FCS/84/179

CHIEF SECRETARY OF THE TREASURY

nbpm
DMB
20/6

Development of the Property Repayment Services System (PRS)

1. Now that I have seen so many comments from colleagues on the correspondence begun with Patrick Jenkin's letter to you of 25 April, I would like to add a few thoughts to those contained in my minute to Patrick Jenkin of 14 May (which I am now copying to the other recipients of the correspondence). I share the general feeling about the lack of maintenance in the Civil Estate and the inadequacy of the original PES transfers for PRS. We must be careful not to compound the inequities, for example by accommodation charges being raised simply to pay for VAT (which involves a PES transfer back to Treasury). I also agree with Nicholas Ridley among others that Departments should have the right to challenge PSA's assessments and have a greater say in the management and maintenance of their Estate.

2. I note that you would like to see a scheme of greater recovery of maintenance costs from Departments set up in time for the 1985 Survey. But before then I believe that officials should meet to have a fundamental look at the PRS system. Whilst it is obviously right that Departments should pay the true costs of all their accommodation expenses, they should have greater control over how the money is spent.

/3.

3. I am sending copies of this minute (with enclosure) to the recipients of yours.

(GEOFFREY HOWE)

Foreign and Commonwealth Office

20 June 1984

cc NO

nbpm

DMB 14/5

FCS/84/141

SECRETARY OF STATE FOR ENVIRONMENT

Development of the Property Repayment Services System (PRS)

1. I am grateful to have the opportunity to comment on your letter of 25 April to the Chief Secretary and Cabinet colleagues.

2. You ask us whether the application of the accommodation charge to individual buildings rather than to broad categories of buildings should start in 1985/86 or 1986/87. I share your preference for waiting until 1986/87 when client departments will have a better idea of how the change will affect them. Any further uncertainty about what our bill will be for 1985/86 could have serious implications for my position in the 1984 Public Expenditure Survey. The FCO already faces a £2.4 million gap between the total PRS charges we pay and the PES transfer we received.

3. In principle, assessment by individual building should remove such absurdities as the FCO Main Building suffering a 19% increase in notional "rent" in 1984/85 whereas the neighbouring Treasury building had virtually no increase. Though both buildings are government-owned, they were deemed to be in different categories for "rent" purposes.

4. I would also favour deferment of your other proposal to increase the accommodation charge by about 4% to finance further maintenance work and to require each Department tomake an appropriate additional bid in PES. I am concerned that this will worsen one defect of PRS whereby Departments are having to accept increased responsibility for financing maintenance and other expenditure without control over where PSA spend it. But I fully share your wish to ensure that the total funds available for maintenance of the Civil Estate are kept at a satisfactory level. I am conscious that a considerable proportion of these funds will be needed for the 12-year plan to refurbish the main FCO building which has just begun. This plan has been subject

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to some 20 years of delays and I believe it should be given a very high priority in the list of major maintenance works to be undertaken by PSA. Slippage in such projects ties up prime office space and forces us to spend money on accommodation elsewhere. This is thoroughly uneconomic.

5. The Overseas Estate, which we took over from your Department last year, has also suffered from lack of maintenance over the years. I believe the remedy lies in greater freedom to recycle our assets. We need more end-year flexibility and the capacity to sell property at the optimum moment, as private estates do. Present government accounting rules prevent us from using receipts which have not been predicted well in advance of the Estimates year concerned.

6. I am copying this letter to the Prime Minister, the Chief Secretary, Sir Robert Armstrong and Sir Robin Ibbs.

GEOFFREY HOWE

Foreign and Commonwealth Office
14 May, 1984

Govt. Machinery: Raynes Pt 15.

14 MAY 1984

cc NP.

nbpm DMB 2/6

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Patrick Jenkin MP
Secretary of State for the Environment
Department of the Environment
London
SW1P 3EB

29 June 1984

Dear Patrick

Thank you for your letter of 23 May about the development of the Property Repayment Services (PRS) Scheme. I have also seen the letters from other Ministers on the same subject, addressed in some cases to me but in others to you.

I should like to deal, first, with the establishment of maintenance needs to which you referred in the third paragraph of your letter. I recognise that PSA has made a start on what is undoubtedly a major task. This is encouraging. However, I was not satisfied that sufficient progress had been made to justify my agreeing to an across the board increase in charges to provide PSA with an extra £20m a year for expenditure on maintaining the estate. As I explained in my letter of 10 May it will, in the first place, be necessary for us to agree on a fully costed forward programme by the end of the year, which takes account, for example, of the requirements of the estate and the feasibility of implementing such a programme given restraints on administrative resources, and so on.

I note that, as an interim measure, you have now submitted an additional bid in the 1984 Survey for expenditure in 1985-86. My officials are in touch with yours on that and also on your bid for additional capital expenditure (which covers the spend to save programme). And we shall be discussing these in the autumn.

After we have settled the resources available for 1985-86 we must then return, in good time, before the start of the 1985 Survey to the question of how maintenance requirements for future years should be funded. It is clear that, following the recent correspondence further consultation with Departments and discussion

with colleagues will be required in the light of the further work to be done on the development of a costed forward programme.

There seems to be general agreement that the changeover to individual rents should take place on 1 April 1986: I agree that we must leave sufficient time to plan the changeover properly. I suggest that we consider the question of a redistribution of funds to take account of the new method of calculating rents when we know what effect the change will have on individual Departments' payments. I understand that your officials will shortly be calculating the effects. But I would not expect to have to make available any additional money, in total, for a procedural change of this nature.

I consider that we should stay with the proposal that individual rents should be based on PSA's assessment of market rates, rather than go down the road advocated by Peter Walker, Norman Tebbitt and Nicholas Ridley that PSA should limit its charge to its actual outgoings. To charge a lower rate could result in the true opportunity cost of accommodation being seriously understated. But in any event it would be necessary, as Nicholas Ridley has acknowledged, to use assessed market rents for Crown buildings.

Finally, a number of colleagues have raised the wider issue of the respective responsibilities of PSA and Departments for controlling expenditure on maintenance. I assume that you will be commenting on that in due course.

I am copying this to the recipients of our earlier letters.

Yours ever Peter

PETER REES

Gost Mach. ftis

Raynor

2 JUL 1984

SECRETARY OF STATE FOR THE ENVIRONMENT

2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

CC MO

My ref:

Your ref:

23 May 1984

Mo pm
Tomb
23/5

Dear Peter,

DEVELOPMENT OF THE PROPERTY REPAYMENT SERVICES (PRS) SYSTEM

Thank you for your letter of 10 May.

I am glad to see that you endorse the principle that extra maintenance work which is needed will have to be funded through PRS charges. I had already accepted in my letter of 25 April that it must be for the Treasury, acting for all Departments, to check the assessments of the increase in spending required. This I hope meets the points made by you and colleagues on this subject in this correspondence.

I am, however, surprised by what you say about lack of progress in establishing maintenance needs. We had believed that, in consultation with your officials, we had gone a long way to compiling the forward programme to which you refer as well as in examining the general issues involved. Following correspondence last December, PSA asked its territorial organisation to make a complete review of maintenance needs over the three years 1985-86 to 1987-88, related to the agreed provisions for 1984-85. This identified both the minimum annual level of spending which ought to be achieved and the backlog of work which has built up and will need to be tackled over the next few years. At a meeting on 8 March between PSA and Treasury officials attended also by Nigel Mobbs there was a careful examination both of the funding requirement and of the associated general issues. Whilst it was agreed that the three year programme needs to be further refined, as PSA intends to do in the context of the preparatory work starting soon on the 1985-86 Estimates, and some of the general issues pursued, we understood that the Treasury accepted that enough work had already been done to justify making progress with the proposals. With this in mind we deliberately limited the proposals for extra spending in 1985-86 to only half what the assessed requirements indicate is needed to reach the minimum level of spending and make a start on dealing with the backlog, leaving a very large safety margin to cover any risk there may be that further refinements of the figures may alter the assessments.

Govt Mach. Rayner Pt 15

Time has of course moved on since I wrote to you in April, and the 1984 Survey is now in full swing. I accept therefore that it may now be too late to go ahead with the increased PRS charges in 1985-86. In the circumstances I will make an additional bid for extra funds for that year in the PSA's 1984 Survey chapter, on behalf of all departments, as suggested in Michael Heseltine's letter of 9 May to you. There should then be no difficulty over the timing of the arrangements for funding in 1986-87 and later years as we can settle the requirements well before the 1985 Survey starts.

I should however point out that this will have some awkward consequences for minor new works in general and spend-to-save in particular in 1985-86, since the proposal to increase the PRS charges in that case was intended mainly to cover the effect of the changes in VAT. The extra cost of VAT will reduce the amount of such works we can carry out within existing provisions by about 13%. This cut will fall both on the amount of work done to meet departments' operational requirements and on the smaller spend-to-save schemes, many of which fall into the minor new works category. We are also as you say looking at how we could finance the larger spend-to-save works which fall outside the PRS arrangements and these are the subject of proposals in the 1984 PSA Survey chapter. But VAT will cut back the amount of these schemes we can afford too and I do not see how we can avoid the programme being reduced as a result, even though some schemes would yield very large savings - to occupying departments as much as to PSA.

Finally your letter and the others so far received indicate that, as I suggested, whilst we should go ahead with individually assessed rents they should not be introduced until 1986-87, and we shall proceed on this basis.

I am copying this letter to those who received the earlier correspondence.

Yours ever

Pat

PATRICK JENKIN

25 MAY 1984

The Rt Hon Peter Rees QC MP

Treasury Chambers, Parliament Street, SW1P 3AG

10 May 1984

Rt Hon Patrick Jenkin MP
Secretary of State for the Environment
Department of the Environment
2 Marsham Street
London
SW1P 3EB

Dear Patrick

DEVELOPMENT OF THE PROPERTY REPAYMENT SERVICES SYSTEM (PRS)

Thank you for your letter of 25 April, about the development of the Property Repayment Services System (PRS) and its implications for this year's Public Expenditure Survey.

Accommodation Charge - Works Services

The principle that user Departments should be required to meet the cost of any additional maintenance work that is required for the civil estate is an important one. However, the Treasury will need to agree how much extra spending by PSA on maintaining the estate can be justified and afforded, before the Accommodation Charge is increased to meet it. As I suggested in my letter of 2 December, we really need an examination of the general issues of planning, allocating and controlling this expenditure, and a comprehensive forward programme looking at least three years ahead. I am disappointed that more progress has not been made this year; and I do not see how the question of the level of expenditure can be taken further until a thorough appraisal of the issues has been completed and a proper plan prepared.

User Departments also need enough time to make their plans for meeting increased costs. They are now well into their work on the 1984 Survey, and it would be extremely difficult at this stage to tell them that they should reckon on meeting an addition of 4% to the total Accommodation Charge from 1985-86 onwards. In the absence of the evidence which might come from a forward-looking programme, based on a thorough review, I am not satisfied that there is a good enough case for the increased expenditure you have proposed of some £20m to £25m a year, over and above the increase accepted in the last Survey.

I hope that it will be possible for you to ensure that progress is made in time to allow a scheme of recovery from Departments, on the lines you have proposed, to be considered for introduction in the 1985 Survey. For this purpose the examination of the issues will need to be completed, and agreement reached with the Treasury on a fully-costed forward programme, no later than the end of the year.

Finally you also referred to the problems of financing work on spend-to-save measures. In view of the cost-effectiveness of such measures, I hope that, in allocating funds, you will be able to give them the priority that they clearly deserve. I am glad, therefore, that you are exploring ways and means of increasing spending in this area. I have asked my officials to keep in close touch with yours on the progress of that exercise.

Accommodation Charge - Rents and Rates

I agree that it would be unwise to introduce new arrangements for assessing rents and rates, on an individual property-by-property basis, until 1 April 1986. A major refinement of this nature will need to be properly planned if we are to avoid the problems experienced after PRS was introduced.

I am copying this letter to the recipients of yours.

Yours ever

PETER REES

DB to see

2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

nbpm
Davis
26/4

My ref:

Your ref:

25 April 1984

Dear Chief Secretary

DEVELOPMENT OF THE PROPERTY REPAYMENT SERVICES SYSTEM (PRS)

As you will know, an Inter-Departmental Committee has been considering further developments in the PRS arrangements following those we agreed last year, and will be reporting soon on proposals for individual market rents, charges for fuel, responsibility for internal decoration work and other matters. I am writing to you in advance as some of their recommendations would have implications for the conduct of the 1984 Public Expenditure Survey if implemented in 1985-86, and I also want to deal with a procedural issue on the funding of maintenance which ought to be settled before Departments' work on the Survey is too far advanced.

ACCOMMODATION CHARGES - WORKS SERVICES

At Cabinet on 9 February (Attached) I drew attention to the state of our stock of capital including the government's civil estate and suggested a general review, but it was decided that the need for expenditure to keep the capital stock in a satisfactory condition could only be looked at individually, and in relation to the funding position of the programmes concerned. For the property they occupy under PRS, departments will need to consider the need for the small works for which they are now fully responsible. PSA continues to be responsible for assessing the overall need for expenditure on the larger maintenance and minor new works, but departments are also involved since this work is funded via the Accommodation Charge and the cost thus falls on their public expenditure provisions, not that of PSA.

PSA has explained, both in the course of the 1983 Survey and in discussions, involving Nigel Mobbs, since then that the amounts now being paid by departments, particularly for maintenance, are not enough to cover all the work which needs to be done to keep the estate in satisfactory condition. In fact the situation became so critical in 1983/84 that PSA were in danger of having to stop placing any more orders for work part of the way through the year. The problem was dealt with temporarily in 1983-84 by using savings from elsewhere in PSA's Cash Limits to boost spending on maintenance. I also persuaded you during the 1983 Survey that some extra money should be made available in 1984-85 and later years. In view of the need to do something quickly this bid was made as part of the PSA Office Programme, but under the

PRS arrangements I do not think it is right for me to continue to submit a central bid for extra money which would in practice be transferred to other Departments' programmes and then used by them to make increased payments to PSA. The correct approach seems to be for PSA to fix the charges and then leave it to departments to see how these can be fitted into their overall budgets, presenting their own bids to the Treasury if they need to do so. There is of course a need to agree on what the total amount of work financed by these charges should be. I think that at least in the short term this can only be settled by the discussions our officials have been having in recent months about future maintenance requirements.

This then is how I suggest the 1984 Survey should be tackled, and I would be glad to know if you agree. I am copying this letter to colleagues since they should know as soon as possible of developments that will affect their Survey calculations. Accordingly PSA's Principal Finance Officer will shortly be writing to officials in all departments concerned to give more details of the case for the work and the increased charge proposed, which amounts to about a 23% increase in the works element, or about 4% in the total accommodation charge. The intention would be to carry this increase through to the end of the Survey period, but to review before the 1985 Survey what should be done about 1986-87 onwards, as the current expectation is that there will still be a large backlog of work needing to be done over the next few years. The increase would be applied to both maintenance and minor new works, but it is only in the former case that it will significantly increase the volume of work done. For minor new works most of it will be taken up by the increase in VAT. This will mean that we shall still not be able to finance much cost-effective work on Spend to Save measures, for which I also made a bid in 1983 but was not able to secure extra funds. We will continue to explore ways of increasing spending in this area bearing in mind that many of the projects on the estate rationalisation side of the programme are major new works and so, as PRS arrangements now stand, have to be paid for from the PSA's Office Programme funds.

ACCOMMODATION CHARGES - RENTS AND RATES

The rental element of the Accommodation Charge for office and storage space has been based on market rents averaged by region, but the Committee will recommend that these be replaced by individually assessed rents which will mean that all rents charged will reflect the current market value of the accommodation concerned, a big step forward. Rates will be put on to an individual property basis at the same time.

The necessary work (which PSA has already started) will take some months to complete, and the full details of the

rents to be charged cannot be given to Departments until about August 1984. This would still be in time to use the figures in the 1985-86 Estimates if Departments agree, but there could be problems for some in PES terms. Individual rents could be markedly different from the average figures they replace, and whilst for large Departments the swings and roundabouts principle may leave total rent bills more or less unchanged others may find their 1985-86 payments either significantly higher or lower than previously expected at a time when this cannot be reflected in the 1984 Survey.

Bearing in mind difficulties experienced in the first two years of PRS over reflecting PRS costs in the appropriate Survey exercises, I think it might be best if the new rents notified this year did not come into effect until 1986-87, thus giving nearly a year for Departments to adjust budgets to them. However for our part we would be prepared to operate the new system from 1985-86 if Departments prefer this. In either case PSA will aim to notify the new rents to Departments by August. Whatever we did for rents should also I think apply to rates. I should be grateful for colleagues' views on this. The letter from PSA's PFO will indicate what levels of rent are expected to be charged in 1985-86 if we continue to use average market rents in that year.

OTHER CHANGES

The Committee is looking at possible changes in the method of charging for fuel and utilities and in responsibilities for internal decorations, but as far as can be seen at present these will not alter expenditure relative to existing provisions in a significant way and can be left to be dealt with later in 1984 without affecting the current Survey exercise.

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

Yours sincerely

J H Gallant

for PATRICK JENKIN

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

The Rt Hon Peter Rees QC MP

23 AUG 1984

DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

01-212 3434

The Rt Hon Patrick Jenkin MP
Secretary of State for the Environment
Department of the Environment
Room N16/05
2 Marsham Street
LONDON
SW1P 3EB

6 June 1984

Dear Patrick

DEVELOPMENT OF THE PROPERTY REPAYMENT SERVICES SYSTEM

I have seen your letter of 25 April to Peter Rees proposing a number of changes in the PRS system and the subsequent correspondence, which I have read with great interest.

I agree with Peter about the difficulty at this late stage in the PESC cycle of coping with the proposed increase in the accommodation charge and I am glad that you have accepted that any increase should be deferred until 1986-87. I also agree with his view that a comprehensive costed forward programme should be developed and I would expect there to be very close consultations between PSA and individual departments in compiling such a programme.

Any decision on the required level of expenditure for such a programme would clearly need to wait on the outcome of these discussions, but I fully support your arguments and those of colleagues who have drawn attention to the inadequacy of the original PESC transfers for PRS. The shortage of funds for maintenance and minor new works is causing increasingly severe difficulties, leading to a number of operational inefficiencies in buildings occupied by my staff, some of which they share with yours.

I am, however, very uneasy about the mechanisms for PRS you have in mind for 1986-87 and beyond. As I understand it, the control over expenditure for work services and its allocation between departments will remain in PSA hands. While the charges that departments pay will also remain in PSA hands they will continue to be calculated on a "club" basis and not in relation to the actual amount to be spent on the buildings they occupy. Yet departments will be expected to fit the charges into their PESC priorities and present their own bids to Treasury accordingly.

I agree with Grey Gowrie that there is something inherently unsatisfactory about such an arrangement. It is not in my view consistent with the principles of responsibility and accountability we are all trying to follow through the FMI. The more departments are required to pay and the more responsibility for accommodation they are expected to bear - developments I fully support - the more they are entitled to a full say in the way funds are used. I believe, therefore, that as well as a comprehensive forward programme, developed in close consultation with departments, we need to review urgently the longer term relationship between PSA and individual departments to see how we can best move towards matching charges and services actually supplied.

As to rents and rates, I fully support the move to individual assessments as an important step away from notionality. However, I wonder if you should not go further in the case of leasehold buildings and charge departments the rents PSA are actually paying rather than an assessed market rent? This would simplify PSA's task and enable departments to see the actual costs of the buildings they occupy. I realise, of course, that for Crown buildings it would still be necessary to assess market rents.

Your proposals for rents carry one or two other implications which have not so far been touched on in this round of correspondence. First, departments should have the right to challenge PSA's assessments. This would not often need to be used - especially if actuals were charged - but it should be available as an important safeguard. Secondly, it would be essential for PSA to provide information about the incidence of rent review clauses and other relevant details so that departments can plan for the impact on their costs of changes which are likely to be much more marked than with the present averaging.

Finally, I see these proposed moves towards commercial practice as being one sided as long as the changes apply only to charges. The more departments pay and face up to the implication of true costs, the more they need a greater say in the management and maintenance of their estate. I realise that the arguments are not all one way on this matter, but I think it inevitable that departments will increasingly expect more freedom of action over accommodation and I hope that PRS can be developed accordingly.

I am copying this letter to recipients of yours.

Yours ever

Nicholas

NICHOLAS RIDLEY

CCNO

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
Telephone (Direct dialling) 01-215) 5422
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(Switchboard) 215 7877

Secretary of State for Trade and Industry

5 June 1984

The Rt Hon Peter Rees QC MP
Chief Secretary
H M Treasury
1 Parliament Street
London SW1

mbpm
DAB
5/6

D Peter.

DEVELOPMENT OF THE PROPERTY REPAYMENT SYSTEM (PRS)

Patrick Jenkin sent me a copy of his letter to you of 25 April about changes in the Property Repayment System and I have seen a copy of your reply.

2 It is important to develop and refine the PRS in the interest of efficient and cost effective management of the civil estate. There is of course plenty of evidence that there is room for improvement in the general management of the estate and I have noted Patrick Jenkin's concern about maintenance. However, speaking as a customer, I must endorse your reservations, and those of Cabinet colleagues, particularly about the financial implications of what is now proposed, and the need for further consideration by officials.

3 While I understand the need for an adequate maintenance programme, I find it difficult to reconcile accommodation charges with the fact that my Department has little or no effective means of influencing or monitoring how or where the money is spent. At present Departments have no way of knowing whether they are getting value for money.

4 As matters stand, I do not think it is practicable or realistic to expect Departments to fund the proposed extra charge for maintenance either from within existing overall provisions, or indeed through new bids, without a much closer look at what is needed. Certainly, I should want to look carefully to see that any increase which resulted directly from changes in VAT charges - and which therefore is a straightforward transfer of Departmental PESC back to the Exchequer - is fully met by increased provision. In the longer term, however, I do believe it would be consistent with

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GOVT MACH
Rayner PA 15

08 JUN 1984

PRS for Departments to be more closely involved in decisions affecting the location and maintenance of their estate.

5 I welcome the proposal for moving towards current market rents and rates. Would it not however be preferable, and more in keeping with the purpose of PRS, to charge actual as opposed to assessed rents for leashold properties? This would enable Departments to know exactly the cost of particular locations, to plan expenditure accordingly and, when the time came for lease renewal, to evaluate the operational and cost benefits of remaining in situ or moving elsewhere. I certainly agree, however, that sufficient time must be allowed to make proper PESC provision and other necessary arrangements: we do not want a repeat of the 83/84 PRS experience.

6 If I may make one final point: I cannot over-emphasise how important it is for my Department to rationalise and concentrate its existing fragmented central London estate in order to improve operational efficiency and make the most effective use of reduced resources; this is increasingly relevant as the Department's plans for introducing modern office technology gather momentum. I am sure we shall incur both cost and efficiency penalties unless the Property Services Agency is allowed to adopt a much more flexible and positive attitude in responding to my Department's accommodation strategy.

7 I am sending copies of this letter to recipients of yours.

Yours ever
Norman

NORMAN TEBBIT

JH1AFC

MINISTRY OF AGRICULTURE, FISHERIES AND FOOD
WHITEHALL PLACE, LONDON SW1A 2HH

From the Minister

The Rt Hon Peter Rees QC MP
Chief Secretary
HM Treasury
Parliament Street
LONDON SW1P 3AG

nbpm
DWS
4/6

4 June 1984

Dear Peter

DEVELOPMENT OF THE PROPERTY REPAYMENT SERVICES SYSTEM

Thank you for your letter of 17 May. I think that I do need to try and clarify your point about the principle of user Departments meeting the cost of essential additional maintenance work.

Clearly user Departments can influence PSA's maintenance costs by increasing or decreasing the amount of accommodation they occupy and it is reasonable that such changes in requirement should under PRS be reflected in the maintenance charge by PSA. However, under PRS, except in so far as they can vary the areas they occupy, user Departments have no control over the amounts spent by PSA on maintenance; and indeed what a user Department pays to PSA for maintenance is not based on what PSA spends on maintaining that Department's accommodation, but derives from an averaging system applied to the civil estate as a whole.

Even so I would not quarrel with user Departments having to find the funds for an increase in PSA maintenance costs related to the effects of inflation, but the increase proposed in Patrick Jenkin's recent letter is clearly not of that character. As Michael Heseltine has suggested, there appears to have been some past under provision by PSA for maintenance work. Having as a result made inadequate PES transfers to Departments when PRS began, PSA are now apparently seeking to remedy this under provision at user Departments' expense. This does not seem right in principle at all; and so I repeat the proposal in my previous letter that, if the Treasury do eventually agree to PSA restoring their maintenance expenditure to an adequate level, PSA should transfer the resulting increased provision to user Departments in the same way as the original PES transfers for PRS.

/I am ....

5 JUN 1984

GOVT MACH: Reports Pt 15

I am copying this as before to the Prime Minister and all members of the Cabinet and other Ministers in charge of Departments together with Sir Robert Armstrong and Sir Robin Ibbs.

10 JUN 1984

Yours ever,
Michael

MICHAEL JOPLING

CC NO

QUEEN ANNE'S GATE LONDON SWIH 9AT

29 May 1984

Dear Chief Secretary,

DEVELOPMENT OF PRS

I have seen Patrick Jenkin's letter of 25 April, your reply, the letter from Michael Heseltine and Michael Jopling and your letter of 17 May to Michael Jopling.

I share the concern which these responses show about Patrick's proposal that the increased provision which is apparently required to cover all the work which the PSA say needs to be done to keep the civil estate in a satisfactory condition, should be translated into increases in Departmental accommodation charges.

The fact is that my existing PRS provision is already some £2 million short for the charges which have to be met and an increase of 4% in the accommodation charge would nearly double the shortfall. As Michael Jopling and Michael Heseltine have pointed out, the increases which would fall on Departments would not necessarily reflect the incidence of the additional maintenance. Individual Ministers have little scope for questioning or influencing the expenditure, though provision for it would have to be found either by cutting into their programmes or by bidding for extra provision. I do not think this is at all satisfactory. Unless ways can be found whereby Departmental Ministers can exercise effective choice in relation to expenditure requirements of this kind, then it would be better for it to be presented as a single additional requirement.

As regards Patrick's proposal concerning current market values, I agree that a move in this direction should be taken, and also that this should wait until 1986-87. I am concerned to learn however that it is envisaged that the financial consequences of the change would be accommodated within Departmental programmes, rather than by switching provision among Departments. This is likely to have haphazard and potentially damaging effects on Departmental programmes. In my view this aspect needs to be considered further by officials, which is itself a good reason for deferring the change to PES 1985 and the 1986-87 financial year.

I am copying this letter to the recipients of yours.

Yours sincerely,

Nigel Lawson

Approved by the Secretary of State
and signed in his absence

The Rt Hon Peter Rees, QC, MP

30 MAY 1983

cc NO

Y SWYDDFA GYMREIG
GWYDYR HOUSE
WHITEHALL LONDON SW1A 2ER
Tel. 01-233 3000 (Switsfwrdd)
01-233 6106 (Llinell Union)
Oddi wrth Ysgrifennydd Gwladol Cymru

WELSH OFFICE
GWYDYR HOUSE
WHITEHALL LONDON SW1A 2ER
Tel. 01-233 3000 (Switchboard)
01-233 6106 (Direct Line)
From The Secretary of State for Wales

The Rt Hon Nicholas Edwards MP

25 May 1984

Dear Patrick

NBPM
20/5

DEVELOPMENT OF THE PRS SYSTEM

Thank you for your letter of 25 April about proposed changes to the PRS system and their implications for the 1984 Public Expenditure Survey.

I have no reason to disagree with your view that the condition of the civil estate generally is falling below the standards appropriate to this day and age, because of a lack of maintenance and other works for which PSA are responsible. Assuming that you are satisfied that the problem cannot be solved by increased efficiency alone, and that you have established that PSA need to spend more money, then I would have no objections in principle to paying more for a better service. I must, however, make it clear that my agreement is entirely conditional upon appropriate additional funds being made available to my Department; other administrative funds are already under great pressure and it would not be reasonable to attempt to meet any increase in accommodation charges from that source.

I agree with Michael Heseltine - his letter of 9 May to Peter Rees - that PSA should negotiate with Treasury for any necessary increased PES provision as, unlike departments generally, they have the data needed to do so.

I welcome the proposal that rents and rates should be assessed on an individual building basis, and this should help to improve the validity of accommodation costs as part of financial management as a whole. I am not sure, however, whether it might not be fairer to use comparative current rentals rather than current market values as a basis for arriving at individual rents, and I hope that this and other possibilities can be discussed during the negotiations with Departments.

/As to

The Rt Hon Patrick Jenkin MP
The Secretary of State for the Environment

Govt. Mach. Rayner Pt 15

As to timing, I take the view that these new arrangements should be introduced in 1986/87. It would be neither practical nor desirable to attempt to charge revised rentals in 1985/86, as time must be allowed to complete negotiations and then to consider the PES implications of any consequential resource requirements which, as you recognise, could be significant for some departments.

I am copying this letter to the recipients of yours.

Yours ever

Nick

01 211 6402

The Rt Hon Patrick Jenkin MP
Secretary of State for the Environment
2 Marsham Street
London
SW1P 3EB

24 May 1984

DEVELOPMENT OF THE PROPERTY REPAYMENT SERVICES SYSTEM

Thank you for the copy of your letter of 25 April. I have been following the correspondence with interest.

I note that Peter Rees has now proposed a review of the issues arising on maintenance work. The important thing, it seems to me, is to avoid a split between responsibility and decision-taking. Either the Property Services Agency (PSA) should provide a common service to Departments in which case it should take the decisions on what is required to keep property in satisfactory order and bear the responsibility for those decisions; or Departments should be responsible and take the decisions themselves, using the PSA, or any other source of professional advice they choose, to guide them on what is needed. It would be quite wrong to leave the PSA in a position where it could require Departments to undertake work without itself taking responsibility for the decisions involved or for finding the money to finance them.

On rent and rates I welcome the move to a realistic system of charging. I assume that rents will be based on actual rents, where available, and rates will be based on actual rates (or contributions in lieu of rates on Crown estate properties). Anything less would perpetuate the present theoretical nonsenses. If this approach is adopted I do not see why the introduction of the regime based on actual rents and rates would need be deferred beyond 1 April 1985. The information should be readily available and the adjustments needed to baselines should be straightforward.

There is one point I would add. Energy efficiency is attracting growing public interest as our present campaign gains momentum and it is highly desirable that Departments should be encouraged to play their part where possible. I hope, therefore, that it is accepted

that where Departments achieve financial savings on energy they should as an incentive be allowed to keep the benefit for other programmes. We have a policy interest of showing that Government practices what it preaches.

I am copying this letter to recipients of yours.

PETER WALKER

GOVT MACH / Rayner
Pt 15

24 MAY 1984

cc N/O

SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

nbpm
DMB
31/5

The Rt Hon Peter Rees QC MP
Chief Secretary
HM Treasury
Parliament Street
LONDON
SW1P 3AG

24 May 1984

Dear Peter,

DEVELOPMENT OF THE PROPERTY REPAYMENT SERVICES SYSTEM (PRS)

I have seen Patrick Jenkin's letter to you of 25 April about certain proposed changes in the PRS arrangements and also your response of 11 May.

I strongly support the views expressed by both Michael Heseltine and Michael Jopling in their letters to you of 9 and 11 May that the proper way to deal with the problem of finding additional resources required for maintenance and minor works is for Patrick Jenkin to continue to make a bid in respect of PSA which if successful should then be shared around departments by addition to their PRS provision. It should not simply be left to departments in this or any later Survey to have to find from elsewhere in their programmes whatever extra resources PSA claim they require for these purposes.

I also agree that the introduction of the new basis for assessment for rent and rates should be deferred until 1986-87 by which time I hope PSA should have reliable figures available on which to base their calculations. To avoid any repetition of the difficulties which many of us experienced and are still experiencing as a result of the earlier PRS distribution of PES resources I must insist that the transfer to the new system should be accompanied by a series of self-balancing PES adjustments between departments currently over-charged and those currently under-charged. With sufficient advance warning I do not see why that should present any difficulties.

I understand that the interdepartmental committee is also looking at the possibility of extending departmental responsibilities to include internal decoration. If it is decided to proceed with that I would need to be assured that the transfer of responsibility was not just another means of off-loading responsibility to departments for the neglected maintenance of the civil estate by PSA.

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

Yours ever,

George.

Govt Machinery : Haynes H15

DEPARTMENT OF EDUCATION AND SCIENCE

ELIZABETH HOUSE, YORK ROAD, LONDON SE1 7PH

TELEPHONE 01-928 9222

FROM THE SECRETARY OF STATE

nbpm
24/5

The Rt Hon Peter Rees QC MP
Chief Secretary
Treasury
Parliament Street
London SW1P 3AG

23 May 1984

Dear Peter.

DEVELOPMENT OF THE PROPERTY REPAYMENT SERVICES SYSTEM (PRS)

I have seen Patrick Jenkin's letter of 25 April to you proposing changes in PRS arrangements and also comments from colleagues, including your letter of 10 May.

I welcome the proposal that rents and rates should be assessed on an individual building basis but agree with colleagues that the changes should not come into effect until 1986/87.

But I am uneasy about the proposals for dealing with maintenance and minor works, involving an increase in charges, unrelated to specific works, of 23%. While I recognise that there has been under-provisioning and that the VAT change will make things worse, the proposals are too late in the day, as you say, for them to be accommodated in the 1984 Survey. So far as I can see, the broad brush approach of a 23% increase in the works element to allow PSA more funds gives Departments no means of checking whether they are getting value for money from the works services element of the accommodation charge because the increase would be unrelated to actual work. Further consideration needs to be given to this collectively before such changes are brought into effect.

I am copying this letter to Patrick Jenkin and the other recipients of his letter.

Yours ever
Keith.

Govt Mach: Raynes. A15

cc NO

CABINET OFFICE

From the Minister of State

Lord Gowrie

MANAGEMENT AND PERSONNEL OFFICE
Great George Street
London SW1P 3AL
Telephone 01-233 8610

23 May 1984

The Rt Hon Peter Rees QC MP
Chief Secretary
HM Treasury
Parliament Street
LONDON SW1P 3AG

nbpm
23/5

Dear Chief Secretary,

DEVELOPMENT OF THE PROPERTY REPAYMENT SERVICES SYSTEM (PRS)

I have seen your exchange of letters with Patrick Jenkin about the development of the Property Repayment Services system (PRS) and particularly its implications for PES. I have also seen some contributions to the debate from departmental Ministers.

I think the discussion in the correspondence of who should justify to the Treasury the need for extra spending on maintenance, PSA or departments, exposes the logical flaw in the arrangements as they stand at present. Departments are responsible for meeting the cost of maintenance: we are agreed that that is right and it is the essence of the PRS system. But departments have no control over the amount of maintenance that is done, even though it is the departmental local manager who is faced with the immediate and tangible effects of a lack of maintenance. As Michael Jopling pointed out, departments cannot even ensure that the money they pay PSA will be expended on their own accommodation.

Given this underlying weakness, I think your suggestion of a forward programme for three years ahead, agreed between Treasury and PSA, is the best way to deal with the immediate problem. But it is important that departments should be consulted on the programme and I trust arrangements will be made to do this. Even so, I think that this solution is basically a short-term one. In the longer term we should be aiming for arrangements which allow departments

more control over the way their money is spent. I do not attempt to suggest here exactly what form such arrangements would take: much more work needs to be done. Something may come out of the multi-department review of accommodation, but some arrangements will definitely be needed in order to tackle the long-term problem.

I support you in regarding spend-to-save projects as of the highest priority and I have asked my officials also to keep in touch with this. Again, examples are likely to arise in the context of the review of accommodation.

Meanwhile from a domestic point of view, as it were, I should like to add the voice of two small departments to that of larger ones on the difficulty of finding extra money to meet an increase in the Accommodation Charge. PSA's charges are a significant proportion of our total expenditure and a 4% increase would be impossible to absorb. If an increase is agreed on the basis of three year forward programme I would therefore be seeking increased PES provision.

I am very much in favour of the proposal to charge individually assessed rents and rates which is an important improvement in the PRS system. I am willing to see its introduction delayed until 1986/87 if this is necessary to ensure a smooth transition from the present averaged rents. What I say above on the problems for small departments of finding extra money applies here also.

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

Yours faithfully,

Sonia Phippard

LORD GOWRIE

(Approved by Lord Gowrie and signed in his absence)

Govt. Machinery : Raynes Pt 15.

2 MAY 1984

a MO

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon M Jopling MP
Minister of Agriculture, Fisheries
and Food
Ministry of Agriculture, Fisheries
and Food
Whitehall Place
LONDON
SW1A 2HH

DMB 18/5

17 May 1984

Dear Michael

DEVELOPMENT OF THE PROPERTY REPAYMENT SERVICES SYSTEM

Thank you for your letter of 11 May about the PRS system. Michael Heseltine wrote to me on broadly similar lines on 9 May and I have also seen a copy of Geoffrey Howe's minute of 14 May to Patrick Jenkin.

You will have seen a copy of my letter of 10 May to Patrick, explaining that I consider the issues need further examination and that it would be premature to increase charges from 1 April 1985.

However, the principle that user Departments should be required to meet the cost of any essential additional maintenance work is clearly right. You will see, therefore that I have asked Patrick to ensure that the necessary ground work is completed in time to allow a scheme on the lines of his proposal to be considered for introduction in the 1985 Survey.

I am copying this to the recipients of your letter.

Yours ever Peter

PETER REES

GOVT MARCH: Langrs Pt 15-

cc 10

MINISTRY OF AGRICULTURE, FISHERIES AND FOOD
WHITEHALL PLACE, LONDON SW1A 2HH

From the Minister

uhpm
Dmb
11/5

The Rt Hon Peter Rees QC MP
Chief Secretary
HM Treasury
Parliament Street
LONDON
SW1P 3AG

11 May 1984

Dear Peter

DEVELOPMENT OF THE PROPERTY REPAYMENT SERVICES SYSTEM

I have seen Patrick Jenkin's letter to you of 25 April about PRS. with DB

I must question the basic approach which he suggests in relation to PSA's proposal to increase expenditure on maintaining the civil estate. Patrick makes it clear that the proposal is to deal with a large backlog of work which the PSA consider needs to be done. Presumably this backlog has arisen because, prior to the introduction of PRS, PSA could not establish with the Treasury that the case for carrying out the work ranked high enough in our expenditure priorities for money to be allocated to it.

Surely it is intended that under PRS there should continue to be some effective constraint on PSA's decisions of this sort. This constraint cannot be applied by Departments like mine. The money we pay PSA for maintenance under the accommodation charge is not necessarily even expended on our accommodation. Certainly we are in no position to question PSA's judgement about how much needs to be spent on maintenance.

A proposal for the sort of across the board 23% increase now being proposed clearly requires central scrutiny. If it is decided that the extra work needs to be done in order to allow PSA to meet their responsibilities for maintaining departments' accommodation, it follows that the original PES transfers for PRS were inadequate, that PSA should be allowed increased provision and that this should be transferred to Departments in the same way as the original PES transfers for PRS.

/PRS is the ...

PRS is the largest system of recharging within Government. It is important that it should be seen to operate in a sensible way. Handling increases of the sort now proposed in the way suggested would seem to leave PSA free to carry out whatever work they deemed necessary and simply to pass on the costs to Departments to try and fit in with their priorities. This would certainly not be in accordance with principles of responsibility and accountability which we are trying to reinforce through the financial management initiative.

Turning to another aspect of Patrick's letter, I note what is proposed about the introduction of individually assessed rents and rates. I think that it would be unsatisfactory at this late stage to try to introduce the new arrangements before 1986/7. Moreover, if the new arrangements lead to some Departments facing significant net increases in their accommodation charges, it clearly may not be possible for them even then to find the necessary funds from within other parts of their budgets. This is something which will need to be looked at further when the detailed figures have been sorted out.

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

Yours
Michael

MICHAEL JOPLING

MINISTRY OF DEFENCE WHITEHALL LONDON SW1A 2HB

TELEPHONE 01-218 9000

DIRECT DIALLING 01-218 2111/3

MO 21/8/5

9th May 1984

Dear Peter

DEVELOPMENT OF THE PROPERTY REPAYMENT SERVICES SYSTEM (PRS)

I have seen a copy of Patrick Jenkin's letter of 25th April in which he proposed certain changes in the PRS arrangements.

The proposal that rents and rates should be assessed on an individual building basis is very much in accord with the spirit of the PRS philosophy. I therefore welcome it. I agree that it would probably be advisable to plan on the basis that the new arrangements will come into effect in 1986/87.

On the other hand I have considerable misgivings about how it is proposed to deal with maintenance and minor new works. As I understand the situation, the PSA is proposing to increase charges by a flat 23%, ie that increased payments will not necessarily reflect the incidence of the increased maintenance work, and some departments may have to pay further additional sums for as yet unidentified minor new works programmes. There appears to have been some deliberate underprovisioning, and the situation has been worsened by the VAT change. I am surprised that there has been no consultation between officials and that a proposition affecting 1984 PES should have surfaced so late in the PES process. I do not see how individual departments can be expected to explain and justify their situation to Treasury. I suggest that, before we take a decision, there is a

The Rt Hon Peter Rees QC MP

need for further consideration by officials and that, pending the outcome of such discussions, the PSA should negotiate with Treasury the increased PES provision necessary, because only they can do so.

I am copying this letter to Patrick Jenkin and the other recipients of his letter.

Yours ever

Michael Heseltine

GOST Machinery A 15

Rayner

10 MAY 1984