

Ref. A084/924

MR WICKS

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At the beginning of this year the Department of Health and Social Security (DHSS) were negotiating with the representatives of a group named Intermed (itself part of BTR Industries plc) for the renewal of contracts for the supply of artificial limbs and appliances. This group is in effect a monopoly supplier. The Department took the view (and Ministers agreed) that the profits being earned by Intermed on this business were unreasonably high. This was also the view of the Central Unit on Purchasing. The Department sought to negotiate the contracts for 1986 accordingly. Intermed, having set its constituent companies specific profit targets, refused to settle on terms which did not return a profit which they regarded as adequate, and threatened to close down their artificial limb businesses and declare the employees concerned redundant.

2. One of the companies concerned is in the constituency of Mr David Mellor MP (who is Parliamentary Under Secretary of State, Home Office). On 9 January, at the request of a DHSS Minister, an official of the DHSS spoke to Mr Mellor on the telephone to tell him the current state of play in negotiations on the contracts: apparent deadlock, with the companies unwilling to move, and the Department having an accounting duty to negotiate for reduced profit margins in the new contracts.

*Why not the Minister*

3. About an hour and a quarter later Mr Mellor rang the official concerned back, saying that he was speaking from a room in which he was meeting representatives of the company concerned. It was apparent that the representatives were in the room as he spoke. He told the official that he believed that the Department was being unreasonable, and that "as a fellow Minister" he believed the line the Department was pursuing was

not an appropriate one for the Government to take. He wanted urgent action to stop the redundancy notices going out. It was in his opinion important for Mr Newton (the Minister responsible for the artificial limb service) to take charge personally of the negotiations to make sure that an approach compatible with Government policy in general was maintained.

4. The official concerned said that he understood Mr Mellor's position, that the Minister and the Department wanted an agreed resolution of the position, and that he would ask Mr Newton to telephone Mr Mellor later that day - which he did.

5. DHSS Ministers decided that the companies' threat had to be taken seriously, that any substantial loss of artificial limb supplies would be unacceptable, and directed that the Department should negotiate the best terms available from Intermed.

6. The Department accordingly concluded contracts with Intermed for 1986 on the basis of profit margins which they regard as too high. They estimate that they were forced to concede prices which will allow profits that may be between £½ million and £1 million too high. They have been instructed to search out alternative means of supply that could be used in place of the Intermed business (or part of it) if these alternative sources offered better value for money; it is thus hoped to strengthen the Department's hand in future negotiations.

7. Mr Michael Willacy, the head of the Central Unit on Purchasing, is aware of Mr Mellor's intervention in the matter, which was felt by the Department to have undermined their position in the negotiations with the companies.

8. The report of a Government-appointed expert working party looking at the artificial limb service was published in January. It was critical of the relationship between the Department and

the United Kingdom manufacturers. The National Audit Office is therefore likely to scrutinise in detail the files on the negotiation of the 1986 contract, to discover Mr Mellor's intervention, and to report accordingly to the Public Accounts Committee (PAC).

9. I do not like having to report this story to you; but I think that the Prime Minister should be aware of the possibilities of political embarrassment to the Government if and when the PAC receives a report on this matter from the Comptroller and Auditor General. Such a report is not likely to be submitted for some months - probably not until some time into the 1986-87 Parliamentary Session.

RTA

ROBERT ARMSTRONG

17 March 1986