



10 DOWNING STREET

cc	DOT	WO	HO
	CDL	SO	Sir DR
	D/M	MAFF	CO
	D/N	MOD	
	LPSO	NIO	
	CSO	DES	
	DHSS	FCO	
	MOT	HMT	
	LPO	LCO	
	D/IND		31 August 1982

*From the Private Secretary*

Your Secretary of State minuted the Prime Minister on 22 July about the possible establishment of a property division as part of the Property Services Agency. The Prime Minister has also seen the views of those of her colleagues who have responded to your Secretary of State.

The Prime Minister notes that the original proposal was to "provide a sound, practicable and unbureaucratic basis for promoting in Departments a greater awareness of and changed attitudes towards the cost of accommodation and related services". The Prime Minister is concerned that a property division operating as a trading fund might well be more bureaucratic in that it will have to be more precise and deal with each item of business in a highly formal manner. Moreover its introduction before the Property Repayment Service is well established may well lead to extra work. The Prime Minister has further noted that the object of the proposed property division is to enable the PSA to act as closely as possible to a private sector property company. She believes however that most private sector companies with large property estates used for trading purposes do not form themselves into property companies but instead act as managers for their properties.

In short the Prime Minister thinks that the proposal to set up a property division acting as a trading fund may be a counsel of perfection which could prove administratively expensive. She agrees with Mr. Baker's letter of 23 August suggesting that Departments should be given time to absorb the lessons of the Property Repayment Service before moving to anything more ambitious.

The Prime Minister has no objection in principle to the studies proposed in your Secretary of State's minute, but considers that there is no immediate need to establish the arrangements envisaged in the minute.

I am sending a copy of this letter to the Private Secretaries to Members of the Cabinet, to Richard Hatfield (Cabinet Office), and to Clive Priestley (Sir Derek Rayner's Office).

Tim Flesher

David Edmonds, Esq.,  
Department of the Environment.

*DF*

*Cecil  
Sen*

*cf SV  
DW*



Caxton House Tothill Street London SW1H 9N&F  
Telephone Direct Line 01-213 6400  
Switchboard 01-213 3000

*Handwritten initials and date: 31/8*

The Rt Hon Michael Heseltine MP  
Secretary of State  
Department of the Environment  
2 Marsham Street  
LONDON  
SW1

27 August 1982

*Dear Secretary of State*

PROPERTY SERVICES AGENCY

*- will request if required*

Thank you for your letter of 16 August.

I am glad to learn that the forthcoming study to which you referred will deal in detail with the points I made in my letter of 5 August and in view of that I think it may be best to reserve any further comments until you are in a position to let us have the outcome of the study. I am grateful however for your helpful provisional reactions, although I still have some misgivings about whether Departments or PSA have most to gain from what you propose.

I am copying this letter to Cabinet colleagues, Sir Derek Rayner and Sir Robert Armstrong.

*Yours sincerely  
Barbara Sen*

(Approved by the Secretary of State and signed in his absence)

CIVIL SERVICE: L-T Management  
PT 11

PRIME MINISTER

You will recall Michael Heseltine's minute of 22 July, which is attached at Flag A, about the possible establishment of a property division within PSA. When you received the Chief Secretary's response to that minute (Flag B) you asked if David Wolfson could provide an assessment of Michael Heseltine's proposal. David's minute is attached; it expresses support for Mr. Heseltine's objectives but doubt as to whether the establishment of a property division is the best way of achieving them. I understand that Sir Derek Rayner is of much the same mind despite the quotation on the second page of Mr. Heseltine's minute. Most of the responses from colleagues which are attached, including that from the Chief Secretary, approve the principle but doubt the method. David's conclusion, which he shares with Kenneth Baker (Flag C), is that we should see how the Property Repayment Service operates before moving to anything more ambitious.

---

DS

26 August 1982

I agree with David Wolfson's advice which I understand corresponds with that of Derek Rayner (which seems to be wrongly described in MH's minute, taken as a whole) and is similar to that of other colleagues. There is therefore no present need to set up a property-division operating as a trading fund. MS

A B F

12/8

I.F. 1981/6

Prime  
Minister :

4



I understand that the Chief Secretary will also be nominating you. Await his comments? 23/7

cc J

Prime Minister

attached | I am now in a position to take the opportunity to respond to your note of May 17 on Financial Management. The paper you attached said that the main objectives of spending departments should be to have "a clear view of their objectives" and an ability to "measure performance in relation to those objectives". You also indicated that while the yardstick of profitability is lacking in most cases in government, nevertheless "the principle should be applied to the maximum possible extent".

In the context of PSA I recognise also the need to give individual departments a greater influence over their own spending programmes as far as property is concerned.

As colleagues will know, we are already moving to the PRS (Property Repayment Service) in April 1983 which goes part of the way to do this; but I am now considering the next step to go further in this direction and at the same time meet the objectives set in your letter.

The PSA is giving preliminary consideration to the possibility of establishing within it a Property Division - an outline of which is given at Appendix A.

As far as Departments are concerned, their relationship with PSA will essentially be an extension of the principles of PRS; and clearly there will need to be further discussion with Departments to take account of their views in working out the details.



As far as Government is concerned, the proposition would be in accord with your request and would hold out the prospect of tougher financial management in this important part of PSA's activity.

In order to make progress with this idea without risking wasted effort, I felt the need to inform colleagues in advance because if there is any disagreement in principle, I should like those issues resolved now. At this stage, therefore, I am merely asking for your reaction to the principle of a Property Division regulated by a trading fund. We would expect that it would take some 6 months before we were able to come back with flesh on the bones and to identify positively the costs and benefits.

Derek Rayner, who has been consulted, has said "I agree with the emphasis on incentives to rational economic behaviour likely in principle to flow from the more competitive environment of a trading fund."

I shall be grateful for your views, and those of Cabinet Colleagues to whom I am copying this minute. I am also copying this to Sir Derek Rayner and Sir Robert Armstrong.

*MH*

MH

22.7.82

## POSSIBLE PROPERTY DIVISION WITHIN PSA

The essentials would be:

- i. the Division's portfolio would embrace those parts of the Government estate where there is a potential alternative use. It may cover 80% of the Civil Estate and maybe 20% of the Defence Estate and have an asset value of £3-5 billion;
- ii. the PD will negotiate a Memorandum of Understanding (see Note 1 attached) in respect of each property which will establish effectively a form of "contractual" relationship between itself and departmental tenants. This will build on PRS (Property Repayment Services) which starts in April 1983;
- iii. the object is to enable the PSA through the property division to act as closely as possible to a private sector property company and the individual departments to act as independently as possible in what they perceive as their best interests;
- iv. the PD would have Trading Fund status, which would enable:
  - a. the development of an objective measure of the financial utilisation of our property assets via a "Return on Capital"; the trend of which could then be compared with the private sector,
  - b. the real property costs of government decisions to be identified,
  - c. a longer term view to be taken of property matters,
  - d. a clearer distinction to be drawn between capital and revenue expenditure on property,
  - e. the introduction of more options or alternatives both for Departments and internally in the handling of maintenance,
  - f. more generally, a tougher commercial attitude to be developed both within the PD and by overspill in other parts of PSA.

Note 1 The "Memorandum of Understanding" would cover:

current market rent

rent reviews every 3, 5 or 7 years

extension of maintenance responsibility (including in most cases internal decoration) to the tenant

tenure, ie period tenant expects to require the property



Civil Service

✓  
a DW



QUEEN ANNE'S GATE LONDON SW1H 9AT

at 11/8.

10 August 1982

Dear Michael

Thank you for sending me a copy of your recent minute to the Prime Minister about the possibility of establishing a Property Division within the Property Services Agency.

I can see that this concept has the attraction of being consistent with the current campaign to improve financial management in the Civil Service and I do not object to the principle of what you have in mind. As you say, it will take some time to put flesh on the bones of this scheme and to identify positively the costs and benefits. I hope that customer Departments will be closely involved in this process. We are due to introduce the Property Repayment Service (P.R.S.) next April, but as yet Departments have had little detailed guidance from the P.S.A. on how the service will work. Accordingly I should prefer to see the implications for Departments worked out in some detail before reaching a firm view on the proposal for a Property Division.

I am sending copies of this to the Prime Minister and others who received copies of your minute.

Yours truly  
Billie

\_\_\_\_\_



NEW ST. ANDREWS HOUSE  
ST. JAMES CENTRE  
EDINBURGH EH1 3SX

CEO DW  
18/5

The Rt Hon Michael Heseltine  
Secretary of State for the Environment  
Department of the Environment  
2 Marsham Street  
LONDON  
SW1P 3EB

16 August 1982

Dear Michael,

PSA: PROPOSED PROPERTY DIVISION

22 July 82

Thank you for sending me a copy of your minute to the Prime Minister which I received on 26 July.

I fully endorse the principle of better accountability in Government and the promotion of commercial attitudes and practices wherever practicable. I support the move to PRS and the similar moves for HMSO, COI etc. But before moving to a full trading fund arrangement for the proposed Property Department I think we need to look carefully at some of the implications.

For example, what freedom will Departments have to look elsewhere than to the Property Department for their accommodation needs? If, either in principle or practice, there is no such freedom the Property Department risks becoming a large and powerful monopoly with the sort of market dominance that, for good reasons, we are trying to reduce in the case of many of the nationalised industries. If on the other hand Departments are free to go elsewhere we shall have introduced a fundamentally new, and I suspect unique, way for a Government to arrange its accommodation and one which will inevitably require scarce and expert staff within each Department to be devoted to its management. I wonder too about the availability of finance to Departments to meet the rents and other charges that achievement of the trading fund targets might require. I should be most reluctant to accept this as a continuing further source of pressure on already straitened resources.

These are very much preliminary reactions. I have also seen Quintin Hailsham's comments and agree with the general thrust of them. I look forward to seeing your fuller proposals in due course and I hope we shall have a full opportunity to study them before any decisions are sought.

I am sending copies of this letter to the Prime Minister and our Cabinet colleagues, to Sir Derek Rayner and to Sir Robert Armstrong.

Yours truly,  
Cunze.



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

Chris Smith

FR  
6/8

From the Minister

The Rt Hon Michael Heseltine MP  
Secretary of State for the Environment  
Department of the Environment  
2 Marsham Street  
London  
SW1P 3EB

6 August 1982

PROPERTY SERVICES AGENCY

In your recent minute to the Prime Minister you asked for views on the possibility of establishing within PSA a Property Division which would have a Trading Fund status.

I appreciate that your proposals could have advantages for PSA, but they seem certain to add considerably to the responsibilities and workloads of client Departments. It is suggested, for example, that there should be an extension of responsibility for maintenance (including in most cases internal decoration) to the tenant department; this would be a significant enlargement of the PRS proposal to transfer responsibility for only certain jobs costing under £500. Your proposals do not seem to include any transfer of posts from PSA to client Departments to match the transfer of work. The initial negotiation of a Memorandum of Understanding in respect of each property occupied (my Department occupies some 200 buildings) and the subsequent renegotiations when "leases" fall in would also add to the functions of Departments. I think that, before trying to decide in principle on your proposal, we all need to be clearer about what exactly will be involved and in particular what it will imply for client Departments in terms of extra work and the need for extra staff.

/I should also add ...

I should also add that the introduction of repayment for PSA services on 1 April 1983 is going to create more work for Departments (without any transfer of posts from PSA). Departments must be given a reasonable period of time to adjust to these new arrangements before we start making any further changes. Moreover, it might be useful to have some experience of how the new PRS works in practice before trying to take any final decision on your latest proposal.

✧ I am copying this letter to the Prime Minister, Cabinet colleagues, Sir Derek Rayner and Sir Robert Armstrong.

1-6 AUG 1982

1 2 3  
4 5 6  
7 8 9  
0

PETER WALKER



MO 8

MINISTRY OF DEFENCE  
MAIN BUILDING WHITEHALL LONDON SW1  
Telephone 01-~~938 7022~~ 218 2111/3

11th August 1982

CC JV  
CC DN  
12/8

Dear Roger,

FINANCIAL MANAGEMENT : PROPOSED  
PSA PROPERTY DIVISION

My Secretary of State saw Mr Heseltine's minute to the Prime Minister on this subject just before he departed on leave. He would like to see a much greater armslength/commercial basis for PSA operations and his initial reaction was, therefore, to favour the concept of a PSA Property Division. Although he wishes to defer a formal response to your Secretary of State's minute until he has had a chance to consult more closely with his officials about the detailed implications for the MOD, which he will do as soon as he returns from leave towards the end of August, he sees no reason in principle why the detailed studies referred to by Mr Heseltine should not proceed.

I am copying this letter to the Private Secretaries to the Prime Minister, other Cabinet Ministers and Sir Robert Armstrong.

Yours sincerely  
Nick Evans

(N H R EVANS)

R Bright Esq



DEPARTMENT OF EDUCATION AND SCIENCE  
ELIZABETH HOUSE, YORK ROAD, LONDON SE1 7PH  
TELEPHONE 01-928 9222

FROM THE SECRETARY OF STATE

*ca 77*  
*DW*

*JF*  
*12/8*

The Rt Hon Michael Heseltine MP  
Secretary of State for the Environment  
2 Marsham Street  
LONDON SW1 3EB

12 August 1982

*Dear Michael,*

PROPERTY SERVICES AGENCY RESTRUCTURING

I was interested to see your proposal for a PSA Property Division in your recent minute to the Prime Minister.

If it is pursued one point which I think will need close attention is the extent to which any benefits which accrue from the trading fund arrangement are off-set by additional costs for Departments in dealing with a private sector kind of body. In particular the benefits will not be great if we are given current market rents on our buildings but not allowed to take advantage of that information in looking for alternatives on the market.

I hope that the aim will be to encourage Departments to make sensible economies where practicable in location as well as scale of offices.

I am sending copies of this minute to those who received yours.

*Erin - Keir*

C.C. JV  
DW



Foreign and Commonwealth Office

London SW1A 2AH

Civil Service

16 August 1982

17/4

From The Minister of State

Rt Hon Douglas Hurd CBE MP

Dear Secretary of State,

PROPERTY DIVISION

In Francis Pym's absence on leave, I am writing to give our views on the proposal to establish a Property Division within the PSA which was described in your recent minute to the Prime Minister.

We can accept that a Property Division regulated by a trading fund is worth considering in the general interest of improving financial management. From the clients' point of view the proposed extension of maintenance responsibility to the tenant can be welcomed. But there will no doubt be limits to the extent to which PSA can act in the same way as a private sector company, with all that this would entail for profitability and the freedom of the client.

Moreover, there are staffing implications about all this and the practical and financial considerations will need to be considered by Departments, the Treasury and your own Department.

The Chief Secretary and other colleagues have made some relevant comments and I agree with the general theme that we need to see more of the details and study their implications before committing ourselves to the proposal.

I am sending copies of this minute to the Prime Minister, other members of the Cabinet, Sir Robert Armstrong and Sir Derek Rayner.

Yours sincerely,  
Annabel Russ

(Approved by Mr Hurd and signed for him in his absence by his Assistant Private Secretary)

The Rt Hon Michael Heseltine MP  
Secretary of State for the Environment

All of these matters will be examined over the next few in consultation with the Departments. It will not be until these detailed examinations are complete that firm proposals will be submitted.

I am sending copies of this note to the others who received my original letter.

Yours sincerely

S Rapps

PP. MICHAEL HESELTINE  
(dictated by the Secretary  
of State & signed in his  
absence)

19 AUG 1982

19 AUG 1982





2 MARSHAM STREET  
LONDON SW1P 3EB

My ref: 18

Your ref: 19/4

19 August 1982

*Dear Secretary of State*

PSA PROPOSED PROPERTY DIVISION

Thank you for your letter of 30 July.

I am glad to see that you welcome the concept in principle. Perhaps it would help if I spelt out some of the advantages which should accrue to a customer Department.

1. Although there may be problems at the transitional stage we plan to give the client Department the right to accept or reject accommodation which is offered to them.
2. If they reject what is offered then PSA would be under obligation to find an acceptable alternative. If the Department feels that PSA is laggardly in coming up with that alternative we intend giving the client Department the right to take initiatives to go to outside agents, although of course any final negotiation would be done by PSA.
3. Under PRS all Departments will be required to handle minor maintenance (under £500). We intend to give Departments discretion, in the 'Memoranda of Understanding' they agree with the Property Division, as to the degree of maintenance that they will handle for themselves. In most cases we expect Departments to opt for taking responsibility for minor maintenance plus all internal decoration leaving statutory and external maintenance responsibilities to PSA. But if some Departments wanted less or more this could be accommodated within the terms of the Memorandum of Understanding and charges adjusted accordingly.
4. In case my note suggests that we shall be encouraging Departments to set up mini PSAs within their own operation, I would emphasise that we intend to keep DCE in roughly its present form. I would in fact expect DCA to 'negotiate' on behalf of a client Department with the Property Division. In effect they would be your estate agent/property adviser. If as I am sure is the case the Welsh Office has many offices in use we are examining whether there might be a 'Departmental Enabling Lease' which would set the form of lease for all of your holdings leaving the details of rent, tenure and maintenance responsibilities to be covered in a schedule.

*cmj*

GWYDDFA GYMREIG  
GWYDYR HOUSE  
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01-233 6106 (Llinell Union)



WELSH OFFICE  
GWYDYR HOUSE  
WHITEHALL LONDON SW1A 2ER  
Tel. 01-233 3000 (Switchboard)  
01-233 6106 (Direct Line)

*Oddi wrth Ysgrifennydd Gwladol Cymru*

*From The Secretary of State for Wales*

THE RT HON NICHOLAS EDWARDS MP

30 July 1982

*De Michael*

In your recent minute to the Prime Minister you invited the views of Cabinet colleagues on the proposed creation, within PSA, of a Property Division regulated by a trading fund.

Given that one of the main objectives of the proposal is "to give individual departments a greater influence over their own spending programmes as far as property is concerned" then I welcome it in principle. But the Appendix to your minute is, understandably, more concerned with the implications of this scheme for PSA than for customer Departments, and I must reserve judgement until I know precisely how it is proposed to operate the new arrangements.

I am copying this letter to the recipients of your minute.

*John*  
*Nick*

The Rt Hon Michael Heseltine Esq MP  
Secretary of State for the Environment  
2 Marsham Street  
London  
SW1



cc JW  
cc DW

*From the Secretary of State*

The Rt Hon Michael Heseltine MP  
Secretary of State for the Environment  
Department of the Environment  
2 Marsham Street  
London  
SW1P 3EB

17  
26/8

25 August 1982

Dear Michael

P+10

I have seen a copy of your minute to the Prime Minister outlining your proposals for a PSA Property Division.

In principle I favour the concept of a Property Division regulated by a trading fund; it would seem to be a logical extension of the Property Repayment System. In developing the details of your proposals, however, it will be essential to identify whether in reality Departments will benefit, as opposed to the PSA, and to ensure that any tangible advantages in terms of meeting accommodation requirements, which I would certainly welcome, are not more than offset by increased administrative costs and burdens on limited manpower resources.

I am copying this letter to the Prime Minister, Cabinet colleagues, Sir Derek Rayner and to Sir Robert Armstrong.

*[Handwritten signature]*  
*[Handwritten signature]*

LORD COCKFIELD



HOUSE OF LORDS,  
SW1A 0PW

29 July 1982

*My dear Michael:*

Possible Property Division within PSA

Thank you for sending me a copy of your recent minute to the Prime Minister about your idea for the establishment of a Property Division within PSA. This is certainly an interesting idea but I am bound to say that it is not apparent to me at this stage that the benefits which will flow from the change will justify the formidable difficulties and costs which will be entailed.

I can see the attraction in principle of setting the Property Division a target return on capital, although I wonder how real a constraint this will be since the PSA will still presumably retain the monopoly for the provision of accommodation to client departments. On the other hand, I do not think we should under-rate the amount of administrative time and effort involved in negotiating leases between the PSA and its clients. Even my own comparatively small department occupies some 500 different locations. Some 70 of these are Crown Court Centres which will presumably be excluded from the new arrangement as having no potential alternative use, but even so I would not relish the prospect of requiring my officials to negotiate leases on the remaining 430. There will be particular problems with buildings which are shared between two or more departments, and in catering for changed requirements which departments cannot always anticipate.

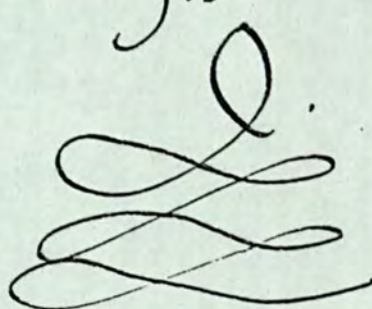
/ ...

The Right Honourable  
Michael Heseltine, M.P.,  
Secretary of State for Environment.

From the point of view of the client departments themselves I am less clear what advantages will flow from the new arrangements. I suppose there would be an advantage if we secured a greater say over what accommodation we should have and if it were open to us to reject what we regard as unsatisfactory premises. But will this in fact be possible? More fundamentally, the change would appear to imply a major shift in the relationship between PSA and its clients. At present, notwithstanding the inevitable occasional difficulty, PSA are reasonably successful in meeting my Department's accommodation needs. If in future we find ourselves in a position of negotiating against the PSA I am not at all clear that our accommodation needs will be as well served. It will certainly be necessary for my Department to develop an expertise in property matters, and perhaps in maintenance as well, with a consequential commitment of additional staff who would not be directly concerned with the Department's own operational needs.

I am not seeking to reject your proposals out of hand, but I suggest that there are a number of important questions which need to be resolved before we can form a view. I have no objection to work being put in hand to explore these problems, but I suggest it would be wrong even to take a decision in principle to adopt the scheme until we have a clearer idea of what will be involved, particularly from the point of view of the client departments.

I am sending a copy of this letter to the Prime Minister, other members of the Cabinet, Sir Robert Armstrong and Sir Derek Rayner.

Yrs :  


er the it few mont  
It will not be until  
e that. firm proposals  
who received my  
incent

2 MARSHAM STREET  
LONDON SW1P 3EB  
01-212 3434

My ref:

Your ref:

cc ✓  
✓CDK  
CV  
14/5  
Jenni

18 AUG 82

*De la*

PROPERTY SERVICES AGENCY: POSSIBLE PROPERTY DIVISION

I am glad to read in your letter of 4 August that you do not oppose the further study of this proposal as a matter of principle.

With respect to the reservations that you mention, perhaps I could comment on some of them. Many of the others I have already commented on in my response to the Lord Chancellor.

1. While it is true that the introduction of ten ure could introduce a rigidity in the management of the office estate I believe that in fact it would not be an impediment to the sort of office rationalisation that is now being carried out in London and elsewhere. That rationalisation essentially stemmed from a recognition that with reduced numbers many Departments had reduced space requirements; and those space requirements could most efficiently be met by shuffling the buildings that were in use (and in the process releasing some for sale). That shuffling would still have taken place had there been leases because the pressures on Departments to save space would have been there (a) from the Treasury and (b) from the Directorate of Civil Accommodation (DCA), who are and will continue to be charged with applying Treasury scales and other administrative measures to achieve effective space rationalisation. In fact in my view the leases would have ensured (a) that the costs of change were recognised and (b) by the full application of market rents - instead of zonal rents as now anticipated in PRS - would have provided an incentive where necessary for Departments to move. I would emphasise that tenure does not mean inflexibility; it simply means that Departments have to indicate their time expectations and that the costs of change are identified.
2. I do not accept that the principles of accountability would make it difficult for DCA to continue to act as the 'property department and advisers' of the Civil Departments. If the Property Division has trading fund status their accountability would be distinct from that of the rest of PSA.

3. We have never suggested that the efficiency of the P. Division would be measured by the absolute level of return on capital. There are too many historical accidents both in the case of Government property and companies in the private sector for that to be meaningful. I do feel however, that the trend over time will have some value. Much more importantly the development of the objective measure of performance will provide continuous pressure for more effective commercial management.

I of course accept that the Treasury should be associated with any study that is carried out and we plan to consult all the major user Departments in some depth.

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

Yours  
Michael

MICHAEL HESELTINE

How many complaints about some activities of PSA  
PRIME MINISTER



I wonder if David Lloyd would look at it and advise on their merits.

You have seen Michael Heseltine's minute (attached) about a restructuring of the PSA. The Chief Secretary is sceptical but agrees to further study. In these circumstances, invite Mr Heseltine to pursue his proposal in consultation with the Treasury?

unlabeled JF 5/8

PROPERTY SERVICES AGENCY RESTRUCTURING

I have seen Michael Heseltine's minute to you of 27 July which outlines a proposal for the establishment within PSA of a property division operating as a trading fund, and puts this in the context of our financial management initiative. The Lord Chancellor commented in his letter of 29 July.

2. I have some doubts about the proposal, but do not oppose further study if colleagues generally are interested in pursuing it. This should be on the understanding that we are not committed on principle, but will decide when the study is complete.

3. I accept that the proposals may have advantages for PSA. An unambiguous statement of the role and objectives for the PSA should be helpful. The psychological impact may be difficult to quantify, but it may well be a useful spur to cost-consciousness; and I attach weight to the views of those responsible for the management of the PSA.

4. What is less clear is whether there will be a net benefit for PSA and user departments taken together, or for the management of the office estate as a whole.

5. The introduction of tenured leases for user departments could introduce a rigidity in the management of the office estates which would prevent the best use being made of it. As leaseholders, departments would almost certainly have to acquire expertise of their own in the property field, or to employ outside consultants, in order to be satisfied that they achieve proper value for money



in dealings with the property division. The principles of accountability would make it difficult for this function to be done by another part of PSA. It is doubtful whether the resulting diffusion of property expertise amongst departments would lead to a net gain in efficiency. The Lord Chancellor has also made this point.

6. Nor should we underestimate the amount of work required first to set up the system, and then to operate it. Witness the difficulty which has attended the introduction of the repayment system (PRS) to operate from 1 April 1983. The new proposal envisages creating some 20,000 individual leases. The suggested arbitration panel to settle disputes between the property division and departments on the terms of leases would add to bureaucratic machinery.

7. There is also a question as to the organisation proposed for PSA. It is proposed that the efficiency of the property division should be measured by its return on capital. But in the property world capital values reflect market rents quite directly. By definition PSA will be charging market rents, so any return on capital will be pretty arbitrary. The trend over time might tell us something, but little about the absolute level of PSA efficiency. It will be hard to find any private sector companies which combine the diverse functions of PSA and with which PSA's return on capital could meaningfully be compared.

8. It is in my view more important to push forward the work at the more disaggregated level covered by the financial management initiative. Budgetary control, measures of output and cost information all come into it. This work will be substantial. It needs to be pursued in accordance with your directive, irrespective of whether the major restructuring proposal is carried forward.

9. If the study is to go forward, the Treasury will wish to be closely associated with it. Major user departments will also have a substantial input. And I hope that Michael Heseltine will

be able to assure us that it will not be to the detriment of other work called for in the PSA as described under the financial management initiative.

10. I send copies of this minute to Cabinet colleagues, Sir Derek Rayner and Sir Robert Armstrong.

L. B.

LEON BRITTAN  
4 AUGUST 1982

E.R.  
Prime Minister.

August 26, 1982.

Property Repayment Service.

The original proposal by Rayner was to "Provide a sound, practicable and unbureaucratic basis for promoting in Departments a greater awareness of and changed attitudes towards the cost of accomodation and related services". The proposed system was thought to be capable of refinement and improvement.

The Property Division operating as a Trading Fund must surely be more bureaucratic. A Trading Fund will have to be much more precise, deal with everyitem correctly and quickly, and its contemplation before the P.R.S. system is working will lead to extra work before the present work is properly settled.

The object of the Property Division is "to enable the P.S.A. through the Property Division to act as closely as possible to a Private Sector Property Company". But most private sector companies with large property estates used for trading purposes do not form themselves into property companies, merely try to act as property managers for their properties. G.U.S. has some 2,000 properties used for retail, a central property department of a dozen people, but not a central property holding company formed as a trading fund.

I think the new proposal is a counsel of perfection, which will prove administratively expensive for both P.S.A. and the departments. Kenneth Baker's advice seems excellent. Let's see how PRS operates before moving on to something more complicated! Without offense to Environment it should be possible to mothball any further study until we have had a full year of PRS in operation. A moderate plan well carried out is better than a good plan constantly changed.

Daniel Wefun



FROM THE  
MINISTER OF STATE  
FOR INDUSTRY AND  
INFORMATION TECHNOLOGY

DEPARTMENT OF INDUSTRY  
ASHDOWN HOUSE  
123 VICTORIA STREET  
LONDON SW1E 6RB  
TELEPHONE DIRECT LINE 01-212 6401  
SWITCHBOARD 01-212 7676

23 August 1982

The Rt Hon Michael Heseltine MP  
Secretary of State for the Environment  
Department of the Environment  
2 Marsham Street  
LONDON  
SW1P 3EB

Dear Secretary of State

In his absence from the office, Patrick Jenkin has asked me to comment on your recent minute to the Prime Minister about the establishment of a PSA Property Division.

2 I have no objection in principle to the concept which you have outlined but I very much share the reservations expressed by colleagues about the need to examine the details very carefully and consider whether real benefits will accrue to Departments. Furthermore, before any final decision is taken, I feel it would be helpful to allow time for Departments to absorb the lessons of the introduction of the Property Repayment System, and, in particular, to assess the impact on resources which seems to have been somewhat neglected in the PRS context.

3 I am copying this letter to the Prime Minister, Cabinet members, Sir Derek Rayner and Sir Robert Armstrong.

Yours sincerely

Niall Mitchell

for KENNETH BAKER

approved by the  
Minister, but signed  
in his absence.



cc JW  
cc DW

*From the Secretary of State*

The Rt Hon Michael Heseltine MP  
Secretary of State for the Environment  
Department of the Environment  
2 Marsham Street  
London  
SW1P 3EB

D  
26/8

25 August 1982

Dear Michael

✓ P+10

I have seen a copy of your minute to the Prime Minister outlining your proposals for a PSA Property Division.

In principle I favour the concept of a Property Division regulated by a trading fund; it would seem to be a logical extension of the Property Repayment System. In developing the details of your proposals, however, it will be essential to identify whether in reality Departments will benefit, as opposed to the PSA, and to ensure that any tangible advantages in terms of meeting accommodation requirements, which I would certainly welcome, are not more than offset by increased administrative costs and burdens on limited manpower resources.

I am copying this letter to the Prime Minister, Cabinet colleagues, Sir Derek Rayner and to Sir Robert Armstrong.

J. [unclear]  
Arthur

LORD COCKFIELD

Civil Service E-T Manning  
PT 11



JF1446



FROM THE  
MINISTER OF STATE  
FOR INDUSTRY AND  
INFORMATION TECHNOLOGY

*CCDW* *Civil Services* *CF SV*  
DEPARTMENT OF INDUSTRY  
ASHDOWN HOUSE  
123 VICTORIA STREET  
LONDON SW1E 6RB  
TELEPHONE DIRECT LINE 01-212 6401  
SWITCHBOARD 01-212 7676

23 August 1982

The Rt Hon Michael Heseltine MP  
Secretary of State for the Environment  
Department of the Environment  
2 Marsham Street  
LONDON  
SW1P 3EB

*IT*  
*24/8*

Dear Secretary of State

*22/7. p. 10.*  
In his absence from the office, Patrick Jenkin has asked me to comment on your recent minute to the Prime Minister about the establishment of a PSA Property Division.

2 I have no objection in principle to the concept which you have outlined but I very much share the reservations expressed by colleagues about the need to examine the details very carefully and consider whether real benefits will accrue to Departments. Furthermore, before any final decision is taken, I feel it would be helpful to allow time for Departments to absorb the lessons of the introduction of the Property Repayment System, and, in particular, to assess the impact on resources which seems to have been somewhat neglected in the PRS context.

3 I am copying this letter to the Prime Minister, Cabinet members, Sir Derek Rayner and Sir Robert Armstrong.

Yours sincerely

*Nail Mitchell*

*for* KENNETH BAKER  
*approved by the*  
*Minister, but signed*  
*in his absence.*

CIVIL SERVICE  
L-7 Management  
Pr 11

24 AUG 1982  
BOSTON  
MA 02108



2 MARSHAM STREET  
LONDON SW1P 3EB

My ref:

Your ref:

19 August 1982



Dear Secretary of State  
PSA PROPOSED PROPERTY DIVISION

Thank you for your letter of 30 July.

I am glad to see that you welcome the concept in principle. Perhaps it would help if I spelt out some of the advantages which should accrue to a customer Department.

1. Although there may be problems at the transitional stage we plan to give the client Department the right to accept or reject accommodation which is offered to them.
2. If they reject what is offered then PSA would be under obligation to find an acceptable alternative. If the Department feels that PSA is laggardly in coming up with that alternative we intend giving the client Department the right to take initiatives to go to outside agents, although of course any final negotiation would be done by PSA.
3. Under PRS all Departments will be required to handle minor maintenance (under £500). We intend to give Departments discretion, in the 'Memoranda of Understanding' they agree with the Property Division, as to the degree of maintenance that they will handle for themselves. In most cases we expect Departments to opt for taking responsibility for minor maintenance plus all internal decoration leaving statutory and external maintenance responsibilities to PSA. But if some Departments wanted less or more this could be accommodated within the terms of the Memorandum of Understanding and charges adjusted accordingly.
4. In case my note suggests that we shall be encouraging Departments to set up mini PSAs within their own operation, I would emphasise that we intend to keep DCE in roughly its present form. I would in fact expect DCA to 'negotiate' on behalf of a client Department with the Property Division. In effect they would be your estate agent/property adviser. If as I am sure is the case the Welsh Office has many offices in use we are examining whether there might be a 'Departmental Enabling Lease' which would set the form of lease for all of your holdings leaving the details of rent, tenure and maintenance responsibilities to be covered in a schedule.

CIVIL SERVICE  
L-T Management Pt II

All of these matters will be examined over the next few months in consultation with the Departments. It will not be until these detailed examinations are complete that firm proposals will be submitted.

I am sending copies of this note to the others who received my original letter.

Yours sincerely

SRaps

PP. MICHAEL HESELTINE  
(dictated by the Secretary  
of State & signed in his  
absence)

19 AUG 1982



2 MARSHAM STREET  
LONDON SW1P 3EB  
01-212 3434

My ref:

Your ref:

18 AUG 82

PROPERTY SERVICES AGENCY: POSSIBLE PROPERTY DIVISION

I am glad to read in your letter of 4 August that you do not oppose the further study of this proposal as a matter of principle.

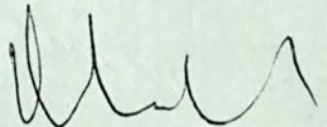
With respect to the reservations that you mention, perhaps I could comment on some of them. Many of the others I have already commented on in my response to the Lord Chancellor.

1. While it is true that the introduction of ten ure could introduce a rigidity in the management of the office estate I believe that in fact it would not be an impediment to the sort of office rationalisation that is now being carried out in London and elsewhere. That rationalisation essentially stemmed from a recognition that with reduced numbers many Departments had reduced space requirements; and those space requirements could most efficiently be met by shuffling the buildings that were in use (and in the process releasing some for sale). That shuffling would still have taken place had there been leases because the pressures on Departments to save space would have been there (a) from the Treasury and (b) from the Directorate of Civil Accommodation (DCA), who are and will continue to be charged with applying Treasury scales and other administrative measures to achieve effective space rationalisation. In fact in my view the leases would have ensured (a) that the costs of change were recognised and (b) by the full application of market rents - instead of zonal rents as now anticipated in PRS - would have provided an incentive where necessary for Departments to move. I would emphasise that tenure does not mean inflexibility; it simply means that Departments have to indicate their time expectations and that the costs of change are identified.
2. I do not accept that the principles of accountability would make it difficult for DCA to continue to act as the 'property department and advisers' of the Civil Departments. If the Property Division has trading fund status their accountability would be distinct from that of the rest of PSA.

3. We have never suggested that the efficiency of the Property Division would be measured by the absolute level of return on capital. There are too many historical accidents both in the case of Government property and companies in the private sector for that to be meaningful. I do feel however that the trend over time will have some value. Much more importantly the development of the objective measure of performance will provide continuous pressure for more effective commercial management.

I of course accept that the Treasury should be associated with any study that is carried out and we plan to consult all the major user Departments in some depth.

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

*yes am.*  


MICHAEL HESELTINE



Foreign and Commonwealth Office

London SW1A 2AH

16 August 1982

*C.C. JV  
DW*

*Civil Servant  
L-T Man.  
17/4 Pt 11*

From The Minister of State

Rt Hon Douglas Hurd CBE MP

*Dear Secretary of State,*

PROPERTY DIVISION

In Francis Pym's absence on leave, I am writing to give our views on the proposal to establish a Property Division within the PSA which was described in your recent minute to the Prime Minister.

We can accept that a Property Division regulated by a trading fund is worth considering in the general interest of improving financial management. From the clients' point of view the proposed extension of maintenance responsibility to the tenant can be welcomed. But there will no doubt be limits to the extent to which PSA can act in the same way as a private sector company, with all that this would entail for profitability and the freedom of the client.

Moreover, there are staffing implications about all this and the practical and financial considerations will need to be considered by Departments, the Treasury and your own Department.

The Chief Secretary and other colleagues have made some relevant comments and I agree with the general theme that we need to see more of the details and study their implications before committing ourselves to the proposal.

I am sending copies of this minute to the Prime Minister, other members of the Cabinet, Sir Robert Armstrong and Sir Derek Rayner.

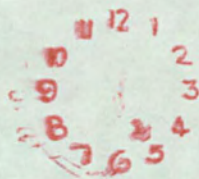
*Yours sincerely,*

*Annabel Russ*

(Approved by Mr Hurd and signed for him in his absence by his Assistant Private Secretary)

The Rt Hon Michael Heseltine MP  
Secretary of State for the Environment

11 6 / AUG 1982





*ce JD  
DW*

DEPARTMENT OF EDUCATION AND SCIENCE  
ELIZABETH HOUSE, YORK ROAD, LONDON SE1 7PH  
TELEPHONE 01-928 9222  
FROM THE SECRETARY OF STATE

*DF  
12/8*

The Rt Hon Michael Heseltine MP  
Secretary of State for the Environment  
2 Marsham Street  
LONDON SW1 3EB

12 August 1982

*Dear Michael,*

PROPERTY SERVICES AGENCY RESTRUCTURING

I was interested to see your proposal for a PSA Property Division in your recent minute to the Prime Minister.

If it is pursued one point which I think will need close attention is the extent to which any benefits which accrue from the trading fund arrangement are off-set by additional costs for Departments in dealing with a private sector kind of body. In particular the benefits will not be great if we are given current market rents on our buildings but not allowed to take advantage of that information in looking for alternatives on the market.

I hope that the aim will be to encourage Departments to make sensible economies where practicable in location as well as scale of offices.

I am sending copies of this minute to those who received yours.

*Kevin - Kerz*

Civil Service  
LT Management  
12-11







MINISTRY OF DEFENCE  
MAIN BUILDING WHITEHALL LONDON SW1  
Telephone 01-~~938 7022~~ 218 2111/3

MO 8

11th August 1982

Dear Roger,

FINANCIAL MANAGEMENT : PROPOSED  
PSA PROPERTY DIVISION

My Secretary of State saw Mr Heseltine's minute to the Prime Minister on this subject just before he departed on leave. He would like to see a much greater armslength/commercial basis for PSA operations and his initial reaction was, therefore, to favour the concept of a PSA Property Division. Although he wishes to defer a formal response to your Secretary of State's minute until he has had a chance to consult more closely with his officials about the detailed implications for the MOD, which he will do as soon as he returns from leave towards the end of August, he sees no reason in principle why the detailed studies referred to by Mr Heseltine should not proceed.

I am copying this letter to the Private Secretaries to the Prime Minister, other Cabinet Ministers and Sir Robert Armstrong.

Yours sincerely  
Nick Evans

(N H R EVANS)

R Bright Esq

ALL SENT  
LET MANEY  
PX 11

12 AUG 1968

12 11 22 4 5  
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Civil Service

~~cc DV~~  
CDW



QUEEN ANNE'S GATE LONDON SW1H 9AT

11/r.

10 August 1982

Dear Michael

Thank you for sending me a copy of your recent minute to the Prime Minister about the possibility of establishing a Property Division within the Property Services Agency.

I can see that this concept has the attraction of being consistent with the current campaign to improve financial management in the Civil Service and I do not object to the principle of what you have in mind. As you say, it will take some time to put flesh on the bones of this scheme and to identify positively the costs and benefits. I hope that customer Departments will be closely involved in this process. We are due to introduce the Property Repayment Service (P.R.S.) next April, but as yet Departments have had little detailed guidance from the P.S.A. on how the service will work. Accordingly I should prefer to see the implications for Departments worked out in some detail before reaching a firm view on the proposal for a Property Division.

I am sending copies of this to the Prime Minister and others who received copies of your minute.

M  
for the  
Director

\_\_\_\_\_

Civil Service  
C-T Management  
Pt II



NEW ST. ANDREWS HOUSE  
ST. JAMES CENTRE  
EDINBURGH EH1 3SX

Civil Service

GDW

15/8

The Rt Hon Michael Heseltine  
Secretary of State for the Environment  
Department of the Environment  
2 Marsham Street  
LONDON  
SW1P 3EB

16 August 1982

Dear Michael,

PSA: PROPOSED PROPERTY DIVISION

22 July 82

Thank you for sending me a copy of your minute to the Prime Minister which I received on 26 July.

I fully endorse the principle of better accountability in Government and the promotion of commercial attitudes and practices wherever practicable. I support the move to PRS and the similar moves for HMSO, COI etc. But before moving to a full trading fund arrangement for the proposed Property Department I think we need to look carefully at some of the implications.

For example, what freedom will Departments have to look elsewhere than to the Property Department for their accommodation needs? If, either in principle or practice, there is no such freedom the Property Department risks becoming a large and powerful monopoly with the sort of market dominance that, for good reasons, we are trying to reduce in the case of many of the nationalised industries. If on the other hand Departments are free to go elsewhere we shall have introduced a fundamentally new, and I suspect unique, way for a Government to arrange its accommodation and one which will inevitably require scarce and expert staff within each Department to be devoted to its management. I wonder too about the availability of finance to Departments to meet the rents and other charges that achievement of the trading fund targets might require. I should be most reluctant to accept this as a continuing further source of pressure on already straitened resources.

These are very much preliminary reactions. I have also seen Quintin Hailsham's comments and agree with the general thrust of them. I look forward to seeing your fuller proposals in due course and I hope we shall have a full opportunity to study them before any decisions are sought.

I am sending copies of this letter to the Prime Minister and our Cabinet colleagues, to Sir Derek Rayner and to Sir Robert Armstrong.

Yours truly,  
Cunze.

Civil Service  
ET Management  
Pt 11



110 AUG 1982

BK

file

MR. WOLFSON

Michael Heseltine has, in the context of the Prime Minister's financial management initiative, proposed a number of changes to the Property Services Agency including the establishment of a Property Division operating as a trading fund. His minute of 22 July is attached. A number of Cabinet Ministers have commented on Michael Heseltine's proposal including the Lord Chancellor (letter of 29 July), the Welsh Secretary (letter of 30 July) and the Minister for Agriculture, Fisheries and Food (letter of 6 August). The main comment is from the Chief Secretary (minute of 4 August) which casts some doubt on the proposal but concedes further study which I understand is proceeding.

Before responding to Michael Heseltine's minute the Prime Minister would be grateful for your advice. She still hears some complaints about the PSA and wonders whether Michael Heseltine's proposal is the best way ahead. There is no immediate urgency about these papers since I have explained to Environment that a formal response is unlikely before the Prime Minister returns from her holiday. Could I therefore trouble you for your views in due course.

TF

10 August 1982

Civil Service  
LT Management  
PT 11





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

Civil Service

RF  
GVR

From the Minister

The Rt Hon Michael Heseltine MP  
Secretary of State for the Environment  
Department of the Environment  
2 Marsham Street  
London  
SW1P 3EB

6 August 1982

PROPERTY SERVICES AGENCY

In your recent minute to the Prime Minister you asked for views on the possibility of establishing within PSA a Property Division which would have a Trading Fund status.

I appreciate that your proposals could have advantages for PSA, but they seem certain to add considerably to the responsibilities and workloads of client Departments. It is suggested, for example, that there should be an extension of responsibility for maintenance (including in most cases internal decoration) to the tenant department; this would be a significant enlargement of the PRS proposal to transfer responsibility for only certain jobs costing under £500. Your proposals do not seem to include any transfer of posts from PSA to client Departments to match the transfer of work. The initial negotiation of a Memorandum of Understanding in respect of each property occupied (my Department occupies some 200 buildings) and the subsequent renegotiations when "leases" fall in would also add to the functions of Departments. I think that, before trying to decide in principle on your proposal, we all need to be clearer about what exactly will be involved and in particular what it will imply for client Departments in terms of extra work and the need for extra staff.

/I should also add ...

I should also add that the introduction of repayment for PSA services on 1 April 1983 is going to create more work for Departments (without any transfer of posts from PSA). Departments must be given a reasonable period of time to adjust to these new arrangements before we start making any further changes. Moreover, it might be useful to have some experience of how the new PRS works in practice before trying to take any final decision on your latest proposal.

✓ I am copying this letter to the Prime Minister, Cabinet colleagues, Sir Derek Rayner and Sir Robert Armstrong.

6 AUG 1982

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1 12

PETER WALKER

Civil Service  
C-T Management



X 64

Caxton House Tothill Street London SW1H 9NAF

Telephone Direct Line 01-213.....6400  
Switchboard 01-213 3000

Rt Hon Michael Heseltine MP  
Secretary of State  
Department of the Environment  
2 Marsham Street  
LONDON SW1

5 August 1982

*Dear Secretary of State*  
REFORM OF THE PSA

You asked for views on the proposal in your minute to the Prime Minister of 22 July to establish a Property Division within the PSA.

My reaction to your brief sketch of how this would operate is that I would see great potential benefits in putting PSA operations on something nearer a commercial basis, provided that it leaves Departments free to go to the market instead of to the Agency for alternative accommodation and for maintenance work; provided this is not stultified by the PSA offering only exclusive contracts - ie supplying all services or none; and provided Departments stuck with premises larger than they need will be free to sublet.

I am copying this letter to Cabinet colleagues, Sir Derek Rayner and Sir Robert Armstrong.

*Yours sincerely*  
*Brendan Shaw*

(Approved by the Secretary of State and signed in his absence)

CS: LT Management  
PT 11

6 AUG 1982



1

1. How many complaints about some initiatives of PSA  
 1. Would it be worth it to look at it and then make a decision on this matter?  
 David Lloyd



PRIME MINISTER

Prime Minister:

You have seen Michael Heseltine's minute (attached) about a restructuring of the PSA. The Chief Secretary is sceptical but agrees to further study. In these circumstances, invite Mr Heseltine to pursue his proposal in consultation with the Treasury?

unlabeled JF  
 5/8

PROPERTY SERVICES AGENCY RESTRUCTURING

I have seen Michael Heseltine's minute to you of 27 July which outlines a proposal for the establishment within PSA of a property division operating as a trading fund, and puts this in the context of our financial management initiative. The Lord Chancellor commented in his letter of 29 July.

2. I have some doubts about the proposal, but do not oppose further study if colleagues generally are interested in pursuing it. This should be on the understanding that we are not committed on principle, but will decide when the study is complete.

3. I accept that the proposals may have advantages for PSA. An unambiguous statement of the role and objectives for the PSA should be helpful. The psychological impact may be difficult to quantify, but it may well be a useful spur to cost-consciousness; and I attach weight to the views of those responsible for the management of the PSA.

4. What is less clear is whether there will be a net benefit for PSA and user departments taken together, or for the management of the office estate as a whole.

5. The introduction of tenured leases for user departments could introduce a rigidity in the management of the office estates which would prevent the best use being made of it. As leaseholders, departments would almost certainly have to acquire expertise of their own in the property field, or to employ outside consultants, in order to be satisfied that they achieve proper value for money

in dealings with the property division. The principles of accountability would make it difficult for this function to be done by another part of PSA. It is doubtful whether the resulting diffusion of property expertise amongst departments would lead to a net gain in efficiency. The Lord Chancellor has also made this point.

6. Nor should we underestimate the amount of work required first to set up the system, and then to operate it. Witness the difficulty which has attended the introduction of the repayment system (PRS) to operate from 1 April 1983. The new proposal envisages creating some 20,000 individual leases. The suggested arbitration panel to settle disputes between the property division and departments on the terms of leases would add to bureaucratic machinery.

7. There is also a question as to the organisation proposed for PSA. It is proposed that the efficiency of the property division should be measured by its return on capital. But in the property world capital values reflect market rents quite directly. By definition PSA will be charging market rents, so any return on capital will be pretty arbitrary. The trend over time might tell us something, but little about the absolute level of PSA efficiency. It will be hard to find any private sector companies which combine the diverse functions of PSA and with which PSA's return on capital could meaningfully be compared.

8. It is in my view more important to push forward the work at the more disaggregated level covered by the financial management initiative. Budgetary control, measures of output and cost information all come into it. This work will be substantial. It needs to be pursued in accordance with your directive, irrespective of whether the major restructuring proposal is carried forward.

9. If the study is to go forward, the Treasury will wish to be closely associated with it. Major user departments will also have a substantial input. And I hope that Michael Heseltine will

be able to assure us that it will not be to the detriment of other work called for in the PSA as described under the financial management initiative.

10. I send copies of this minute to Cabinet colleagues, Sir Derek Rayner and Sir Robert Armstrong.

L.B.

LEON BRITTAN  
4 AUGUST 1982

EX-105

1952  
MAY 12 11 21 AM '52

COMMUNICATIONS

UNIT





*cmj*

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

30 July 1982

*De Michael*  
*with 904 dip*

In your recent minute to the Prime Minister you invited the views of Cabinet colleagues on the proposed creation, within PSA, of a Property Division regulated by a trading fund.

Given that one of the main objectives of the proposal is "to give individual departments a greater influence over their own spending programmes as far as property is concerned" then I welcome it in principle. But the Appendix to your minute is, understandably, more concerned with the implications of this scheme for PSA than for customer Departments, and I must reserve judgement until I know precisely how it is proposed to operate the new arrangements.

I am copying this letter to the recipients of your minute.

*John*  
*Nick*

The Rt Hon Michael Heseltine Esq MP  
Secretary of State for the Environment  
2 Marsham Street  
London  
SW1



HOUSE OF LORDS,  
SW1A 0PW

29 July 1982

*My dear Michael:*

Possible Property Division within PSA

Thank you for sending me a copy of your recent minute to the Prime Minister about your idea for the establishment of a Property Division within PSA. This is certainly an interesting idea but I am bound to say that it is not apparent to me at this stage that the benefits which will flow from the change will justify the formidable difficulties and costs which will be entailed.

I can see the attraction in principle of setting the Property Division a target return on capital, although I wonder how real a constraint this will be since the PSA will still presumably retain the monopoly for the provision of accommodation to client departments. On the other hand, I do not think we should under-rate the amount of administrative time and effort involved in negotiating leases between the PSA and its clients. Even my own comparatively small department occupies some 500 different locations. Some 70 of these are Crown Court Centres which will presumably be excluded from the new arrangement as having no potential alternative use, but even so I would not relish the prospect of requiring my officials to negotiate leases on the remaining 430. There will be particular problems with buildings which are shared between two or more departments, and in catering for changed requirements which departments cannot always anticipate.

/ ...

The Right Honourable  
Michael Heseltine, M.P.,  
Secretary of State for Environment.

From the point of view of the client departments themselves I am less clear what advantages will flow from the new arrangements. I suppose there would be an advantage if we secured a greater say over what accommodation we should have and if it were open to us to reject what we regard as unsatisfactory premises. But will this in fact be possible? More fundamentally, the change would appear to imply a major shift in the relationship between PSA and its clients. At present, notwithstanding the inevitable occasional difficulty, PSA are reasonably successful in meeting my Department's accommodation needs. If in future we find ourselves in a position of negotiating against the PSA I am not at all clear that our accommodation needs will be as well served. It will certainly be necessary for my Department to develop an expertise in property matters, and perhaps in maintenance as well, with a consequential commitment of additional staff who would not be directly concerned with the Department's own operational needs.

I am not seeking to reject your proposals out of hand, but I suggest that there are a number of important questions which need to be resolved before we can form a view. I have no objection to work being put in hand to explore these problems, but I suggest it would be wrong even to take a decision in principle to adopt the scheme until we have a clearer idea of what will be involved, particularly from the point of view of the client departments.

I am sending a copy of this letter to the Prime Minister, other members of the Cabinet, Sir Robert Armstrong and Sir Derek Rayner.

yrs :

A large, stylized handwritten signature in black ink, consisting of several overlapping loops and flourishes.

Prime Minister



I understand that the Chief Secretary will also be meeting you. Await in comments? 23/7

Prime Minister

attached

I am now in a position to take the opportunity to respond to your note of May 17 on Financial Management. The paper you attached said that the main objectives of spending departments should be to have "a clear view of their objectives" and an ability to "measure performance in relation to those objectives". You also indicated that while the yardstick of profitability is lacking in most cases in government, nevertheless "the principle should be applied to the maximum possible extent".

In the context of PSA I recognise also the need to give individual departments a greater influence over their own spending programmes as far as property is concerned.

As colleagues will know, we are already moving to the PRS (Property Repayment Service) in April 1983 which goes part of the way to do this; but I am now considering the next step to go further in this direction and at the same time meet the objectives set in your letter.

The PSA is giving preliminary consideration to the possibility of establishing within it a Property Division - an outline of which is given at Appendix A.

As far as Departments are concerned, their relationship with PSA will essentially be an extension of the principles of PRS; and clearly there will need to be further discussion with Departments to take account of their views in working out the details.



As far as Government is concerned, the proposition would be in accord with your request and would hold out the prospect of tougher financial management in this important part of PSA's activity.

In order to make progress with this idea without risking wasted effort, I felt the need to inform colleagues in advance because if there is any disagreement in principle, I should like those issues resolved now. At this stage, therefore, I am merely asking for your reaction to the principle of a Property Division regulated by a trading fund. We would expect that it would take some 6 months before we were able to come back with flesh on the bones and to identify positively the costs and benefits.

Derek Rayner, who has been consulted, has said "I agree with the emphasis on incentives to rational economic behaviour likely in principle to flow from the more competitive environment of a trading fund."

I shall be grateful for your views, and those of Cabinet Colleagues to whom I am copying this minute. I am also copying this to Sir Derek Rayner and Sir Robert Armstrong.

*MH*

MH

22. 7. 82

## POSSIBLE PROPERTY DIVISION WITHIN PSA

The essentials would be:

- i. the Division's portfolio would embrace those parts of the Government estate where there is a potential alternative use. It may cover 80% of the Civil Estate and maybe 20% of the Defence Estate and have an asset value of £3-5 billion;
- ii. the PD will negotiate a Memorandum of Understanding (see Note 1 attached) in respect of each property which will establish effectively a form of "contractual" relationship between itself and departmental tenants. This will build on PRS (Property Repayment Services) which starts in April 1983;
- iii. the object is to enable the PSA through the property division to act as closely as possible to a private sector property company and the individual departments to act as independently as possible in what they perceive as their best interests;
- iv. the PD would have Trading Fund status, which would enable:
  - a. the development of an objective measure of the financial utilisation of our property assets via a "Return on Capital"; the trend of which could then be compared with the private sector,
  - b. the real property costs of government decisions to be identified,
  - c. a longer term view to be taken of property matters,
  - d. a clearer distinction to be drawn between capital and revenue expenditure on property,
  - e. the introduction of more options or alternatives both for Departments and internally in the handling of maintenance,
  - f. more generally, a tougher commercial attitude to be developed both within the PD and by overspill in other parts of PSA.

Note 1 The "Memorandum of Understanding" would cover:

current market rent

rent reviews every 3, 5 or 7 years

extension of maintenance responsibility (including in  
most cases internal decoration) to the tenant

tenure, ie period tenant expects to require the property