

Civil Service  
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Don't know

The best of days will  
be the day when we are  
able to do the best of our  
work.

3 NOV 1983



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CE No



2 MARSHAM STREET  
LONDON SW1P 3EB  
01-212 3434

My ref:

Your ref:

3 November 1983

Dear Nigel,

-see Pt 13

The Prime Minister asked me in August, to discuss my proposals for the restructuring of the PSA with colleagues before giving any commitments to accept the Chief Executive's recommendations.

Since then there have been detailed discussions between my officials and yours, the Management and Personnel Office and those of client departments. I attach, at Annex A, a paper which sets out what I now propose in the light of those discussions, upon which I would welcome your views.

In summary I propose that there should continue to be a single Agency, with a common Principal Establishments Officer, Principal Finance Officer and design support services, but that:

- 1) the Agency should be divided into 2 parts, one serving essentially Civil clients and one serving Defence clients;
- 2) one of the three tiers in the present management structure should be eliminated by merging regions and areas;
- 3) commercial style accounts should be introduced on the Civil side as an aid to management and to enable more effective comparisons to be made with the private sector.

The arguments in support of the proposals are that it simplifies the present organisation by providing direct lines of command on each side from top to bottom and identifies responsibilities more readily. It provides flexibility in shaping the organisation to the needs of clients, and will enhance the service the Agency can provide to both Defence and Civil clients. It will also save between 300 and 400 staff at a cost of £11m, be recouped in 3 to 4 years.

As these proposals have been developed, I have referred them to the PSA Advisory Board (drawn primarily from the private sector). The papers at Annex B from Nigel Mobbs, the Chairman of the Board record their full support for the proposals. You will see that he goes so far as to say (in paragraph 5) "that without action being given to the changes it is unlikely that the Government's estates can be managed in an economic and effective manner."

More generally, Annex A points out that the proposed

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reorganisation should enable PSA to handle developments in PRS and contracting out more effectively. It will enhance the PSA's ability to follow through the recommendations of the final Wardale/Touche Ross report.

The continuing uncertainty surrounding these proposals is affecting morale in the Agency. I should like, if colleagues agree, to make a statement in the House soon indicating our intention to proceed with the reorganisation subject to consultation with the Trades Unions.

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

*Yours ever*  
*Patrick*

PATRICK JENKIN

PROPERTY SERVICES AGENCY  
PROPOSALS FOR RESTRUCTURING

1. PSA's present structure stems from:
  - (i) the merger of the works departments of Army, Navy and Air Force with the Ministry of Works in 1963 into the Ministry of Public Buildings and Works (MPBW), and its subsequent establishment as a separate accountable unit in 1972:
  - (ii) the transfer to it in 1974 of the work of Ministry of Defence, Defence Land Agents.
  
2. PSA's responsibilities were last stated as "general responsibility for meeting needs of Central Government, the Armed Services and certain other public sector clients for land, accommodation, fixed installations and associated supplies and transport services".  
  
and its aims as  
  
"to meet clients' requirements efficiently, economically and in accordance with Government policies for the conservation and improvement of the environment, including the enhancement of standards<sup>of</sup> design."
  
3. Today these responsibilities are largely unchanged, although the advent of the Property Repayment Systems on the Civil side ("PRS") has moved a small element direct to clients, and as it develops will do so to a greater extent. The method of fulfilment has changed as the private sector has taken a larger proportion of work - now 100% of construction, 40% of design, and 83% of maintenance (the balance being mostly operational or security sensitive).
  
4. These responsibilities are exercised with respect to 9000 civil holdings (market value £6 bn, equity value £3 bn) and a defence estate of over 1000 major establishments, over 80,000 married quarters, and a total value of the order of £7 bn. They are carried out by a staff of 28,000 (15,000 non industrial, 13,000 industrial), some 25% less than in 1979.

5. To fulfil these responsibilities the Agency is organised in a 4 tier structure of headquarters, Regions (10), Areas (34) and Districts (156), that structure stemming from the 1963 reorganisation.

6. The Agency is large, and its organisation is complex (see Appendix 1, section 1); and although the Agency performs to the reasonable satisfaction of most of its clients, some criticisms are heard persistently. To quote from a consultant's report to the PSA Advisory Board (July 1983),

"PSA is too big, too slow, too centralised. Its chains of command are too long; it delegates too little."

More recently the Wardale/Touche Ross report has criticised the Agency's systems, and has said management attitudes are "too complacent."

7. The objective of the proposals is to exercise the Agency's responsibilities more effectively by providing a modified structure and systems to overcome these criticisms while retaining and building on the strengths. This will enhance the Agency's ability to

- meet client needs
- speed response
- manage the overall Government estate
- get value for money

#### 8. Proposals

The main elements of the proposals are (under a single Chief Executive, and shared PEO, PFO and professional support services):

- (a) to divide the organisation into two, one responsible for the Defence clients, and one responsible for Civil clients (the Civil Property Directorate or CPD), thus providing, for each client group, a single line of management control through the Agency; see Appendix 1 - section 2);
- (b) to reduce the number of tiers by one by merging the functions of the Regions and Areas into a single controlling tier;

(c) to develop the way the civil estate is managed; in particular to create locally based property managers responsible for all aspects of the maintenance and management of defined properties;

(d) to improve PSA's financial management and control through the introduction of "commercial style" management accounts incorporating property based delegated budgetary control systems. (This would accord with the FMI requirements);

(e) to change the organisation of the major design offices within the context of the two client based organisations.

9. Effect of proposals

(i) there will be a clear line of command from top to bottom in each of the two organisations, eliminating the present divided responsibility;

(ii) the number of offices above the level of the District will be reduced from 10 regions and 34 areas (ie 44) to 28 controlling tiers;

(iii) a clearer identification of responsibility at intermediate levels;

(iv) The Districts which handle 85% of expenditure in the territorial organisation will remain largely unchanged, thus imparting continuity and stability during the transition;

(v) improved design organisation with respect to allocation of major projects between HQ and local offices; and better relationship between capital projects and maintenance work;

(vi) numbers employed will fall by over 300 (out of 3400 directly affected in the Regions and Areas);

(vii) an ability to shape the organisations better to meet the needs of specific clients;

(viii) more manageable units. (Although the Civil side will be smaller than the Defence side, it will still be 2-3 times the size of the largest private sector property organisations)

Costs incurred are of the order of £11M over 2 years with a pay-back in 3-4 years (see Appendix 2).

#### 10. Alternatives considered

Alternative ways of achieving the basic objectives while maintaining the present "multi client" basis of the organisation have been considered. The possibility of eliminating Areas within a multi client organisation was examined in 1980 and found to raise problems of effective management because of the wide gap between Regions and Districts, and to be very costly in terms of staff movement.

11. The current study therefore examined the merging of Regions and Areas to create 30 or so controlling tiers on a multi client basis. This however does not provide the opportunities stemming from items (i) (v) (vi) and (viii) of paragraph 9, and incurs roughly the same costs and dislocation as the preferred proposals. Most importantly it does not meet the need to

- eliminate divided responsibility
- shape the organisations to match specific clients needs

These alternatives were therefore rejected.

#### 12. MOD ISSUES

12.1 MOD officials have indicated their support for the proposals which retain the advantages of merging the Navy, Army and Air Force Works Departments in 1963 but with improvements which will enable a better overall service to be given to the MOD. The proposals will also allow a greater alignment of boundaries of the PSA controlling tiers with those of the service commands.

12.2 The broader question of whether, once the Defence works and estates activities have been separated out, they should be transferred back to MOD is not directly affected by restructuring.

12.3 As far as works functions are concerned, the case for keeping within one Agency the whole of the Government construction and maintenance activities remains valid. The expertise and resources needed to handle them are more likely to be effectively deployed in a Department committed to such work, than in one where of necessity it would form but a small and relatively minor part of the total activity.

12.4 On the estate side, there are arguments for transferring the PSA defence estates function back to MOD and thereby to recombine policy and execution of estates and land issues into a single defence lands organisation. On the other hand, there are also arguments for keeping the estates work in PSA reinforced by the closer integration of works and estates functions under restructuring and the improvements in services and economy which this implies. The matter is under discussion between the two Departments.

### 13. Civil Clients Issues

13.1 The ability to serve the Civil clients will be enhanced because

- primary points of contact at levels above the District will be reduced from 44 to 8
- the new property managers will be the principal point of local contact in matters both of maintenance and estate management for individual properties, thus giving clearer responsibility within PSA and more direct point of contact for clients
- the Civil Property Directorate will evolve in a way determined by the needs of Civil clients

13.2 Possible adverse consequences will be neutralised because

- we shall seek to ensure the greatest possible delegation of authority to controlling tier managers.



- the special position of Scotland and Wales is recognised by the retention of existing PSA Directors (at present grades) in these locations

14. General Issues

- (i) PRS and Contracting Out The impact of restructuring will be felt in this area through the combination of the three factors of

the property manager role

the integration of Estates and Works function in management terms

commercial style accounts

These three elements will enable us to develop both budgetary control and accounts by individual property with the identification of responsibility on managers to utilize that information effectively. This will in due course enhance our ability to handle effectively, with discrimination by client and property, both the development of PRS and the alternative of contracting out.

- (ii) Wardale/Touche Ross Report (WTR) Ministers will be concerned to know if the restructuring proposals have a bearing on this. The answer is 'yes'; they will enable the main concerns of the WTR report

- improved systems
- change in management attitudes

to be followed through more effectively, helped by

- introduction of commercial style accounts
- property based delegated budgetary control systems
- clearer identification of responsibility at the property manager level
- quicker response time

Given the congruence of objectives of WTR and restructuring, they should be regarded as complementary and not competing priorities.

(iii) exchange of work between the two organisations

Of the total work load of £600 mn, some £36m will be carried out for geographical and cost reasons by the "other side" - £30m of Civil work (out of £170m total civil work) will be done by the Defence Directorate, and £6m of Defence work (out of a total of £432m) will be done by the Civil Property Directorate. Each party will be charged appropriately. The work will be held only by virtue of quality of service, as clients will in due course have the alternatives of bringing work back to their own side or subcontracting work to the private sector.

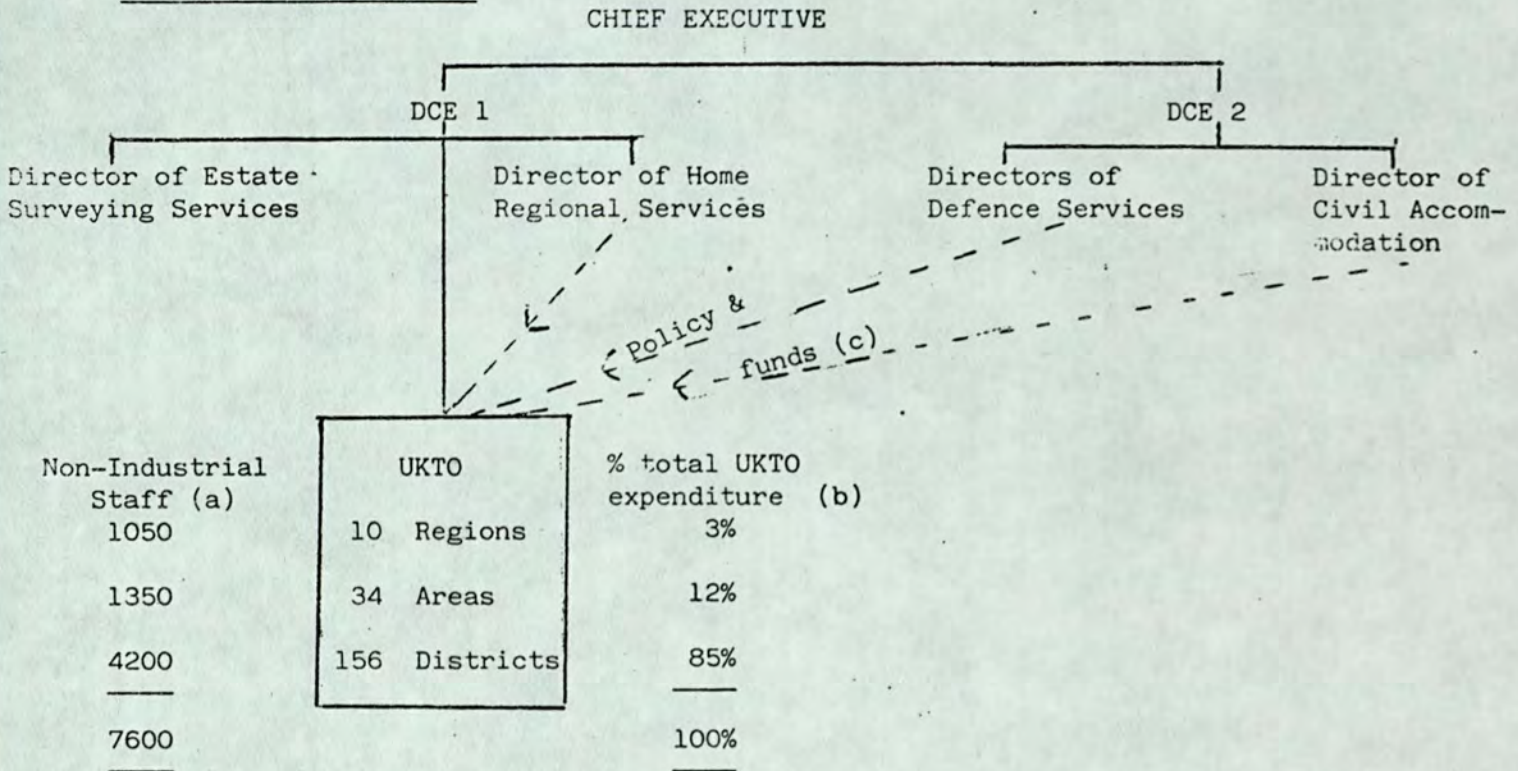
(iv) transitional problems No major restructuring is possible without some dislocation. It is intended to minimise any short term deterioration in service by planning the transition carefully but a major change in management may have some short term effect.

PSA

PRESENT AND POSSIBLE ORGANISATION STRUCTURE

(Simplified and excluding common elements of PEO, PFO, DGDS and HQ Design Offices)

1. EXISTING PSA STRUCTURE



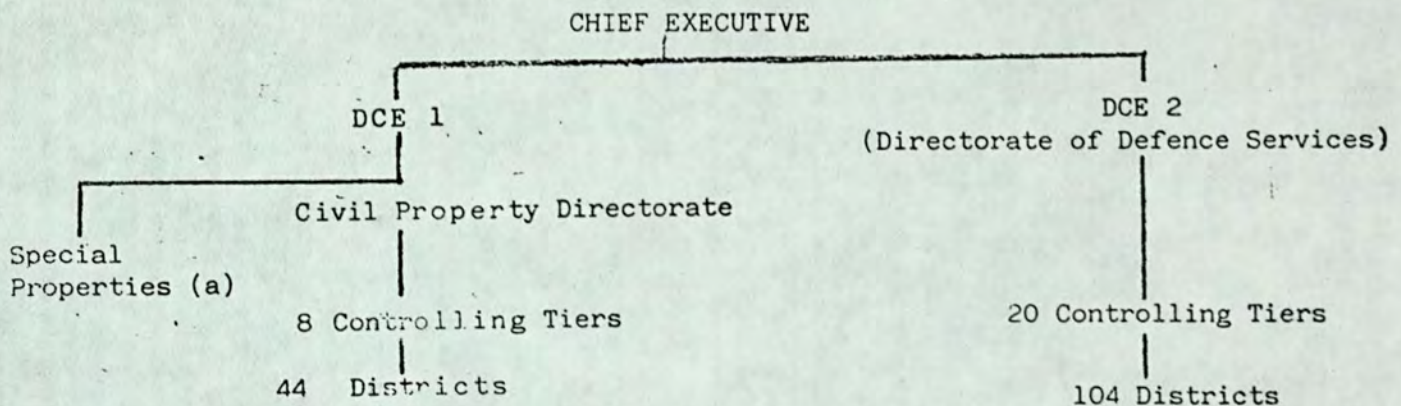
Footnote 1

(a) excluding Pt 1 and site control staff

(b) Related to immediate supervision of expenditure. Planning and support services derive from Areas and Regions

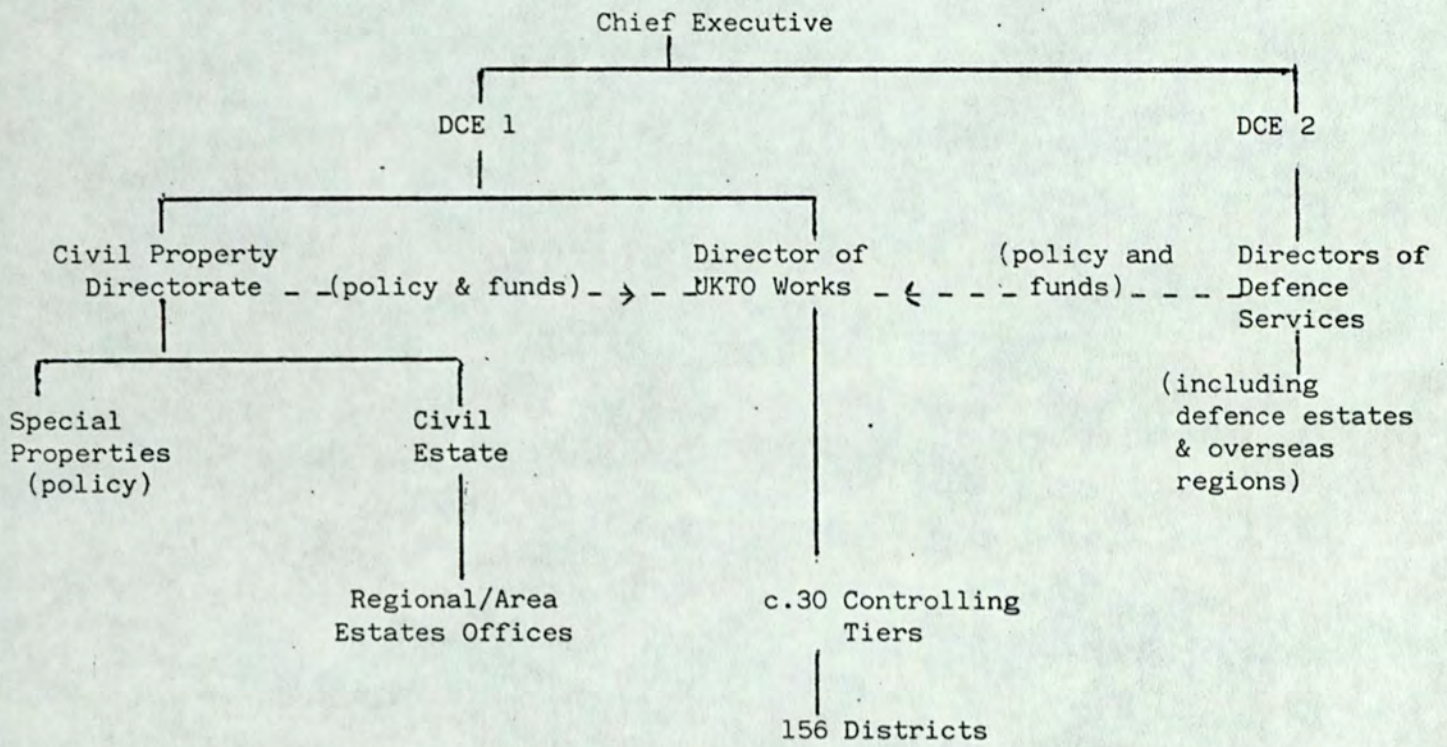
(c) About 40% of funds are spent direct by DDS and DCA; the other 60% by UKTO

2. PROPOSED STRUCTURE - (DEDICATION)



- NOTE 1 POLICY AND FUNDS FLOW ENTIRELY ALONG DIRECT MANAGEMENT LINES
- 2 Total number of District Works Offices unchanged at 156
- 3 10 Regions and 34 Areas replaced by 29 Controlling Tier offices
- (a) Museums, Galleries, Palaces, etc.

3. ALTERNATIVE STRUCTURE - (MULTI CLIENT)



## RESTRUCTURING

to Annex A

COSTS/SAVINGS - PRELIMINARY ESTIMATES

The very approximate estimate of future costs and savings from 1.4.84 is as follows:

		<u>£ M. (to nearest £½ M. at constant prices</u>				
		<u>Year: 84/5</u>	<u>85/6</u>	<u>86/7</u>	<u>87/8</u>	<u>and there-</u> <u>after</u>
<u>COSTS</u>						
See Notes:	1.	New Computer systems	1.5	1.0	-	-
	2.	Commercial accounting and other systems	1.0	.5	-	-
	3.	Consultancy and other set-up costs	.5	.5	-	-
	4.	Staff movements	3.0	3.0	-	-
		TOTAL COSTS	6.0	5.0	-	-
<u>SAVINGS</u>						
	5.	Staff costs (annual saving)	.5	2.0	4.0	4.5
	6.	NET (COST)/SAVING	(5.5)	(3.0)	4.0	4.5

Notes:

1. New computer systems. These costs of £2.5M. for new computer hardware and software would have been spent in any case on computer development, had there been no restructuring; however the time of purchase has been brought forward to meet the restructuring timetable.
2. The Commercial accounting and other systems are specifically needed to meet the commercial approach and improved financial management and control implicit in restructuring.
1. & 2. These costs have been derived from figures calculated by Coopers & Lybrand in their initial feasibility study.
3. Consultancy and other set-up costs. The general cost of development and implementation, including such items as training, new procedures, teams' travel and subsistence, office accommodation changes etc.

4. Staff movements - being the cost of relocating 500 - 550 staff during the first two years at a calculated average cost of £11,000 per head.
5. Staff cost (annual saving) has been calculated on a phased basis, reflecting the estimated total staff saving of 300 people being achieved through restructuring. The calculation is as follows:

				<u>At an average of £15,000 pa per head</u>
				£M
By April 1985	50	Year 84/5	25	.375
April 1986	200	85/6	125	1.875
April 1987	300	86/7	250	3.750
		87/8	300	4.500

6. NET (COST)/SAVING - this reflects the initial transitional and set-up cost but with a long-term savings of £4.5 M. per year.

PROPOSED RESTRUCTURINGCOMMENT BY G.N. MOBBS, CHAIRMAN OF THE ADVISORY BOARD

1. The Advisory Board has been kept fully informed by the Chief Executive of his proposals to restructure the PSA. Generally the Advisory Board is in full support of the measures proposed though in certain matters of detail the Advisory Board does have reservations pending the outcome of the Chief Executive's detailed working proposals.
2. I am aware that the Chief Executive has been invited to submit papers justifying his proposals to the Treasury.
3. The proposed changes to the PSA were first suggested in the second quarter of 1982 and have been the subject of discussion both at the Advisory Board and with successive Secretaries of State. Whilst supporting the Chief Executive in his proposals of change, I have become increasingly concerned at the delay in implementing the proposals and the uncertainty created by the indecision affecting the future structure of the PSA. A firm direction either to proceed with restructuring or to maintain the status quo is an essential element in improving the morale and effectiveness of the PSA.
4. It is my personal view that change is needed in that change will in itself emphasize to people that new attitudes and procedures are required to the management of resources and that this will assist in implementing recommendations made by the Advisory Board, by the Wardale Enquiry and by others.
5. The Chief Executive in his paper accompanying his letter of 9th August 1983 has in paragraph 2 set out fairly the strengths and weaknesses of the present PSA. I would endorse his analysis and reaffirm the views of the Advisory Board which are set out in paragraph 2.3. Furthermore I would go so far as to say that without action being given to the changes, it is unlikely that the Government's estate can be managed in an economic and effective manner.

6. The proposals which have been set out are at first sight complex and do appear to have a far-reaching effect on the work of the PSA and its relationships with its clients. It might seem easy to adopt some of the proposals in part, particularly in so far as they reduce the number of management tiers. I would suggest that all the proposals made by the Chief Executive are, to a greater or lesser extent, interdependent one on the other and for example the removal of one UKTO tier and the merger of regions and areas by the introduction of a controlling tier is dependent upon the divisionalization of the PSA as between the civil and the defence content of the estate. Also the designation of satellite design offices again is relevant to the dedication of the management function.
7. Appendix E to the Chief Executive's memorandum sets out a preliminary estimate of the cost of savings of the proposals but it must be emphasized that if progress was made without changes, some expenditure would have inevitably have occurred by way of improved computerization and systems and the use of external consultants.
8. In my view, change is required in the PSA for the reasons already stated and the aims and objectives of any change must be to create clearer lines of communication and responsibility and greater cohesion between different management departments. This will also hopefully lead to a better identity with clients and a greater visibility of action. It is to be hoped that the present scrutiny of the proposals will lead to an early determination of the present uncertainty and that the PSA management can be given the approval to go ahead to improve the service rendered by the PSA.
9. \* Annexed to this memorandum are copies of:-
- a) A file note of a meeting held on December 7th 1982 to discuss the proposed property division.
  - b) A file note of a meeting held on 11th January 1983 to discuss UKTO restructuring.

\* ANNEXES NOT CIRCULATED.

GNM/amb.

23.8.83



Clive Selman  
Long-term  
p. 14

3 NOV 1988

