



Report by the  
Comptroller and  
Auditor General

Property Services Agency and  
Department of Energy:  
New Headquarters Building  
for the Department

Ordered by the House of Commons to be printed  
22 March 1990

London: HMSO  
£3.80 net

This report has been prepared under Section 6 of the National Audit Act, 1983 for presentation to the House of Commons in accordance with Section 9 of the Act.

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Comptroller and Auditor General

National Audit Office  
21 March 1990

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# Summary and conclusions

1. In August 1989 the Department of Energy moved their London headquarters from Thames House South in Millbank to a newly-redeveloped block of offices at New Buckingham Court, now known as 1 Palace Street, Victoria. The accommodation comprises a number of buildings, some listed, which have been renovated and modernised, and integrated with a substantial element of completely new construction, to form a single modern office complex. The new building is leased from a private developer for 25 years at an initial annual rent of £4.25 million. The final capital cost of adapting the accommodation during construction to meet the Department's needs is expected to be £15.6 million (of which £3 million will be met by a contribution from the developer in lieu of the normal rent-free period).
2. The National Audit Office examined how the Property Services Agency secured the new headquarters for the Department of Energy and the arrangements for adapting the building. The examination covered the roles of the Agency and the Department; the factors determining accommodation requirements; and the control of costs of occupational works. The National Audit Office also considered the extent to which these arrangements are common to other similar schemes contracted by the Agency.
3. The National Audit Office's main findings and conclusions were:

## **On roles and responsibilities**

(a) The Property Services Agency failed to clarify, at an early stage, the roles and responsibilities as between them and the Department of Energy. This led to uncertainty in the Department as to the advice, guidance and lead which they might expect from the Agency (paragraphs 2.12 and 2.13).

## **On determining accommodation requirements**

(b) The Department of Energy did not determine their accommodation requirements on the basis of a thorough review of need. In particular, they did not evaluate in sufficient depth the need for all existing headquarters staff to remain under one roof and within 1¼ miles of the House of Commons (paragraphs 1.4 to 1.8).

## **On selecting suitable new headquarters accommodation**

(c) The Department of Energy remained firm in their requirement despite the paucity of buildings fully meeting their needs, although they did at one stage consider an option involving two buildings. After a search by the Agency lasting nearly four years and with

their landlord pressing for vacant possession, the Department were left with no real alternative to New Buckingham Court even though it was uncertain whether extra space might be needed in a second building (paragraphs 1.9 to 1.19).

### **On delays in determining works requirements**

(d) To save time and money, and in accordance with their guidance, the Property Services Agency arranged for the developer of New Buckingham Court to co-ordinate and undertake occupational works alongside his own redevelopment works, but they and the Department of Energy encountered difficulties in meeting the developer's deadlines for finalising details of the works requirements. In this respect, the Agency did not succeed in the crucial, early stages, in clarifying with the developer the key dates by which decisions would have to be made and thus did not keep the Department informed. The Department, for their part, felt unable to commit significant resources to the preparation of floor plans until the developer secured planning approval to convert the residential part of his original scheme to office space. The developer was slow to submit a planning application and then some eight months elapsed before consent was granted. The Department have told the National Audit Office that once they were committed to New Buckingham Court they took decisions quickly within demanding timescales (paragraphs 1.14, 2.1, 2.4 to 2.11).

(e) Overall, delays led to nugatory rent of £2.8 million and penalty costs of £3.6 million (paragraphs 2.11 and 2.15).

### **On control of costs**

(f) The Property Services Agency did not regularly and promptly inform the Department of Energy of the cost implications of their decisions on occupational works (paragraphs 2.5 to 2.9, 2.12 to 2.15).

(g) The estimated cost of occupational works increased from £5.7 million (£30 per square foot) in 1986 to £15.6 million (£84 per square foot) by 1989. The Property Services Agency attributed these increases to: changes and refinements (£2.6 million); penalties (£3.6 million); inflation (£2.3 million); and value added tax (£1.4 million) (paragraphs 2.2 and 2.15).

(h) The Agreement for Lease provided for the developer to contribute £3 million towards the cost of occupational works, in lieu of a rent-free period (paragraph 1.20).

(i) The Property Services Agency examined the developer's cost estimates for occupational works, but the nature of their agreement with the developer did not provide them with a clear reference point by which to judge the reasonableness of these estimates. Nor

did it enable them to exercise full control over the developer's cost claims as the work proceeded. For this they had to rely on the developer's own quantity surveyors (paragraphs 2.16 to 2.18).

(j) The Property Services Agency have not developed sufficient guidance as to the terms, conditions and controls which should be included in Agreements for Lease for developer schemes. This is particularly important for those schemes where a developer is undertaking occupational works alongside his own building works (paragraph 2.19).

### **General conclusions**

4. The selection and adaptation of a new headquarters building represents a major event in a department's life. To ensure that the right decisions are made and that value for money is secured, the department and their agents need to give careful consideration to the essential needs of the department, the likely availability and cost of accommodation meeting these needs, and to plan in advance how best to secure the necessary occupational works. To secure these aims it is essential that the department and their agents co-ordinate their action and be clear as to each other's role and responsibility.

5. When the Department of Energy were required to relocate their headquarters to new accommodation, they did not take this opportunity to give thorough consideration to their accommodation needs. While they identified benefits for remaining in central London they did not identify the cost of these benefits, or savings accruing if they were foregone. Furthermore, the Department's requirements were not readily matched by what was available in the market and resulted in a prolonged period before an acceptable building could be found.

6. The Property Services Agency, for their part, did not give the Department of Energy sufficient lead, guidance and advice to help them determine their occupational works requirements for New Buckingham Court and the cost implications of their decisions. Even within the constraints imposed by the nature of the scheme and the terms of their agreement with the developer, the Agency did not play a sufficiently positive role in leading the project and keeping it to target in terms of time and costs. These shortcomings seemed to the National Audit Office particularly important in view of the lack of experience which a small department such as the Department of Energy could be expected to have in acquiring new premises.

7. In securing the occupational works for the Department of Energy, the Property Services Agency were handicapped by the fact that their agreement with the developer did not provide them with adequate arrangements for monitoring and controlling costs. In view of the consequences, and since similar problems have occurred on one of the four developer schemes they identified, the National Audit Office are concerned that the Agency have not done more to improve guidance for

their staff on how such schemes should be formulated to achieve best value for money.

8. The National Audit Office recognise that the relationship between the Property Services Agency and their clients is changing. This case demonstrates, however, that there are lessons to be learned for the Agency's successor bodies, as they develop their new roles; and equally for departments with their increased responsibilities for procuring, financing and managing their accommodation requirements.

# Part 1: Identifying and obtaining new accommodation

## Background

1.1 The headquarter offices of the Department of Energy, and their predecessors, had been at Thames House South, Millbank in London SW1 since 1953. This accommodation was held by the Property Services Agency as part of the Government's Civil Estate, on leases which expired in 1982.

1.2 The Property Services Agency declined the owners' offer of new leases beyond 1982 since these were to include full repairing terms. The Agency would not agree to these terms unless the owners first carried out a major refurbishment. The Department of Energy accepted the Agency's advice that it would not be practical to remain in occupation while such major works took place, and there was no suitable temporary accommodation into which staff could be decanted. For these reasons the Agency set about finding alternative accommodation for the Department's headquarters staff. The Department remained in occupation of Thames House South pending their move into new accommodation.

1.3 After expiry of the leases in September 1982, the Property Services Agency retained possession of the accommodation under the Landlord and Tenant Act, 1954 and continued to pay rent at an agreed rate. The owners were pressing for vacant possession in order to redevelop the building, and initiated protective court proceedings under the Landlord and Tenant Acts, but did not activate these until April 1986. These proceedings were extinguished in January 1987, when the Agency signed a short lease allowing the Department to continue in occupation until 31 December 1989 at the very latest. The agreement also extinguished the Agency's rights under the Landlord and Tenant Acts, but incorporated provision for the owners to pay the Agency on vacant possession £3.3 million compensation which they would otherwise have been entitled to under the terms of the Acts.

## Procedures for acquiring new accommodation

1.4 Before April 1990, if departments needed new accommodation they notified their requirements to

the Property Services Agency who checked whether these could be met from the existing Civil Estate. Departments were responsible for determining their accommodation requirements, including checking that they did not, without good reason, exceed the Civil Service space standards for the staff to be accommodated. The Agency were responsible for advising on the most economical and effective way of meeting the need. Departments were responsible however, under Treasury guidance issued in 1983, for taking the lead in co-ordinating the investment appraisal and ensuring that all relevant expenditure was considered. This included obtaining from the Property Services Agency comparative cost information on all options. Departments had to justify their proposals to the Treasury.

1.5 From 1 April 1990 new organisational arrangements will apply for acquiring accommodation; these are set out in paragraphs 2.20 to 2.22.

## Department of Energy's requirement

1.6 Early in 1984 the Department of Energy commissioned consultants to help identify their space requirements. They identified a basic need for 150,000 square feet of office space based on current commercial standards, though the Department subsequently concluded, and the Property Services Agency agreed, that an additional 35,000 square feet would be needed for storage and central facilities, giving a total requirement of 185,000 square feet. This represented a saving of some 25 per cent in space over their existing accommodation, which totalled some 245,000 square feet.

1.7 In July 1984 the Department of Energy formally advised the Property Services Agency of their broad requirements. These were: one single building not further than 1¼ miles from the Houses of Parliament; 90 per cent cellular accommodation (as opposed to open plan); and the building to include an energy efficiency controlled system. The Agency warned that they foresaw difficulties in obtaining one single building large enough to locate the Department's headquarters staff in the immediate locality of Parliament. They also asked whether the Department's headquarters staff



numbers might reduce over the following four years. The Department thought it unlikely staff numbers would reduce within the timescale.

1.8 The Department of Energy justified their main requirements on the following grounds:

- in central London, because of the need for close working relationships with a number of Whitehall departments as well as the public sector energy industries, major oil companies and other private sector organisations, most of whom had their principal offices there;
- close proximity to the Houses of Parliament to enable officials to be near to the Department's four Ministers;
- one single building because of the need for close integration of the Department's headquarters work;
- a large proportion of cellular accommodation because of the Department's relatively high proportion of senior staff, who were mainly engaged on policy work rather than executive activities.

These requirements were not based on a detailed analysis and did not take account of the likely cost implications, nor of the likely savings accruing if alternative arrangements were accepted.

### **Property Services Agency's search for suitable accommodation**

1.9 Since 1982, even before the Department of Energy had formally defined their requirement, the Property Services Agency had been considering possible suitable accommodation. Over the period from 1984 to 1986 a wide range of options was put forward by the Agency. Most of these were rejected by the Department as unsuitable and, consequently, were allocated by the Agency to other Government departments. As the Agency had warned, there were difficulties in finding a property in the immediate Whitehall locality large enough to house the Department under one roof.

1.10 By 1985 the most promising option appeared to the Property Services Agency to be the combination of Norwest House (a refurbished part of a larger building) and Cromwell House which could be provided with linked access. In May 1985 the Department of Energy accepted that this would meet their accommodation requirements in London for the foreseeable future. But in the following month the Department advised the Agency that although they wished to keep open the prospect,

doubts had arisen regarding its suitability: the total space offered would be a tight fit; and the buildings made inefficient use of space and had inadequate storage and conference facilities. The Department, therefore, invited the Agency to suggest alternatives. The Agency were, however, unable to identify any additional options and had to advise that two earlier possibilities were no longer available.

1.11 The Department of Energy remained unwilling either to relinquish or commit themselves to the option of Norwest/Cromwell House and by September 1985 the landlord of Cromwell House indicated that, in the absence of progress, he was considering putting the building back on the market. The Property Services Agency told the National Audit Office that they had no option but to allocate it to another department which unexpectedly had to be rehoused urgently. The Agency's recommended option for the Department's headquarters then became the combination of Norwest House and one of two other buildings. Neither option was favoured by the Department, who finally relinquished the last of these possibilities in June 1986, after New Buckingham Court had become their preferred option.

### **New Buckingham Court**

1.12 In January 1986, with the owners of Thames House South pressing for early vacation, the Property Services Agency discussed with the Department of Energy all the options then available, although all of these had limitations. The options included, for the first time, the possibility of New Buckingham Court in Victoria, a speculative re-development planned by a property company. This comprised a number of buildings, some listed, which were to be renovated and modernised, and integrated with a substantial element of new construction, to form a single complex. The scheme was then expected to offer 133,000 square feet of office space with a possible 27,000 square feet of residential units. After further discussion in February, the Agency briefed the Department's Management Board on the New Buckingham Court option in March 1986.

1.13 Although the Department of Energy were attracted to the scheme, particularly if planning permission could be obtained to convert the residential units to office accommodation, they had reservations that additional space might be needed elsewhere. Further studies by the developer's architect in conjunction with the Property Services Agency demonstrated that the conversion of the

residential portion, together with some other design changes, could provide up to 184,000 square feet of office space. With this prospect in mind, the Department advised the Agency in June 1986 that New Buckingham Court was their preferred option.

**1.14** The Property Services Agency proceeded to negotiate an Agreement for Lease with the developer. Despite pressure from both the Agency and the freeholders (Crown Estate Commissioners) it was not until November 1986 that the developer submitted to Westminster City Council a planning application for change of use of the residential element to office space. The Agency told the National Audit Office that this delay in the submission of the planning application coupled with the eight months which elapsed before planning consent was granted, was a contributory factor in the overall delays to the programme. The Agency's proposals for the use of New Buckingham Court were strongly supported by the Crown Estate Commissioners, who considered that occupation by a Government department would resolve security problems arising from the building's close proximity to Buckingham Palace. By December 1986 the Agency decided the matters were sufficiently advanced for them to agree in principle to take a lease and for the Department to undertake an informed investment appraisal.

**1.15** Most of the options considered earlier were no longer available and the Department of Energy's financial appraisal, submitted to the Treasury in January 1987, considered three remaining—New Buckingham Court and two others. The appraisal indicated, however, that one of these last two properties was too small on its own. The building had limited below ground storage which meant office space would need to be used for this purpose and there might also have been problems over security. The second of these other two options was ruled out as it was unlikely to be ready until late 1990 and had no storage space. Nonetheless, the Department was prepared to consider a solution based on either of these options, albeit with the possible need for some additional, overflow accommodation close by.

**1.16** New Buckingham Court, on the other hand, seemed to meet all the Department of Energy's requirements, subject only to the successful granting of planning permission. The appraisal showed that of the three options New Buckingham Court represented best value in discounted cost terms (between £80.1 million and £81.6 million, depending on the need for overflow space, compared with between £84.8 million and £95.8 million for the other two options).

**1.17** The Department of Energy maintained that the assumptions underlying the New Buckingham Court appraisal were firm being based on the Property Services Agency's negotiations, whereas some of those relating to the other two properties were best estimates (for example: rent and costs of occupational services). The comparative appraisals were therefore, in their view, less certain than the appraisal of New Buckingham Court.

**1.18** The Department of Energy concluded that New Buckingham Court represented overall best value. They invited the Treasury to agree that the Property Services Agency and the Department might plan on acquiring the lease of New Buckingham Court, once the planning decision was known. In April 1987 the Treasury approved the proposal in principle.

**1.19** Under pressure from the developer to reach agreement, and with the prospect of the property being put back on the market for a higher rent, the Property Services Agency pressed the Department of Energy for their agreement to proceed. Notwithstanding the uncertainty over the outcome of the planning application and the possible need for extra space in a second building, the Department gave their agreement, following which the Agency signed in May 1987 an Agreement for Lease for New Buckingham Court—now known as 1 Palace Street. In June 1987 Westminster City Council granted the developer consent to change the use of the residential part of the scheme to offices, as had been anticipated by the Agency.

### **Terms of the Agreement for Lease**

**1.20** The Agreement for Lease included the following main terms:

- initial rent of £4.25 million a year payable from the developer's planned completion date of 23 December 1988;
- five-yearly rent reviews in an upward only direction;
- 25 year lease;
- the developer to undertake occupational works—essentially the installation of fixtures, fittings and equipment to meet the Department of Energy's specific needs in accordance with a detailed design brief to be submitted by the Property Services Agency. The Agency would pay the costs arising out of the Department's works in excess of £3 million, the latter being a contribution from the developer in lieu of a customary rent free period.

## Part 2: New Buckingham Court occupational works

### Co-ordination with main works

2.1 With the aim of saving time and money, the Property Services Agency, in accordance with their standing instructions\*, provided for the developer to undertake the Department of Energy's occupational works concurrently with the main building works. In this way the developer planned to complete all works by 23 December 1988, when rent was to become payable. If achieved, this would have enabled the Department to take up occupation with the least possible delay, thereby avoiding nugatory rent.

### Cost estimates

2.2 The Property Services Agency originally estimated in May 1986 that the total cost of occupational works would be in the order of £5.7 million. This was based on a formula unit cost of £30 per square foot, derived by analogy with the cost of other similar works in a number of headquarters buildings in central London. It included a contingency allowance and possible costs arising from any need to alter works planned by the developer. In accordance with Treasury instructions the calculation made no allowance for future inflation. After deducting the developer's agreed contribution of £3 million (see paragraph 1.20) an estimated £2.7 million remained to be met from public funds.

2.3 On this basis, the Department of Energy included in their 1987 Public Expenditure Survey bid £2.7 million to cover the estimated costs of occupational works. The provision was transferred to, and expenditure is being met from, the Property

#### \* Footnote

The Property Services Agency's Estate Surveyor's Code includes the following guidance: "An undertaking has been given to Parliament that when leasing uncompleted buildings the Agency will persuade the developers to adjust basic services, as far as practicable, to its requirements so as to reduce the need for expensive adaptations after a building has been handed over by the contractor. When an early commitment to a building is made it may be possible to negotiate advantageous terms under which the lessor carries out all the Agency's occupational requirements concurrent with his own works. Such 'lessor schemes' can yield very substantial savings in time, and avoid nugatory rent".

Services Agency's Civil Accommodation Vote (Class XX, Vote 19 in 1988-89). This is an exception to the new 'untying and payment' arrangements, introduced in April 1988, whereby the costs of major new works now normally fall on a Vote of the client department. The Agency were keen to avoid any exceptions to the new arrangements, but the Department argued that Vote responsibility should remain with the Agency because of the difficulties of changing midway through the Department's sole major project for the foreseeable future. This was endorsed by the Property Repayment Services Inter-Departmental Committee, who are responsible for overseeing the relationships between the Agency and their clients.

### The Department's occupational works requirements

2.4 The Property Services Agency and the Department of Energy met the developer on-site in March 1986 to discuss requirements. The developer then supplied revised drawings to reflect the proposed changes to his scheme. In July 1986 a joint Property Services Agency/Department of Energy preliminary working party met to review layout plans (which included instructions on the high proportion of cellular accommodation required) and to discuss the way ahead. This was intended to enable the Agency to refine the Department's brief which could then go forward as the approved scheme, subject to clarification of the security requirements, and plans for a staff restaurant.

2.5 At this stage the Property Services Agency warned the Department of Energy that if they made significant changes to their requirement, after a relatively early point in the contract, these would result in time and cost penalties — possibly of a very substantial order. The Agency suggested to the Department that all major issues should be finalised by November 1986, although they were reluctant for the Department to tell staff that New Buckingham Court was their likely new home (a necessary step in the preparation of a detailed specification), whilst the terms of the lease were still under negotiation. The Agency told the National Audit Office that in the crucial early stages they did not succeed in clarifying with the

developer the key dates by which decisions would have to be made and thus did not keep the Department informed (see paragraphs 2.12 and 2.13).

**2.6** During August and September 1986 the Property Services Agency, the Department of Energy and the developer met on several occasions, but mainly concentrated on security arrangements and plans for the staff restaurant. The Agency and the Department told the National Audit Office that they were unable to finalise the brief for the developer until planning approval had been obtained on the change of use from residential to office space. Pending this, in September 1986 in response to a request from the developer, the Agency advised him of the Department's broad requirements. Subsequently, in April 1987, the Agency issued a Design Guide Brief formally setting out the general requirements and standards.

**2.7** From then on the Department of Energy and the Property Services Agency met at least fortnightly with the developer's representatives (a firm of quantity surveyors) and with the architects and builders employed by the developer to design and construct the work. The aim of those meetings was to develop the Design Guide Brief into detailed specifications for the occupational works.

**2.8** In May 1987, one month before planning consent was obtained, the developer set July as the target for finalisation of the detailed design brief of the Department of Energy's requirements. Despite efforts by both the Department and the Property Services Agency this proved unattainable. They explained to the National Audit Office that this was partly because of the extent of the occupational works requirements and the Department not being able to complete its internal consultation and discussions until planning consent was obtained in June 1987. The Agency told the Department in August 1987, however, that they had no reason to believe that delays in providing information would lead to significant delays in the building programme. The Agency were of the opinion a critical point had not yet been reached.

**2.9** In the event, delays arose from the Department of Energy's difficulties in agreeing floor layouts. The Department have told the National Audit Office that detailed specifications could only be prepared with reference to a clearly defined building and that they were unwilling to commit significant resources to the project until the outcome of the planning application was certain. Therefore they had not considered it appropriate to start to consider the floor plans as early as July 1986, when the Property Services Agency had established a joint preliminary working party for this purpose. They also told the

National Audit Office that, in their view, once the Agreement for Lease was signed in May 1987, they had made decisions and submitted information required by the developer within extremely demanding timescales.

**2.10** In November 1987 a design freeze was achieved, and in January 1988 the developer issued a revised programme which showed a final completion date of 23 July 1989 for occupational works. Further modifications to the design brief were necessary before it was finally agreed in March 1988. These changes took account of organisational restructuring within the Department of Energy, clarification of requirements of the Property Services Agency's Regional Fire Officer, measures requested by the Agency's Security Adviser, and ensured the building would be provided with telecommunications (which were specifically excluded from the Agreement for Lease). These revisions incurred a cost penalty as an alternative to delaying completion by a further six weeks (see paragraph 2.15).

**2.11** Because the delays frustrated the developer from completing his own building works, these were treated under the terms of the Agreement, after certification by the developer's quantity surveyors, as having notionally been completed by 23 December 1988. Accordingly, the Property Services Agency became liable to pay rent from that date. Although completion of the occupational works was expected on 23 July 1989 it was not until 21 August that the developer was able to hand over the building to the Agency and the Department of Energy. Thus the Agency incurred £2.8 million of nugatory rent for the eight-month period between notional completion of the developer's building works and occupation by the Department.

## **Roles and responsibilities**

**2.12** Although a letter from the Property Services Agency to the Department of Energy in January 1987 had included an outline of the services which the Agency would provide in the planning and monitoring of the occupational works, the Department remained unclear as to the respective roles and responsibilities as between the Agency and themselves. In June 1987, after the Agreement for Lease had been signed and when the developer was pressing for decisions on detailed specifications, the Department expressed concern at what they perceived to be the lack of lead from the Agency in the management of the project. The Department felt that they were being forced into making decisions without guidance from the Agency about their cost implications or other consequences. They complained that the Agency had not given them

any schedule of critical dates by which decisions had to be made, nor any statement of what works were to be included for the then estimated contribution of £2.7 million (see paragraph 2.3). These uncertainties raised doubts in the Department as to the advice, guidance and lead which they might expect from the Agency.

**2.13** In July 1987 the Property Services Agency explained to the Department of Energy that the Agency were responsible for ensuring that the requirements were designed and constructed in accordance with the Department's brief and to the Agency's standards. This involved developing a brief for the developer; approving drawings and specifications prepared by the developer's design team; monitoring the progress of the works on site; and ensuring that the developer's costs were reasonable, that he maintained an adequate system of cost control, and reported to the Agency on a regular basis. The Agency accepted that there was scope for them to take a greater lead in the project and agreed that where the Department needed information from the developer the Agency would press hard to obtain it for them. Subsequently, in August 1987, the Agency prepared a schedule of key dates for briefing the developer.

### **Increases in cost estimates**

**2.14** During the course of the project the developer produced and presented to the Property Services Agency a number of Cost Plans. These estimates changed as the detailed brief for the works was refined and revised and building costs increased. A summary of the changes as identified by the National Audit Office is at Appendix 1. The third major version, Cost Plan 3, was presented by the developer in May 1988, after the final modifications to the brief in March 1988 (paragraph 2.10). After examination by in-house and consultant quantity surveyors and negotiation between the Agency's Project Manager and the developer's representatives, the total estimate was further revised and confirmed in August 1988 as £15.6 million (before deduction of the developer's contribution, paragraph 1.20). The Agency told the National Audit Office that this figure remained unchanged as at the end of 1989. Figure 1 shows a breakdown of the final estimate of £15.6 million.

**2.15** The estimate of £15.6 million, which excludes the Property Services Agency's own resource costs estimated at £215,000, compares with the original formula forecast of £5.7 million in 1986 (paragraph 2.2), the developer's first estimate of £5.6 million in July 1987, and his revised estimate of £7.3 million in September of that year (see Appendix 1). The

overall effect is an increase in cost per square foot from the original planning formula of £30 per square foot to an expected outturn, based on completion of work in August 1989, of £84 per square foot. The increases arose from:

- changes and refinements in the Department of Energy's requirements, including provision for some under-estimating in the 1986 formula forecast of £5.7 million; essential works to bring the converted residential area up to the same standard as the rest of the building; and fire and security measures to meet the Property Services Agency's requirements. These were valued in total by the Agency at some £2.6 million;
- claims from the developer for delays and disruption amounting to £3.6 million — including over £500,000 for additional fees; £350,000 penalty to avoid delaying completion by a further six weeks (see paragraph 2.10); and a further £100,000 for the delay related to the provision of telecommunications systems;
- inflation in building costs in London which the Property Services Agency estimated to account for £2.3 million of the increase;
- a VAT liability, uncertain at the time of the original estimate but now estimated by the developer at £1.4 million.

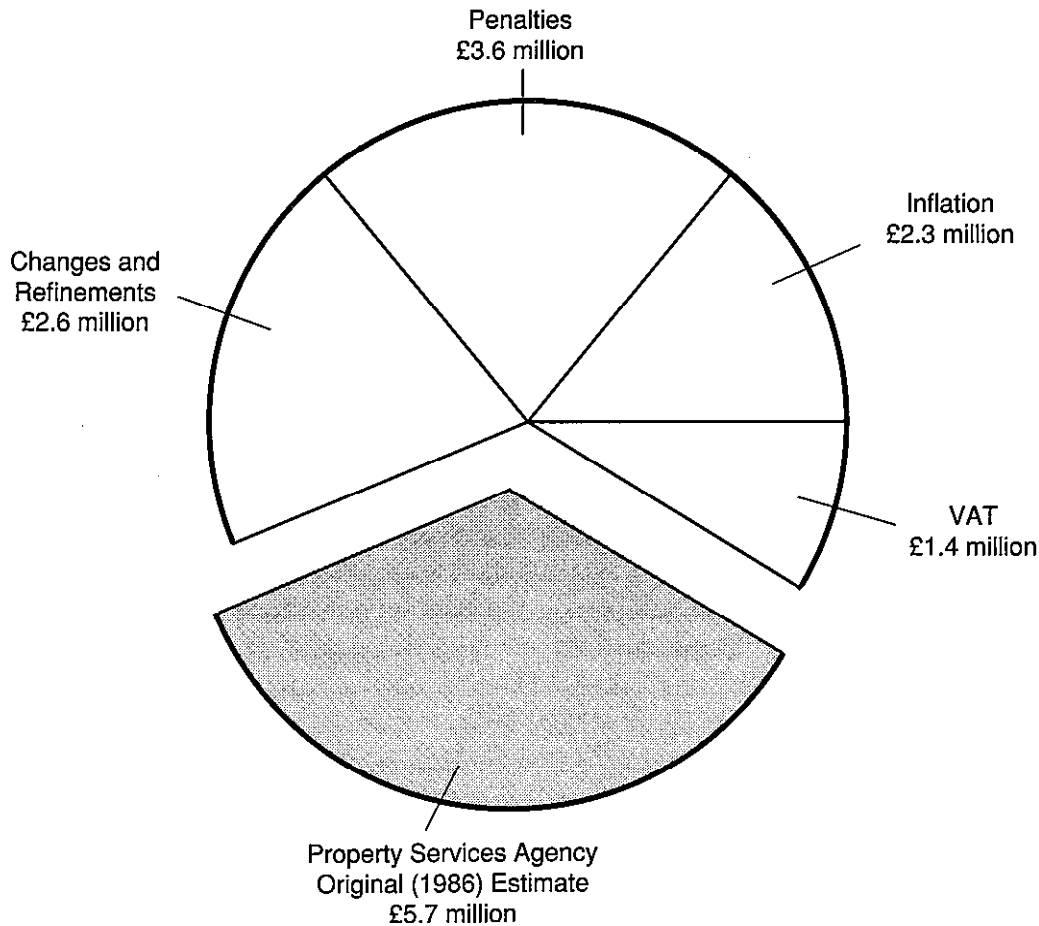
### **Property Services Agency's review of cost estimates**

**2.16** The Property Services Agency examined each of the Cost Plans produced by the developer and questioned the estimates in detail with the developer's quantity surveyors. To help verify the mechanical and electrical costs the Agency engaged an independent firm of surveyors, but these were unable to come to firm conclusions because of the limited information available to them on the developer's plans. Overall, the Agency were, however, substantially content with the developer's final Cost Plan and in November 1988 accepted the estimate of £15.6 million on the basis that some £11 million was fixed, with the balance subject to possible further revision. The variable element included the £1.4 million for VAT, which could be reduced by £0.5 million subject to a ruling needed from HM Customs & Excise.

**2.17** The Agreement for Lease with the developer, although providing for him to undertake the occupational works, did not identify the capital works which he would have undertaken to complete the redevelopment to his original

## Figure 1

### Occupational Works: Breakdown of 1989 (final) cost estimate of £15.6 million



Source: Property Services Agency and the Department of Energy

standards. This meant that the Property Services Agency had no clear reference point by which to judge the reasonableness of the costs of the occupational works.

**2.18** In addition, the nature of the Agreement required the Property Services Agency to rely on a number of professional services provided by the developer. These included quantity surveyors who, although contracted by the developer, were responsible for valuing work done, apportioning costs between the developer and the Agency and certifying the date of practical completion of the developer's work. This arrangement contrasts with the traditional contractual arrangements where the Agency use their own quantity surveyors to check interim certificates valuing work completed. Such checks normally involve physical inspection and measurement of the work to ensure it is complete to the extent certified and to a satisfactory quality. Such independent verification was not possible with the New Buckingham Court project, since all

building works were under the direct control of the developer rather than the Agency.

### Other similar schemes

**2.19** The National Audit Office's enquiries within the Property Services Agency's London Region have identified four other schemes where a developer is, or has been, undertaking occupational works alongside his own building works. The National Audit Office found that the contractual terms and control arrangements varied in these cases and that the Agency do not have detailed guidance as to what such agreements should include. The schemes also differed in other features, such as scale, location and type of building. One recent scheme, however, shared an important feature with the New Buckingham Court development — the Agreement for Lease did not provide for any independent review of cost estimates by the Agency's own quantity surveyors. The National Audit Office's examination of this scheme indicated that it, too,

had suffered substantial increases over the original cost estimates and had incurred cost penalties arising from prolongation and disruption. The National Audit Office have been unable to identify whether any of the Agency's other similar developer schemes share the same weakness in cost control.

### **Future developments**

**2.20** Since the mid-1980's, the Property Services Agency have been moving towards becoming a more commercial organisation. In 1989 the Secretary of State decided to accelerate progress towards commercialisation and announced that the Agency would be restructured from 1 April 1990. Part of the Agency will become PSA Services and will take over all the design and project management services. It will be privatised as soon as possible. The remaining part of the Agency will become the Directorate General of Property Holdings within the Department of Environment, and will be responsible for managing the Common

User Estate (mostly general purpose office accommodation). Individual departments will take over full responsibility for their Departmental estates (mostly specialised buildings).

**2.21** From April 1990 all departments, including Property Holdings, will be fully untied from PSA Services, but may purchase professional services from them or other agents. The Property Services Agency told the National Audit Office that Property Holdings will be responsible for acquiring additions to the Common User Estate. For these acquisitions the arrangements described at paragraph 1.4 will continue to operate, with Property Holdings assuming the role of the Property Services Agency.

**2.22** Property Holdings will meet the cost of acquiring buildings for the Common User Estate which are intended for joint occupation, and for purchasing freeholds. User departments will, however, be responsible for bearing the cost of buildings acquired for their sole occupation on the Common User Estate.

# Appendix 1

## New Buckingham Court occupational works: Developer's estimated costs

	£million
Developer's Cost Plan 1 (July 1987)	5.63 <sup>1</sup>
Developer's Cost Plan 2 (September 1987)	7.26 <sup>2</sup>
Developer's Cost Plan 2 (Adjusted September 1987)	9.11 <sup>3</sup>
Developer's Cost Plan 2 (Revised January 1988)	7.79 <sup>4</sup>
Developer's Cost Plan 3 (May 1988)	9.62 <sup>5</sup>
Developer's Cost Plan 3 (Revised August 1988)	15.56 <sup>6</sup>

### Notes

- <sup>1</sup> The estimate excluded some works considered by the Property Services Agency to be essential. These would have increased the estimate to £7 million.
- <sup>2</sup> Includes: £1.63 million for additional requirements (security systems, additional air conditioning and secondary glazing).
- <sup>3</sup> Adjusted to include: £1.85 million for cellular accommodation.
- <sup>4</sup> Revised to reflect changes and adjustments agreed with the Property Services Agency and the Department of Energy.
- <sup>5</sup> Includes: £0.89 million for increased mechanical and electrical costs;  
£0.78 million for additional work, including security, safety and links between buildings;  
£0.16 million for design fees and overheads.
- <sup>6</sup> Includes: £3.04 million penalties for delay and disruption;  
£1.36 million VAT liability not included in earlier estimates;  
£0.94 million for increased cost of works;  
£0.50 million fees for quantity surveyor;  
£0.10 million other charges.