, in addition to internal decoration, might be transferred to occupying departments; and also the possibility that departments might be allowed discretion whether to place jobs over £1000 with the PSA or elsewhere. These questions raise important issues in relation to PSA's overall responsibilities for the economic maintenance of the government estate; and the possible duplication within other government departments of PSA's technical expertise for works services. For these and other practical reasons the PSA view is that responsibility for organising and supervising work over £1000 (the financial responsibility for which might be transferred to departments) should remain with the Agency, with costs recovered from departments as direct repayment.

Assessments of rents in the Accommodation Charge

25. The rental element of the accommodation charge is at present determined for office and storage properties on an average market rent basis for each PSA region, except in London, where a system of broad quality banding in three geographical zones is in use. The present arrangements are too imprecise and arbitrary to give departments proper financial incentives to exercise discretion over the accommodation they need.

26. In 1985-86, with the introduction of a new computerised Civil estate record and information system, it will be possible for PSA to operate PRS arrangements based on the individual assessment of property rents. The Committee has decided against any interim changes in the rent assessment arrangements for 1984-85. It is still examining the implications of moving to individual assessments of properties in 1985-86 (which PSA favours), together with alternative possibilities of financial or quality banding of rents.

Incentives for departments to give up space

27. The change described in paragraph 7 above, involving the assessment of charges at the mid-point of the financial year, will give departments in-year incentives to achieve economies in accommodation, which then might be vired to other purposes within their Estimates. The Committee is however looking further at possible arrangements which would allow departments continuing benefit from savings in the forward PES period. Such arrangements would need to be framed in the context of overall public expenditure objectives and the aim of reducing the overall size of the government estate; and would be for possible introduction in 1984 Public Expenditure Survey.

Fuel and utilities

28. For a number of economic and practical reasons the Agency continues to pay the supply authorities for the cost of fuel and utilities (gas, water and electricity) provided to the Civil estate. It recovers the cost from occupying departments on the basis of metered consumption in sole occupations or in jointly occupied buildings on the basis of proportionate area of occupation. Claims provided by the Agency identify the cost by property of occupying department but do not show consumption. The Committee has accepted that the costs and administrative effort involved in moving to individual direct billing by the supply authorities would not be justified, but is looking further at other options for changes in present arrangements, including the provision to departments of details of consumption.

SUMMARY OF RECOMMENDATIONS

29. The Committee recommends, subject to the provisos in the body of the report, the following changes in PRS arrangements to take effect next April:

- (a) improved information about areas of occupation and unit rates for calculating the accommodation charge (paragraph 6 above)
- (b) the accommodation charge to be related to actual areas of occupation as at 30 September each year (paragraphs 7 - 10 above)
- (c) departments to be relieved of the shared cost of unoccupied space not available for disposal, but accepted by the PSA as viable units for re-use (paragraph 11 above)
- (d) departments to have full responsibility for minor works (including grounds maintenance) up to £1000 (paragraphs 12 - 20 above)

PROPERTY REPAYMENT SERVICESOUTLINE OF ARRANGEMENTS AS IMPLEMENTED FROM 1.4.83

/See also DAC.4/83 dated 25.2.83 and "MINOR WORK IN GOVERNMENT PREMISES HANDBOOK FOR ACCOMMODATION OFFICERS"7

1. PRS applies only to that part of the Civil Estate occupied by departments serviced by PSA up to 31 March 1983 on allied service terms (with a few specific exceptions), the main features of the system as implemented being:-

(a) PSA continues to bear the cost of all major new works services (ie new works and adaptations and extensions to existing property, estimated in excess of £100,000).

(b) Departments pay an annual Accommodation Charge to cover the assessed rent, rates, minor new works (over £500 to £100,000) and maintenance over £500, together with associated administration costs all related to the area of the estate they occupy, identified under the general headings of office, storage and specialised accommodation. (For specialised accommodation, minor new work is excluded from the Accommodation Charge and is paid for by occupying departments to PSA on full repayment terms.)

(c) Departments pay the costs and services provided by PSA Supplies (eg furniture and transport services).

(d) Departments pay the costs of fuel and utility services (ie gas, water and electricity) they consume.

(e) Departments are responsible for a range of minor work up to and including £500 to properties they occupy, ordering and paying for this work from their own resources (except where PSA has an unavoidable DEL presence, in which case it carries out the work, recovering the cost as part of the Accommodation Charge). PSA have issued detailed guidelines on the execution of minor works. In addition, departments are permitted to divert savings from their administration vote to carry out work of £1000 and under (including VAT) where PSA cannot do such work because of lack of funds.

2. In outline, the billing arrangements are:-

(a) Accommodation Charge. A fixed annual sum on which VAT is not chargeable, to be paid by departments in 4 equal parts at the beginning of each quarter; PSA will transfer the rates element to RGPD; PSA has provided departments with an analysis of the Accommodation Charge as management information.

(b) Fuel and Utility Services. PSA bills departments quarterly in arrears providing a detailed statement of costs but not consumption details by property occupied.

(c) PSA Supplies Services. PSA Supplies bills departments monthly, itemising goods and services provided.

PRS: ACCOMMODATION CHARGE - CYCLE OF EVENTS FOR ESTIMATES AND BILLING PURPOSES

AREAS OF OCCUPATION		Provided by:-	USE
Availability of Source Data	Effective date of Source Data		All data to be provided in accordance with the estimates timetable each year
15.8.83	30.6.83	PSA Estates Surveyor	(a) 1984/85. Supply Estimates - Accommodation Charge.
30.11.83	30.9.83	As agreed by Departments	(a) 1984/85. Assessment of Accommodation Charge for billing in April, July and October 1984 quarters. (b) 1985/86. PES Forecasts (using updated unit cost rates).
15.8.84	30.6.84	SES	(a) 1985/86. Supply Estimates. Accommodation Charge.
30.11.84	30.9.84	As agreed by Departments	(a) 1984/85. Re-valuation of Accommodation Charge to reflect actual occupation at 30.9.84. (b) 1985/86. Assessment of Accommodation Charge for billing in April, July and October 1985 quarters. (c) 1986/87. PES Forecasts (using updated unit cost rates).

18 AUG 1983

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