



Treasury Chambers, Parliament Street, SW1P 3AG

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The Treasury intend to publish HMG's response to the outstanding PAC reports of last session on 15 December. The only points in which the media might show an interest are listed at X below.

Agree, subject to any comments Bernard Ingham

3rd December 1982

may have?

WR
8/12

W F S Rickett Esq
10 Downing Street
LONDON
SW1

Yes
mt

Dear Willie,

TREASURY MINUTE IN REPLY TO REPORTS OF THE PUBLIC ACCOUNTS COMMITTEE

We propose to publish the Government's response to the outstanding Public Accounts Committee Reports of the 1981-82 Session as a Command Paper on Wednesday 15 December of 3.30pm. The Financial Secretary has already given his consent to the reply to the PAC - in the usual form of a Treasury Minute - being presented in his name.

There is nothing absolutely crucial about the precise date of publication, it is merely the end of a logical sequence of consultations with departments and a printing programme devised by HMSO. We are, however, under pressure from the PAC to publish the reply to their Reports as soon as possible as some of them have been around for some months now.

I enclose a list of the PAC Reports to which we are replying (at Annexe A) with a summary (at Annexe B) or the main conclusions and recommendations which appeared in the various Reports. These Treasury Minutes usually attract little attention, except from the Members of the PAC themselves. The media, too, normally show scant interest. There is little of significance in the Treasury Minute itself to disturb this traditional somnolence, although it does refer to some half dozen matters which are currently exercising Parliament and the media:-

Replies to the 9th and 16th PAC Reports

- control of Ministry of Defence expenditure, particularly on large, sensitive projects, eg Chevaline and successor missile systems - always attracts comments;

Reply to the 10th PAC Report

- comment on previous flotations, eg British Aerospace, Amersham International, are bound to be seized on in the wake of the recent Britoil flotation;

X

and overleaf

X

Replies to the 14th
and 17th PAC Reports

- as with the reports on MOD matters, comment on the NHS always attracts interest, probably more so in the light of events since the CPRS Report;

Reply to the 20th PAC
Report

- Mr Tam Dalyell is one Member who will probably show a keen interest in the sale of British Leyland assets (the Bathgate tractor line was in his Constituency);

Reply to the 22nd PAC
Report

- there is continuing interest in the subject of reducing civil service staff numbers against employing more investigative staff where a high cost/yield return would result (eg in the Revenue Departments and DHSS);

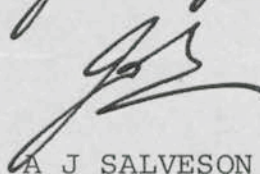
Reply to the 25th PAC
Report

- evidence of fraud in the civil service always attracts attention.

We have asked HMSO for pre-publication copies (CFRs) as usual, for laying, for supply to PAC Members and for the Treasury's Information Division's use (eg for the lobby). Although there have been references in the press to discontinuance of the present arrangements for providing advance copies of Government statements etc., in the wake of the row over the Falklands honours, I have seen no formal instructions. Could you please let me have any revised guidance that may be appropriate on pre-publication release of this Treasury Minute to the media.

If we are to adhere to HMSO's projected timetable for printing and publication of this Minute, a reply by close of play on Monday 6 December would be appreciated.

I am copying this letter to David Heyhoe, Murdo Maclean and Bernard Ingham.

Yours ays


A J SALVESON
Parliamentary Clerk

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PAC REPORTS

7th Report	Excess Votes
<u>9th Report</u>	Ministry of Defence - Chevaline
<u>10th Report</u>	Department of Industry - Sale of Share in British Aerospace; Sales of Government Shareholdings in other publicly-owned Companies and BP Ltd.
11th Report	DES/UGC matters
12th Report	Court Fees
13th Report	Department of Transport - Road Construction Units
<u>14th Report</u>	Health departments and PSA - Fees to works consultants; opticians' costs
15th Report	Scottish and Welsh Development Agencies' Accounts
16th Report	Ministry of Defence matters
<u>17th Report</u>	Health departments - financial control and accountability in the NHS; costs of remedying defects in hospitals; NHS working practices
18th Report	Appropriation Accounts
<u>20th Report</u>	Department of Industry - British Leyland, Bathgate
21st Report	Highlands and Islands Development Board's Accounts
<u>22nd Report</u>	Revenue departments, Department of Energy and DHSS - "Black economy"; cost-effectiveness of investigation staff; financial effects of strike action by Civil Servants; administrative powers; royalties and taxes levied on oil industries North Sea operations
23rd Report	DHSS - National Insurance Fund
24th Report	ECGD Accounts and Balance Sheets
<u>25th Report</u>	DOE/PSA - Fraud and irregularities
26th Report	C&AG's certificate to Appropriation Accounts
27th Report	Crown Estate Abstract Accounts
28th Report	HM Treasury/PSA - Investment Appraisal
29th Report	Department of Trade - General Lighthouse Fund
30th Report	HM Stationery Office Trading Fund Accounts.

SUMMARY OF MAIN CONCLUSIONS AND RECOMMENDATIONS OF PAC REPORTS

7th Report

Examination of Excess Votes. No substantive comment.

9th Report

The Committee criticised poor project management, forecasting and cost control. They also expressed dissatisfaction with the limitations of the existing financial systems which prevented proper disclosure to Parliament, and thus accountability, of information about the costs of major defence projects. Accordingly, MOD were asked to provide PAC each year with summarised information on progress and costs of major defence projects.

10th Report

The Committee recommended the Treasury should re-examine the procedures for future flotations (ie. after British Aerospace, Cable and Wireless and Amersham International): in particular to maximise the benefit to the Exchequer, reduce the cost of underwriting and widen the ownership of shares in the former publicly-owned companies. There was a warning about avoiding the arrangements entered into for financing the Airbus project causing liabilities on public funds, and criticism of Department of Industry postponing some payments to avoid an Excess Vote.

11th Report

The Committee recommended one or more annual cash limits to cover the whole of higher education; urged the early introduction of a new form of contract for academic staff; expressed reservations about the monitoring and reporting arrangements for control of university building projects introduced from 1 April 1981; and suggested greater freedom for certain schools to incur expenditure on repairs and minor works before departmental approval is needed.

12th Report

The Committee supported an early review of present policy on charging for court fees; including the full costs of services in memorandum accounts as the basis for decisions on fees; asked the Treasury to produce annual summaries of memoranda accounts where full costs were not recovered.

13th Report

The Committee criticised Department of Transport for not informing Parliament of the full financial implications of transferring work on road construction units to the private sector when that decision was announced. There is also comment on the work so transferred being performed by too narrow a selection of consultant firms.

14th Report

The Committee made a number of suggestions to PSA and the Health departments with the intention of improving the financial terms to the Exchequer when private consultant firms are employed to design and construct NHS hospitals. DHSS are criticised for inadequate monitoring of payments to opticians and failing to act quickly enough to recover over-payments which resulted.

15th Report

The Committee expressed concern at the delays in establishing financial duties or targets for certain of the SDA/WDA's functions. They criticised some aspects of the duties now set. The Treasury are urged to keep the arrangements for Government agencies standing behind creditors of wholly-owned subsidiaries under review to keep abreast of best commercial practices.

16th Report

An omnibus report criticising MOD's financial control systems and their inability to respect cash limits; urging review of the REME workshop organisation to see whether industry can play a larger role in repairing army vehicles; and criticising MOD and Treasury for allowing defence contractors over-generous profit rates under the profit formula. The Committee urged a speedy conclusion of the review of the profit formula arrangements.

17th Report

An omnibus report criticising the Health departments on a number of fronts: poor control over staff numbers; need for better vetting of hospital designs and departments passing on information to one another about the shortcomings of particular consultants and contractors; inadequate monitoring of some productivity formula schemes and duties performed outside normal working hours.

18th Report

The Committee urged legislative action as soon as possible to allow even earlier completion and publication of Appropriation Accounts than is currently planned this year.

20th Report

The Committee criticised a number of aspects of Department of Industry's relationship with Leyland Vehicles Ltd over the sale of Leyland's tractor assembly line at Bathgate: principally, the Memorandum of Understanding which requires too little consultation by the company, and lack of departmental involvement in disposal of BL assets. There was also an implied criticism of the Government's general line on the role of the C&AG and his access to the books of Government-owned companies.

21st Report

The Committee identified a number of shortcomings in the financial management of HADB. They suggested a more stringent financial regime with more precise financial objectives; better accounts;

and a thorough review of the arrangements for financial control and monitoring projects assisted by HIDB.

22nd Report

Mainly an omnibus report on the Revenue departments: prescribing stricter and heavier enforcement of penalties for tax evasion; and more investigations; concern at the revenue lost because of the strike by some civil servants; recommending (again) statutory backing for the increasing number of administrative concessions; more information for potential beneficiaries of the existence of unpublished concessions. Additionally, the Committee developed its opposition to the Government's policy on reducing civil-service staff numbers as an objective in itself by recommending recruitment of additional staff in the Revenue departments and DHSS by reference to their beneficial cost/yield ratio. Separately from all of this the Committee criticised the present fiscal regime for North Sea oil operations for being too complex and needing to be based much more on profits.

23rd Report

The Committee recommended a fundamental review and re-statement of the basis of operation of the National Insurance Fund including setting the level of its working balance. The current presentation of the Fund's Accounts is criticised as misleading. Looking back to the previous (22nd) Report, the Committee recommended more and closer investigation of under-collection of NI contributions.

24th Report

The Treasury are urged to produce performance measures for ECGD to meet the objective that the department operates at no net cost to the Consolidated Fund. The Committee noted the potential risks for the Government's borrowing requirement in circumstances such as Poland's recourse to re-scheduling of debts.

25th Report

The Committee criticised PSA's attitude and slowness to react to evidence of fraud in the Agency. They also expressed concern about the difficulty of line management to pursue cases of negligence or worse while legal proceedings have to run their course. MPO are urged to offer central guidance on reinstatement of officers found guilty of criminal practices.

26th Report

The Committee noted a change in the form of the C&AG's audit certificate and indicated the need to consult the Committee about the audit standards covering E&AD's work which are currently being developed.

27th Report

The Committee criticised the absence of a general valuation of the Crown Estate which meant no balance sheet and no means of satisfactorily accounting for the Commissioners' stewardship. The Report made some critical comments about the way the major Millbank redevelopment scheme was conducted but failed to provide any clear conclusions or recommendations for the future.

28th Report

The Committee criticised departments, in general terms, for resisting the systematic use of investment appraisal and recommended that departments should place on the record any decisions against use of investment appraisal to form capital investment decisions. The Committee made a number of general recommendations for achieving better performance: closer involvement of departmental finance branches, more training, more post-audit and monitoring. The Treasury are urged to keep results and progress under review centrally, and are recommended to consider expanding their central guidance so that departments are fully alert to using investment appraisal for decisions on continuing use of existing assets as well as on future investment in new ones.

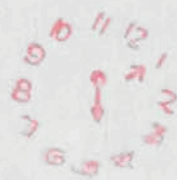
29th Report

The Committee recommended a fundamental review of lighthouse services, particularly of financial and accounting arrangements. There was criticism of Department of Trade for failure to use its current powers adequately to control the lighthouse authorities' staff numbers and estimates, and of the way the accounts are drawn up. The Committee urged a speedy settlement of long-standing problems with the Irish Government over the collection and assessment of dues for lights operated in the Republic.

30th Report

The Report noted, with concern, the threat to the financial structure and viability of the HMSO's Trading Fund resulting from the high level of NLF interest rates current when the trading fund was established. The report implied some action was expected of the Government to assist HMSO resolve this predicament in the current review of HMSO's future financial viability and structure.

E 3 DEC 1982





Parliament

10 DOWNING STREET

From the Private Secretary

6 December, 1982.

Treasury minute in reply to Reports of the Public
Accounts Committee

Thank you for your letter of 3 December. As I told your office this morning, the Prime Minister is content for this Treasury minute to be published on 15 December. I have asked Bernard Ingham to get in touch with you about the question of releasing pre-publication copies.

I am sending copies of this letter to David Heyhoe (Lord President's Office), Murdo Maclean (Chief Whip's Office), and Bernard Ingham.

W. P. S. RICKETT

AM

A. J. Salveson, Esq.,
HM Treasury.