



POLICY CHALLENGE

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The Property Services Agency — a case for demolition.

Keith Boyfield

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PREFACE

The primary aim of this paper is to focus on the PSA's management of the central government's accommodation requirement. It is less concerned with the PSA's record as a building manager, or with its management of the Defence Estate, or with the Crown Suppliers.

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1.

SOME HISTORY

The origins of the Property Services Agency can fairly be traced back to the Middle Ages when the Sovereign employed a Clerk of the Works to maintain the royal palaces. In the nineteenth century the Office of Works expanded to become a department of central government. The next major landmark can be placed in 1940, when the Office of Works was established as a separate Ministry. In 1963 it assumed responsibility for the works departments of the armed services, and in the process changed its name to the Ministry of Public Buildings and Works. In turn, this Ministry was absorbed into the giant Department of the Environment created by Edward Heath's Conservative Government in 1970.

CREATION OF THE PSA

A series of studies were commissioned in the early 1970s to review the property requirements of government departments. In 1970 Derek Rayner[1], who was then a Managing director of Marks & Spencer, was asked to investigate ways of improving the organisation and management of procurement and supplies by government. His review recommended the establishment of three separate departments: one would be responsible for procurement, one for construction and the third for supplies.

The Deputy Chairman of Bovis, Herbert Cruikshank, was then asked to review the structure, organisation and management of the construction activities of the new Department of Environment. He recommended that building requirements for all government departments should continue to be met by a sub-department of the Department of the Environment.

Timothy Sainsbury[2], a director of the eponymous supermarket chain, was subsequently asked to study the way in which central government managed its property requirements. His review published three reports which recommended that the government estate should be handled by a separate Property Management Agency.

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[1] Lord Rayner of Crowborough, created a Life Peer in 1983

[2] Conservative MP for Hove since 1973

Following this series of reviews an inter-departmental working party of officials recommended the creation of two agencies - PSA and HMSO. This proposal was given the seal of approval by a committee of permanent secretaries under Sir William Armstrong and the Government announced the formation of the PSA in May 1972.

From this account of its origins it can be seen that the PSA evolved in a straightforward manner. The Government has always had a body, whether it was a department, ministry or agency, to deal with the management of the government estate.

Individual departments have never been responsible for renting their own accommodation requirements; have never commissioned chartered surveyors, architects or other professional advisors; have never leased property in their own name. (It is, however, true that they do assume a measure of responsibility for maintenance, decoration and running expenses of some of the property they occupy.)

THE PSA TODAY

The PSA is part of the Department of the Environment, and has five main functions.

* It manages the government estate. It is responsible for all lands and buildings either owned or leased by the Government: in case of the civil estate in the name of the Secretary of State for the Environment: in the case of the defence estate in the name of the Secretary of State for Defence. It allocates land and property to meet departments' requirements, and is responsible for the purchase, leasing and disposal of all such land and property.

* It is in charge of the design of new buildings, as well as extensions and adaptations to present government properties.

* It maintains the civil and defence estates.

* It supervises all construction work undertaken by private contractors on behalf of government departments.

* It is responsible for supplies to government departments, including those of such diverse natures as catering equipment, fuel, furniture, engineering plant, motor vehicles and office equipment.

Thus the PSA is responsible for a huge estate, which (excluding defence land) consists of more than 8000 holdings spread over 11 million acres. In the last financial year the Agency's turnover exceeded £3 billion, yet it has no accounting system equivalent to any used by a commercial body. An outline summary of its expenditure by type of work for 1986/87 is shown opposite:-

PSA expenditure[3]
£million

	1986/87	1985/86
New construction	1115	1051
Maintenance	799	722
Rents & service charges	244	219
Fuel, furniture, transport and other purchases	186	177
	<u>2344</u>	<u>2169</u>

The PSA employs 24,707 staff, of whom 9479 are classified as industrial and 15,228 as non-industrial (e.g. architects, civil engineers, quantity surveyors and professional administrators). In an effort to simplify its bureaucracy, senior management has reorganised the regional network, merging the area and regional tiers and closing ten of the 24 area offices. Nevertheless, fewer than 100 jobs were eliminated by this rationalisation.

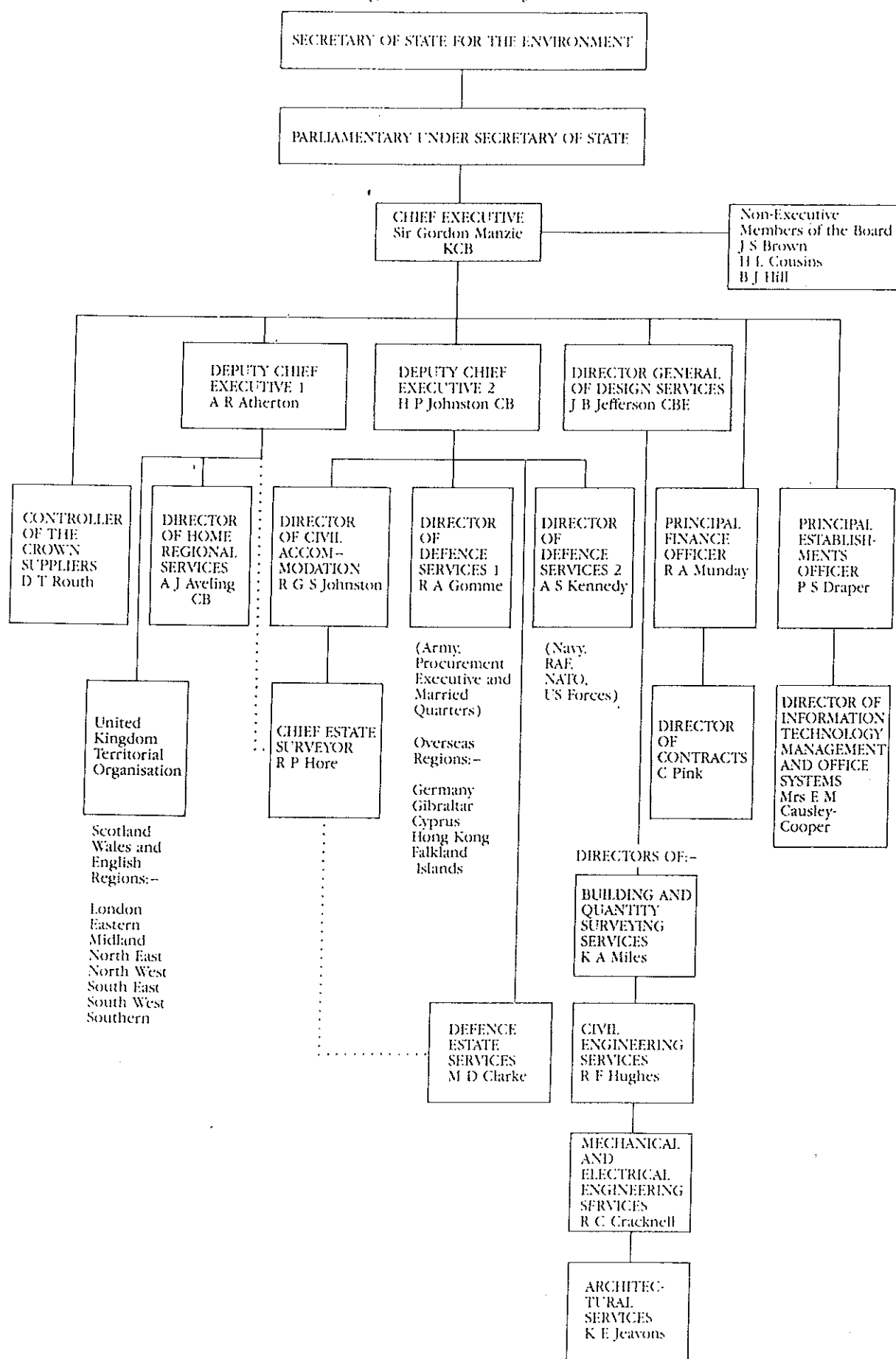
A chart of the PSA's elaborate management structure, taken from its latest annual report, is shown on the following page.

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[3] Expenditure by type of work excludes PSA resource costs, consultants' fees and Crown Suppliers sales. These items when totalled with PSA expenditure give the turnover figure. (Crown Suppliers is already a separate Trading Fund.)

— ORGANISATION —

PSA Organisation as at 1 June 1987



2. THE CRITICISMS

Few if any government agencies have come under heavier fire. The criticisms centre on four areas.

1. Management information systems are inadequate.

PSA's management approach lacks a commercial cutting edge. For example, in his evidence to the recent parliamentary select committee into the PSA [4], Sir Nigel Mobbs, a former chairman of the PSA advisory panel, said that there was 'not a system available at the moment to provide an overall objective view of performance by the PSA'. He added that the 'style and attitude of PSA management is geared to the accountability of a central government policy office rather than the commercial reality'. This led, he thought, to 'over-management, an excess of cross-checking and justification, a slow decision-making process and a lack of urgency and energy in management'.

This absolute priority given to accountability over commercial enterprise has stood in the way of trust and sound relationships between the PSA on the one hand, and the contractors and professional advisers on the other.

In both its recent investigations[5] the Parliamentary select committee found that the record of the PSA for cost and time overruns on its projects was poor. Lately, things seem to have improved; but too often the PSA seems to block close contact between client departments and professional advisers such as architects[6].

The picture that emerges is of a Byzantine bureaucracy. Where elsewhere architects and other consultants are appointed, the PSA inserts itself as an additional bureaucratic layer between user and professional adviser. Senior figures in the building professions have told us (during the preparation of this report) about meetings on government projects where the sheer number of PSA staff who attend ensures that no decisions can be made.

Professional firms and institutes which gave evidence to the inquiry by the select parliamentary committee severely criticised the PSA's management. For example, the Federation of Civil Engineering Contractors remarked on the lengthy and tedious administration dealing with the contractors' claims; and the disturbing number of staff changes on projects, which meant that PSA representatives were poorly briefed on certain jobs.[7]

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4. Second Report from the Environment Committee, 1986/87, HMSO
5. Fourth Report 1985/86 para 31; & Second Report 1986/87, paras 52 and 53.
6. Second Report, op. cit., volume I, para 53.
7. ibid., volume ii, p.118.

This criticism was echoed by the Royal Institute of Chartered Surveyors who pointed out that 'lines of communication are too long, responsibility is too diffuse and far too removed from those closely concerned with individual projects'.

The Royal Institute of British Architects conducted a survey amongst major practises into their experiences with the PSA. Respondents talked of serious shortcomings in the briefs which the PSA gave them, and of the inexperience of some of the interviewers who conducted the selection of architects. The RIBA also reported a 'lack of direct contact with the client department on certain types of work'. Diplomatically, the RIBA 'regretted' this.[8]

In their final report the Select Committee concluded that the PSA had failed the 'test of experience' in its role as property agent to government departments. They pulled no punches. 'The PSA has been found to be too impotent and too cumbersome, with lines of communication [again] that are far too long.[9]

One ironic complaint referred to the lack of effective management of the government estate; ironic because this had been one of the main reasons for setting up the agency in 1972.

The committee pointed out that the PSA had often been unable to identify opportunities in the property market and had neglected maintenance, mainly (it is true) due to pressures of annual Treasury budgets, but also through poor management. It was these deficiencies which led the agency to facing a 'consumer revolt'. Government departments demanded to commission outside contractors directly.

The National Audit Office (NAO) published a report in January 1986 which echoed many of these criticisms.[10]

This report found that buildings were deteriorating because maintenance was inadequate, that some surplus property had been disposed of very tardily indeed, that no reliable estimate had been made of the value of the MOD estate. The MOD is one of Britain's largest landowners, with 220,000 hectares under its control and rights to another 36,000 hectares. Although the MOD

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8. *ibid*, para 17, p 107.

9. Second report, *op cit*, vol 1, para 72.

10. Ministry of Defence and Property Services Agency: Control and Management of the Defence Estate, House of Commons, Paper 131, HMSO.

admit that their land-holdings are too large for their needs [11], no figures were published in the NAO report on the scope for reduction in their holdings. Information which would allow these sums to be done was not available. Nor was there any management system which could bring them to light. It must be added, however, that the policy responsibility for the defence estate rests with the MOD. PSA act only as agents after the MOD have handed property over as surplus to requirements; and the NAO give some credit to the PSA for their part in streamlining the process.

The National Audit Office recommended that MOD, with PSA should prepare a strategic plan for the whole estate' which aimed at its optimum rationalisation, 'including multi-service occupation of single sites, and achieving a cost-effective balance between capital investment and maintenance expenditure'. [12]

2. It is insensitive to the needs of conservation

The Society for the Protection of Ancient Buildings (SPAB) has pointed out that '...in spite of the PSA's glossy publicity proclaiming its achievements in conservation, it has a questionable reputation among those professionally involved in historic buildings. It also notes that the PSA tends to regard itself as an 'organisation above criticism' and has a 'marked reluctance to seek outside advice or enter into technical or other discussion'.

The Society recommends that the PSA should be disbanded with the responsibility passing to other departments. [13]

These criticisms are echoed by the Georgian Group:- 'in general terms the PSA has a poor reputation amongst conservationists for its work in maintaining or repairing the historic buildings in its care'. Like the SPAB the Georgian Group 'consider that there is a strong case to be made for the disbanding of the PSA 'with the transfer of its responsibilities to other parties. [14]

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11. *ibid.* para 3.2., page 14.

12. *ibid.* para 20, page 5.

13. *op.cit.* second report, vol 11 1986/87.

14. *ibid.*, page 175.

3. Incentives and penalties to rationalise the estate are lacking

Are the incentives suitable? Are the penalties severe enough? The Property Repayment Services (PRS) has proved to be an inadequate substitute for the market. As Sir Nigel Mobbs and Idris Pearce pointed out, 'much needs to be done to ensure that PRS reflects the true opportunity cost of government property utilisation'[15]. Very many properties lie vacant across the country -- in September 1986 they amounted to 575,272 square metres - equivalent to 6,189,926 sq. ft! [16]

Nor is the case any better with residential property. The Empty Property Unit, a voluntary body funded by Shelter and the Department of the Environment and several charitable trusts, has shown that there is a greater proportion of empty homes in the public than in either the private or in the local authority sectors. (See Table below.) Indeed, official statistics underestimate the number of empty properties. Department of Environment returns indicate that, as of April 1987, the total number of empty public sector properties in England was 15,600. However it was earlier reported by Roger Freeman, Parliamentary Under-Secretary of State for the Armed Forces, that his own Ministry, the MOD, was responsible for 14,994 unoccupied homes throughout Britain at the end of 1986[17]. Not all of these, of course, are the responsibility of the PSA.(e.g. New Towns and nationalised industries). It is evident, however, that, as things stand, the PSA lacks weight and authority to deal with the problem. As the Empty Property Unit points out, 'PSA involvement begins only when properties are declared surplus to requirements. Their role seems to be reactive, not proactive; they depend on other departments to release properties to them and they report that departments tend to guard their estates jealously. As one might expect, there is a reluctance to declare properties surplus to requirements'.[18]

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15. *ibid.*, page 72.

16. Table on p. 241 of the Select Committee second report, vol II.

17. *ibid.*, page 173. 18. *ibid.*, page 172.

Clearly the PSA cannot be blamed for this state of affairs; but it does point to the unsatisfactoriness of the role assigned to it.

TABLE

	Empty Homes England (April 1987)	% of stock
private	570,000	4.1%
local authority	112,400	2.5%
housing associations	12,900	2.7%
other public sector	15,600	5.8% ⁺

(Source: DOE)

ADEQUACY OF THE GOVERNMENT'S RESPONSE

Direction of present government policy on the future of the PSA was made clear by the Minister responsible, Christopher Chope, in his evidence to the parliamentary select committee inquiry. Mr Chope told how his Department had appointed Deloitte Haskins & Sells to look at 'the practicability and cost of introducing commercial accounts as a prelude to setting up a trading fund'. (Evidence para 124)

Trading funds were established under a 1973 Act. They are in effect government departments treated for statistical and planning purposes as public corporations. They are not entitled to receive subsidies. Examples are the Crown Suppliers (in fact part of the PSA), and HMSO.

Cross examined by the committee, Christopher Chope claimed that a trading fund 'will not only give greater understanding and knowledge of how efficient (the PSA) is but it would also give the staff in the PSA an understanding of how efficient they are compared with the private sector'.

Later, he said that if it was decided to set up a trading fund 'the PSA would remain... as a single organisation and its justification would depend upon it providing a service which departments felt could not be provided more efficiently elsewhere'.

These remarks anticipated two major reforms announced in July 1987 by John Major, Chief Secretary to the Treasury. First, as from the beginning of April 1988 'departments will be required to meet, directly from their votes, the costs of major civil building projects which are funded from their public expenditure programmes'. Previously, individual departments were responsible only for saying what they needed for accommodation, the PSA being charged with meeting such requirements (whether by the use of existing property, or leasing, or by new construction). Presently, public expenditure on civil projects falls on the PSA vote.

The second reform, even more fundamental, is that from 1 April 1988, departments will be allowed, for the first time, to employ firms in the private sector when they judge this to be more cost-effective than using the PSA.

These reforms are welcome. But there seems little impetus behind them. Mr Major spoke of "untying" departments from the obligation to use the PSA. And he went on to add that 'this process is expected to be evolutionary for three reasons'.

The three reasons given were:

1. It will take time for departments to acquire the necessary resources and skills: nor for some departments, especially small ones, and those with few building projects, may it be economical to do so.
2. Departments will need to satisfy the Treasury that they are capable of using alternative agencies.
3. The effects of changes in workload on PSA must be taken into account. Departments must therefore agree an advance programme of work with PSA.

Taking each point in turn we would argue that:

1. The aim should be not to create a series of mini-PSAs but to contract out property management services from the outset. Departments should follow the example of the private sector and appoint professional agents to advise them.
2. A non sequitur. Civil servants require no specialist skills to appoint managing agents and other professional advisers. Industry and commerce do so all the time.
3. Such a constraint only helps PSA retain its hold on government business; an excuse to retard opening up management of the government estate to competitive market forces. The Government would do better to encourage and support PSA staff to establish their own consulting practices. This would follow the example set by the Milton Keynes Development Corporation which has helped its professional staff to set up half a dozen new firms, (such as The Creative Company, formed by a number of graphic designers who previously worked for the Corporation). From within the PSA a clutch of successful consulting practices could be hatched.

We fear that if the PSA is established as a trading fund it will maintain much of its hold on the management and maintenance of the government estate. Consider that since 1980 the number of PSA's industrial staff has fallen by 43%, while the number of PSA's non-industrial staff has fallen by only 13%. Since the PSA now uses private contractors for all new construction, for 85% of maintenance and for 65% of new design work, what, one may ask, does the PSA's 15,412 administrative staff do - apart from representing a powerful vested interest for the continuation of the Agency?

RECOMMENDATIONS

a) It is important that a commercial relationship be established by government departments and their property advisers. The Chief Secretary's proposals do not go far enough towards this. We believe that government departments should assume direct responsibility for their requirements for accommodation. The restrictions which prevent them from holding leases should be abolished; they should be required to negotiate commercial leases on the buildings which they occupy.

b) The PSA's 'strategic rationalisation' role should be transferred to the Treasury, the only government body powerful enough to tackle the challenge. Such a move would fit in with the government's recent announcement which transferred the management of the civil service to the Treasury from the Cabinet Office's Management and Personnel Service. The Treasury would thus become responsible for all freeholds, which they would be able to sell if they were surplus to requirements, or if it was necessary to realise certain assets in order to meet the government's overall targets for public expenditure. This would help to release a great amount of land and of unused office accommodation presently in the public sector. Note that 15% of the cost of government administration is attributable to property costs.[15]

c) The PSA should be given a narrowly defined role as the landlord's - i.e. the Treasury's agent. Thus it would buy and sell freeholds, negotiate leases, handle rent reviews and collect rents from government departments.

Its other function would be to maintain the royal palaces (albeit in competition with commercial firms): the role played by the old Office of Works.

d) The Government should follow the lead set by the Milton Keynes Development Corporation (see above) and encourage PSA staff to establish their own consultancy firms.

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19. Sir Nigel Mobbs in evidence to the Environment Committee, Second report, 1986/87, vol II, page 77.