



Treasury Chambers, Parliament Street, SW1P 3AG

01-233-4749

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*J. Salveson told*  
*17/10/84*  
*Duty Clerk 17/10*

T J Flesher Esq  
 10 Downing Street  
 LONDON  
 SW1

15 October 1984

*Dear Jim*

TREASURY MINUTE REPLYING TO THE 19TH TO 23RD AND 26TH TO 36TH REPORTS OF THE PUBLIC ACCOUNTS COMMITTEE 1983-84

The Treasury wishes to publish as a Command Paper a Treasury Minute which, together with a separate Memorandum the Northern Ireland Office is preparing concurrently, will complete the Government's response to the Public Accounts Committee's Reports of 1983-84 Session. We have already replied to the Committee's reports 1 to 18 inclusive. We are now ready to reply to the Committee's remaining reports. The Treasury will deal with reports 19-23 and 26-36 by Treasury Minute; NIO will reply to reports 24-25.

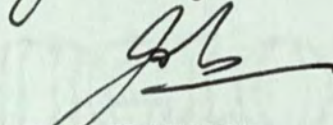
2. The texts in reply to the PAC's reports covered by the Treasury Minute have been agreed between the relevant departments, including the Treasury. The Financial Secretary has approved the Government's reply being presented in his name as is customary. Northern Ireland Office will consult you separately about its Memorandum in reply to the PAC. If it proves practicable, we aim to publish the Treasury Minute and NIO Memorandum on the same day.

3. The PAC published the reports to which the Government now intend to reply throughout the month of July. It was not feasible to publish the Government reply before the House rose for the Summer Recess. Since we try to avoid publication of these Treasury Minutes in reply to the PAC when the House is not sitting, the earliest date available to us is during the week the House of Commons returns (ie. on 22 October). We, therefore, propose publishing the Command Paper at 3.30pm on Wednesday 24 October. As usual, we expect to provide pre-publication (ie. CFR) copies prior to publication, including laying the Command Paper before both Houses of Parliament on the previous day (ie. 3.30pm on Tuesday 23 October). Treasury Information Division would supply copies to the Lobby on the usual arrangements. We shall also release copies to the departments which have contributed to the text, to PAC members and to the National Audit Office, on 23 October.



4. The Treasury Minute covers a good deal of ground. For convenience, therefore, I enclose a note explaining the background to the particular PAC reports. These Treasury Minutes normally attract little attention. However, responses dealing with defence and NHS matters invariably provoke some comment. There could well be interest, too, in the reply about fraud in the Property Services Agency. And Ministers are currently reviewing regional industrial incentives policy. On the other hand, the Treasury Minute is responding to PAC reports which, themselves, dealt with matters occurring some time in the past. Thus there is little which is new or significant appearing in the Treasury Minute itself.

5. I am sending copies of this letter and enclosure to Murdo Maclean and David Morris.

*Yours ays*  


A J SALVESON  
PARLIAMENTARY CLERK



## SUMMARY OF PAC REPORTS, 1983-84 AND LIST OF DEPARTMENTS RESPONSIBLE FOR REPLIES

19th Report : UK Trident Programme (MOD)

A generally favourable report on MOD's performance of the Trident programme, in contrast with the predecessor Committee's report (9th Report, 1981-82) which pointedly criticised MOD's provision of information and accountability to Parliament for the Chevaline project. Some warning advice for MOD to keep an eye on cost monitoring and project control and minimising the cost of funding arrangements in the USA.

20th Report : ECGD Accounts (ECGD)

The report was based on ECGD's 1982-83 accounts (ie before the Matthews Report). The Committee generally expressed concern about provision for losses and growth in insurance risks and claims payments against an increasingly uncertain international financial background.

21st Report : Regional Industrial Incentives (DTI/Scottish Office/Welsh Office)

The Committee contend that since 1972 regional incentives have provided many examples of poor value for money. Therefore the changes now proposed for development grants and selective assistance should improve schemes' effectiveness. However, there remains a problem about the lack of measurability of the results of regional incentives and the time needed to allow for a full review of the effectiveness of the revised regional incentives.

22nd Report : Dockyard Operations and Manpower (MOD)

This report pre-dates Mr Levene's report to the Defence Secretary and the further work resulting from that. The PAC was fairly critical (in part deserved) of MOD's failing to take effective action on the department's own internal reports since 1971 to deal with the basic organisational and financial difficulties facing the dockyards. Among improvements the Committee suggests are needed are clearer customer/supplies responsibilities making Naval staff fully accountable for real cost of Navy requirements, introducing outside competition wherever appropriate and better management information.



23rd Report : Home Improvement Grants (DoE)

Generally low-key criticism of DOE's monitoring of grant arrangements against objectives. A loophole in the Housing Act 1974 which is being exploited by developers should be closed at the earliest opportunity.

24th Report : Northern Ireland Matters

25th Report : De Lorean

These two reports are the responsibility of the Northern Ireland Office which will publish the replies to PAC separately from the Treasury Minute. They are, therefore, not covered in this summary.

26th Report : PSA Fraud (PSA)

This report followed evidence given by the then Chief Executive of PSA (Mr Alfred) who subsequently left the Agency. The PAC criticised PSA management for failing to act more speedily to counter the serious problems over frauds which had been known about for some years. There is a welcome for the steps which are being taken but scepticism that PSA's "action plan" for implementing the Wardale Report's recommendations go far or fast enough. The PAC announced its intention to follow up whether any significant improvements were evident in a year's time.

27th Report : Administrative Computers (Treasury/DHSS)

The main purpose of the report is to point out the Committee's concern of the potential high risks and penalties of failure and delay, with evidence of some computer projects cancelled resulting in significant nugatory expenditure. Planning by departments was not given sufficient priority nor did the Treasury do enough to counter departments' failings. Some important improvements were being made but there was much that still had to be done, eg shortage of highly skilled specialist staff, most sensible deployment of scarce and stretched resources, unrealistic expectations of benefits and timescales of projects. The report also commented critically on a particular DHSS computer project on social security benefits where the Committee was sceptical of the department's estimates (costs and staff savings), realisation of the project and monitoring arrangements.

28th Report : NHS Supplies (DHSS/Scottish Office/Welsh Office)

This is part of the matter about which Mr Ralph Howell, MP has written to the Prime Minister on a number of occasions over the past couple of years. The PAC's main message is of missed opportunities to secure available economies over the past 30 years and urges the three Health departments and health authorities to seize the opportunity to make savings now. Cost consciousness is the responsibility of those directly responsible for patient care as much



as administrators. The Committee promised further comment about the British Oxygen Company's contract to supply medical gasses (about which there had been some unfavourable press comment) after the Health Services Supply Council and DHSS completed their reviews of the contract.

29th Report : NHS Drugs (DHSS/Scottish Office)

The report is largely a progress report and closer to its predecessor's 10th Report, 1982-83. The Committee's latest report concluded that the PPRS scheme had not ensured the reasonableness of drug prices generally and that the target profit rate DHSS allowed drug companies was too high. There is a related, though separate, problem of over-reimbursement of chemists for the cost of drugs dispensed. PAC urged recovery of any over-reimbursements, re-examination of the Health Departments' contract with chemists for NHS dispensing and imposition of a settlement for the future profit formula if agreement cannot be reached with the chemists.

30th Report : Building Maintenance Expenditure (PSA)

The C&AG produced a report containing a number of fundamental criticisms of management structure and management information systems in the PSA, some of which had been identified earlier but with no adequate remedial action. In evidence PSA agreed it needed to take remedial action on the lines suggested by the C&AG. The PAC welcomes the PSA acknowledgement and lists a number of areas where the Committee expects improvements to be forthcoming; and sets the beginning of 1985 as a target date for the PSA's "action plan" to deal with the various reports (eg including Wardale - see 26th Report) on the department's shortcomings.

31st Report : Control of Manpower in Non-Departmental Public Bodies Sponsored by DES (DES)

This report used DES' bodies as a sample for NDPBs generally, and extended the relevant disciplines to the Open University. It is a rather bland report. It generally endorses DES' practice for reviewing and monitoring manpower control in its NDPBs, with a warning that flexibility should not imply a less rigorous approach than in government departments. But the Committee urged DES to seek more positive assurances about manpower control in the Open University.



32nd Report : Development of Nuclear Power (Department of Energy)

A somewhat anodyne report recommending UKAEA establish time and cost targets for its programme objectives and criticising the lack of a Government decision on the commencement of a commercial demonstration fast reactor.

33rd Report : Economy of Stores Support (MOD)

PAC listed a number of specific comments/criticisms/recommendations about what it viewed as MOD's tendency to build up excessive accumulation of stocks. The Committee specifically advised better management information, greater use of direct supply and running contracts, clearer identification of the full costs of financing and holding stocks and introduction of responsibility budgets in all central stores depots; and ask to be kept informed of the current reviews by the Defence Secretary and Mr Levene about the need for three separate Service supply organisations.

34th Report : Enforcement Powers of the Revenue Departments (Inland Revenue/ Customs and Excise)

This report reviews a number of previous PAC recommendations looking for improvements in taxpayer compliance which the departments had put on ice while awaiting the Keith Committee Report. Now that Keith has reported the PAC expects the Revenue departments to pursue its previous recommendations: specifically more investigative powers, automatic interest penalties on tax unpaid, and tax-geared penalties for delayed or under-stated payments of tax.

35th Report : Quality Control Over District Office Procedures (Inland Revenue)

The PAC commented on error rates in Inland Revenue district offices operating PAYE. It notes progress made in controlling the quality of clerical work but expects more progress with quality control of technical work (eg larger Schedule D and company taxpayers). The Committee specifically advise early identification of areas where checks are needed, drawing up comprehensive and effective checking systems, monitoring the results and aiming for lower percentage error targets.

36th Report : Reliability of Companies Register (DTI)

The C&AG reported that in 1983 more than 40 per cent of companies were failing to meet the requirements of the Companies Acts for rendering annual accounts and returns to the Register. The PAC advocated its usual forceful policy of prosecuting defaulters in the light of the C&AG's findings. But it also criticised quite severely DTI senior management for failing to take



effective action more promptly to deal with the growing problem of non-compliance. There was specific criticism of the absence of reliable statistics to allow assessment of monitoring compliance with the Register and efficiency of the Companies' Registration Offices. The Committee also suggested the present level of fees might act as an additional tax on companies, recovering as they do more than the cost of the service provided.





NORTHERN IRELAND OFFICE

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Tim Flesher Esq  
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17 October 1984

Dear Mr Flesher,

COMMITTEE OF PUBLIC ACCOUNTS: MEMORANDA OF REPLY TO THE  
24th and 25th REPORTS

I am writing to seek the Prime Minister's agreement to the laying before Parliament on Tuesday 23 October of the Department of Finance and Personnel Memoranda of Reply to the 24th and 25th Reports of the Committee of Public Accounts. The 24th Report deals with arrears of public debt, heating charges and rates in Northern Ireland. The 25th Report contains the highly critical examination of many aspects of the De Lorean project.

It is planned to lay the Memoranda with a number of Treasury Minutes of Reply to other PAC reports. The terms of the response on De Lorean are likely to be closely scrutinised both inside and outside the House. The Memorandum may spark off further calls for Government action to pursue criminal charges; to secure redress for the creditors, or to censure those at a high level in Government who dealt with Mr De Lorean.

The Memorandum of Response records that the original decision to fund the project was a matter of policy by the then Government; there were in its judgment positive factors which justified the commitment of substantial resources and the risks. As late as November 1981, the consultants McKinsey and Co reported optimistically on the company's prospects. Extensive arrangements for monitoring the company's progress were made but in the event they failed to detect the misappropriation of a large sum of public money made available to the company for the development of the De Lorean Car. The Memorandum fully recognises a large number of important lessons to be learnt from the De Lorean experience. Government policy has changed and industrial support would not now be made available for a new project of this kind unless a substantial part of the financial resources were provided by the private sector. The position of Government nominee Directors has been reassessed and detailed formal advice has been issued.

A copy of this letter goes to the Private Secretaries to the Lord President of the Council, the Lord Privy Seal, the Secretary of State for Trade and Industry, the Chief Secretary to the Treasury, the Attorney General, the Chief Whip and Mr Bernard Ingham.

yours sincerely,  
*D Coleman*  
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18 OCT 1984

