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ACB



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DW

My ref:

Your ref:

19 May 1986

*[Handwritten signature]*

*[Handwritten initials]*

PES 1986: PSA EXPENDITURE

This letter deals with the additional bids for expenditure by the PSA. I am enclosing at Annex A a table showing the bid arithmetic, and PSA officials will be letting the Treasury have the details. I have excluded from the bids any expenditure on work which will become the PES responsibility of other departments under the proposals agreed by the Prime Minister on 12 May. I very much welcome this clarification of bidding responsibilities.

PSA remains responsible for expenditure on managing the civil estate and for some capital works. We are starting from a very low baseline - in fact a minus quantity since PSA's receipts exceed its expenditure. You will have seen from Sir Robert Armstrong's minute of 1 May to the Prime Minister that there is now general and justified apprehension amongst departments that accommodation expenditure is underfunded. You will also recall from your correspondence with George Young about the provision for major new works in 1986/87 how few even of the most urgent works PSA is currently able to tackle. You will not therefore be surprised that I need to present a substantial additional bid for PSA expenditure.

MAJOR NEW WORKS

Officials will be sending the Treasury a full list of all the bids for major new works projects, together with the case for them.

There is insufficient money in the present baseline even to fund continued work on projects which are expected to be in progress at the start of 1987-88. £8.5m is needed for these in 1987-88 and £1.4m in 1988-89 if we are not to incur the considerable nugatory expenditure and the damaging effect on departments' operational requirements of cancelling the projects.

Although in future the bulk of the schemes to meet other departments' operational needs will become the PES responsibility of other departments, PSA will still deal with some works, including those which affect several departments. Colleagues will no doubt wish to put their views on the case for such schemes to the Treasury; all the departments concerned have been fully consulted in drawing up the list. This part of the bid accounts for £20.3m in 1987-88, £15.1m in 1988-89 and £14.5m in 1989-90.

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The bid includes £7.3m in 1987-88, £9.4m in 1988-89 and £3.8m in 1989-90 for major estate rationalisation schemes expected to have a five year or shorter payback period. Your predecessor provided some money for such work in 1985-86 on a one-off basis and officials will be letting Treasury have a review of progress detailing the substantial savings to the Exchequer being secured as a result.

The remainder of the major new works bid revives the concept of a programme to replace expensive leased property with freeholds. Such a programme would allow both planned purchases and building work; the growth of the rent bill indicates what we have lost by not pursuing this policy in the past and we are probably about to experience another round of public criticism on the subject following a recent Environment Committee hearing. I propose a provision of £10m a year, a relatively small sum but one which would nevertheless make an impression if we could continue with the programme on a steady basis from one year to the next.

## MINOR NEW WORKS

The £5m a year proposed covers the smaller estate rationalisation schemes (about £0.2m a year) and energy conservation projects (about £3.3m a year) which also have a 5 year or shorter payback period. We have been criticised by the PAC for failing to fund spend to save work like this, and should take into account both the present public emphasis on energy conservation and the set-back recently experienced in the rate at which the government is managing to cut its own energy consumption on the civil estate. In addition, work costing £1.5m a year is needed to improve fire standards. Many of our buildings do not qualify for a fire certificate at present (including the one in which you work) and the recent series of large fires in public buildings in the past few years, including most recently that at Hampton Court, shows that this is not just an academic issue.

## RENTS

The PSA rent bill has been rising at about 9% a year, partly reflecting the effect of the expiry of old leases, and this rate of increase is expected to continue, despite reductions in the size of the estate. The annual roll-forward allowance in the Survey baseline has now dropped to 2½% and is totally inadequate to cover the increase. Nor can it be offset by increasing receipts. Those from traditional repayment customers have been falling, partly because to raise money PSA have had to sell some of the property in question to the tenants. It is not open to PSA to increase PRS rent receipts by more than allowed in the agreed system of annual rent reviews, which links most annual increases to movements in the GDP deflator. The result is to leave a large gap, £26.2m in 1987-88 rising to £54.4m in 1989-90, between the net baseline provision and the forecast.

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DISPOSALS

The effect of increased rent requirements was partly offset in 1985-86 and 1986-87 by boosting disposals to £23m each year. However the scope for selling off empty buildings and surplus land is now being rapidly exhausted; not only is the annual level of disposals expected to fall over the Survey period, but sales will increasingly be of revenue earning property, so making the long term funding problems worse.

MAINTENANCE

PSA has been drawing up annually a 3 year forward programme of requirements and sending the full details to your officials. We shall be doing so again in 1986. Even after the changes to PRS delegations which take effect next April, PSA's present level of funding will be only about 85% of that needed to meet the most basic annual requirements. At this level we shall be adding to the existing backlog of work of over £100m, a very short-sighted policy when deferring work increases the ultimate cost of doing it by about 8% for each year's delay. The £15m bid proposed for 1987-88 would prevent a further increase in the backlog; and the £25m proposed for 1988-89 and the £35m for 1989-90 would halve it by 1989-90.

VACANT SPACE

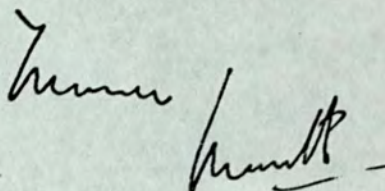
PSA's target is to reduce the amount of vacant space by about a fifth of its previous level. Substantial progress has been made in surrendering leases and in disposals, but the total to be tackled has turned out to be larger than expected. As a result, PSA is faced with meeting a larger share of the PRS charges and the government's contributions in lieu of rates than expected. Every effort will be made to reduce the vacant space charge by getting rid of space as fast as possible, but we have to allow for other departments accelerating the rate at which they vacate space and hand it over to PSA as part of their own moves to reduce accommodation costs. PSA are also badly hampered by the fact that there is no money at all in 1986-87 for further estate rationalisation schemes, often an essential prelude to a surrender or disposal.

THE CONFERENCE ESTATE

An extra £3.5n was provided in the 1985 Survey to cover the net cost of operating the Conference estate, but only for 1986-87. A study by consultants which is nearing completion has confirmed that the operating deficit of the new Conference Centre cannot be completely eliminated.

I shall be writing to you separately next month about the results of this study. Meanwhile our best assessment is that another £3m a year is required.

I am sending copies of this letter to the Prime Minister; to all departmental Ministers with an interest in the PSA works programme; and to Sir Robert Armstrong.

A handwritten signature in dark ink, appearing to read 'Kenneth Baker', written in a cursive style.

KENNETH BAKER

\* List of Ministers attached.

	1985-86	1986-87	1987-88		1988-89		1989-90	
	Forecast	Provision	Baseline	Bid	Baseline	Bid	Baseline	Bid
Major New Works	72	51.0	21.8	46.1	15.8	35.9	16.2	28.3
Minor New Works	33	27.2	27.1	5.0	27.8	5.1	28.5	5.2
Fees	13	12.5	6.4	-	6.6	-	6.7	-
Disposals	- 23	- 22.8	- 22.0	-	- 16.0	-	- 16.4	-
TOTAL CAPITAL :	89	67.9	33.3	51.1	34.2	41.0	35.0	33.5
Rent Payments	207	225	230.6	18.7	236.4	34.7	242.2	46.0
Rent Receipts	- 33	- 33.3	- 34.1	+ 7.5	- 35.0	+ 8.6	- 35.9	+ 8.4
TOTAL RENTS :	174	191.7	196.5	26.2	201.4	43.3	206.3	54.4
Maintenance	76	84.2	79.7	15.0	81.7	25.0	83.8	35.0
Running Costs	31	29.1	31.2	-	32.0	-	32.8	-
TOTAL MAINTENANCE ETC	107	113.3	110.9	15.0	113.7	25.0	116.6	35.0
Vacant Space	39	46.1	49.7	9.0	50.9	9.5	52.6	10.0
Administration	75	73.6	80.0	9.0	82.0	9.0	84.1	9.0
Conference Estate *	(1.5)	(5.0)	(1.5)	3.0	(1.0)	3.0	(0.5)	3.0
PRS Rent Receipts	-433.6	-425.3	-437.3	-	-446.4	-	-455.7	-
PRS Other Receipts	-145.1	-142.5	-142.3	-	-147.7	-	-153.2	-
TOTAL PRS RECEIPTS :	-578.7	-567.8	-579.6	-	-594.1	-	-608.9	-
TOTAL OFFICE PROGRAMME :	- 93.2	- 75.2	-109.2	113.3	-111.9	130.8	-114.7	144.9
PARLIAMENTARY WORKS :	9.2	9.3	14.4	2.4	14.7	5.9	15.1	9.9
TOTAL PSA :	- 77.0	- 65.9	- 94.8	115.7	- 97.2	136.7	- 99.6	154.8

\* Provisions for expenditure on the conference estate are included in the other lines shown in this table.

The Rt Hon Lord Hailsham of St Marylebone PC CH FRS DL  
Lord Chancellor

The Rt Hon Sir Geoffrey Howe QC MP  
Secretary of State for Foreign and Commonwealth Affairs

The Rt Hon Paul Channon MP  
Secretary of State for Trade and Industry

The Rt Hon Nigel Lawson MP  
Chancellor of the Exchequer

The Rt Hon Douglas Hurd MP  
Secretary of State for the Home Department

The Rt Hon Peter Walker MP  
Secretary of State for Energy

The Rt Hon George Younger MP  
Secretary of State for Defence

The Rt Hon Malcolm Rifkind MP  
Secretary of State for Scotland

The Rt Hon Nicholas Edwards MP  
Secretary of State for Wales

The Rt Hon Norman Fowler MP  
Secretary of State for Social Services

The Rt Hon Michael Jopling MP  
Minister of Agriculture, Fisheries and Food

The Rt Hon Nicholas Ridley MP  
Secretary of State for Transport

The Rt Hon Lord Young of Graffham  
Secretary of State for Employment

The Rt Hon Kenneth Clarke QC MP  
Paymaster General

The Rt Hon Sir Michael Havers QC MP  
Attorney General

The Rt Hon Lord Cameron of Lochbroom QC  
Lord Advocate