

Appropriation Accounts

(VOLUME 1: CLASS I)

1980–81

(1) Appropriation Accounts of the sums granted by Parliament for Class I for the year ended 31st March 1981; and (2) Production Accounts and Balance Sheets of the Admiralty Gauge Factory and the Hydrographic Department Establishments as at 31st March 1981; together with the Report of the Comptroller and Auditor General thereon, and upon certain Store Accounts. (In continuation of House of Commons Paper No. 96 of 1980–81.)

*Presented pursuant to Acts 29 and 30 Vict., c. 39, s. 22,
and 11 and 12 Geo. 5, c. 52, ss. 4, 5 and 6*

*Ordered by The House of Commons to be printed
9th December 1981*

LONDON
HER MAJESTY'S STATIONERY OFFICE

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Mathematical Analysis

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APPROPRIATION ACCOUNTS (VOLUME 1: CLASS I), 1980-81

REPORT OF THE COMPTROLLER AND AUDITOR GENERAL

GENERAL

1. My examination of Appropriation Accounts for 1980-81 has followed the same lines as in previous years, particular attention having been given to the systems of control and accounting used by Departments. I have no general criticism of the standards maintained but have reported at paragraphs 27 to 44 below on certain aspects of estimating, monitoring and control of procurement expenditure on Ministry of Defence Votes.

2. In their First Special Report of Session 1980-81 the Committee of Public Accounts agreed that earlier presentation of the Appropriation Accounts to Parliament would be desirable, and that their presentation in a larger number of volumes might also be sensible. Accordingly, the Appropriation Accounts are being published this year in ten volumes as below; this should advance their presentation by some two to four weeks.

- Volume 1: Class I
- Volume 2: Class II
- Volume 3: Class III
- Volume 4: Classes IV and V
- Volume 5: Classes VI, VII and VIII
- Volume 6: Class IX
- Volume 7: Class X
- Volume 8: Classes XI and XII
- Volume 9: Classes XIII, XIII A and XIV
- Volume 10: Classes XV and XVII

I will include in my forthcoming Report in Volume 9 the results of my examination of revenue accounts, and in that in Volume 10 a statement of the outturn of all Votes, the amount to be surrendered and my certificates on the payment of extra receipts to the Consolidated Fund and on the adjustment of balances on the 1979-80 Votes.

Excess Votes

3. Throughout the Classes in the ten volumes, Excess Votes are required in the seven cases set out below; only one excess, that on Class XIII, Vote 15, Records, Registrations and Surveys: Public Record Office, led to an excess of expenditure over the Cash Limit. The Government's announced Cash Limits were also exceeded on two other Votes—Class 1, Vote 2, Defence Procurement and Class IX, Vote 12, Prisons, England and Wales—but Excess Votes are not required in these cases and I have no further comments to make beyond those referred to in paragraph 1 above.

Class III, Vote 4. Agricultural Support, Wales. Excess expenditure of £1,586,463.85 and deficiency of appropriations in aid realised of £1,248.92, requiring a further supply grant of £1,587,712.77.

Class IV, Vote 12. Aerospace, Shipbuilding, Steel and Vehicle Manufacture. Deficiency of £12,555,154.08 in appropriations in aid realised, partly offset by the expenditure saving of £2,688,236.78 on the gross Estimate, requiring a further supply grant of the net excess of expenditure over supply grant of £9,866,917.30.

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Class X, Vote 1. Schools and Further Education (Department of Education and Science). Excess expenditure of £2,272,272·02, partly offset by £42,601·21 surplus receipts available to be applied as appropriations in aid, requiring a further supply grant of £2,229,670·81.

Class XI, Vote 4. Health and Personal Social Services (Other), Wales. Excess expenditure of £108,330·67, partly offset by £44,677·91 surplus receipts available to be applied as appropriations in aid, requiring a further supply grant of £63,652·76.

Class XIII, Vote 15. Records Registrations and Surveys: Public Record Office. Excess expenditure of £5,441·94, partly offset by £5,431·94 of the surplus receipts available to be applied as appropriations in aid, requiring a further supply grant of a token £10·00.

Class XIII, Vote 30. Stationery and Printing Supplies to the Houses of Parliament, &c. Excess expenditure of £108,327·56 requiring a further supply grant of that amount.

Class XVII, Vote 6. Rate Rebate Grants and Additional Rate Support Grants to Local Revenues, Scotland. Excess expenditure of £763,773·97 requiring a further supply grant of that amount.

Details of the cases listed above will be given in my forthcoming Reports in Volumes 3 (Class III, Vote 4), 4 (Class IV, Vote 12), 7 (Class X, Vote 1), 8 (Class XI, Vote 4), 9 (Class XIII, Votes 15 and 30) and 10 (Class XVII, Vote 6).

Store and stock accounts

4. My officers have carried out, with generally satisfactory results, test examinations of store and stock accounts relating to all Votes and to holdings for trading and manufacturing services, and examinations of the adequacy and enforcement of regulations for control and stocktaking.

Financial effects of strike action by civil servants

5. From early March until early August 1981 some civil service unions took selective strike action in support of their pay campaign. A main target was the operation of computer installations, including those processing payments made by payable order, value added tax and general accounting operations. As a result Departments were unable to comply with normal procedures in completing their 1980-81 Appropriation Accounts, and the following paragraphs describe revised arrangements approved by the Treasury.

Payments

6. Departments normally charge to Votes the value of all payable orders as they are issued, but before the Appropriation Accounts are drawn up they credit the value of orders which subsequently become out of date or are revoked. The strike action at the Paymaster General's Office (PGO) prevented the identification and notification to Departments of those orders which lapsed and the confirmation of

GENERAL contd.

revocations after 9 March 1981. Departments were instructed by the Treasury to prepare their 1980-81 Appropriation Accounts without waiting for this information. As a result the value of some payable orders which subsequently lapsed or were revoked may be wrongly included in the total payments charged to Votes. The amounts involved cannot be estimated accurately but are unlikely to have had a material effect on Votes. As far as it is practicable and economic to do so, they will be identified and any necessary adjustments made in 1981-82.

Receipts

7. Some receipts received directly by the PGO or the Bank of England after 9 March 1981 may not have been recorded by Departments and included in the 1980-81 Accounts. These will be credited to Votes in 1981-82. Again, the effect on the Accounts is unlikely to be material.

8. In addition to these direct effects on the Appropriation Accounts, the PGO and Departments have been unable fully to reconcile the value of 1980-81 orders issued and cashed during the period of the strike. The PGO are preparing lists of cashed orders for Departments to compare against their authorisation schedules. This exercise had not, however, been completed before submission and certification of the 1980-81 Accounts.

Superannuation Payments

9. The strike in the PGO also affected the accounting arrangements for certain superannuation and pension Votes where payments are made wholly or in part by the PGO. Such payments are charged to Votes when payable orders are cashed, not when they are issued. The strike prevented the computerised accounting for these payments after February 1981 and there was no way of accounting manually for the orders cashed in March 1981. As a result, the following 1980-81 Appropriation Accounts include only those PGO payments cashed during the first 11 months of the year. Those cashed in March 1981 will appear in the corresponding accounts for 1981-82.

Class I, Vote 3. Defence: Armed Forces Retired Pay
Class XII, Vote 1. Pensions Benefits (Non-contributory)
Class XIV, Vote 4. Civil Superannuation &c.
Class XVII, Vote 9. Teachers Superannuation (England and Wales)
Class XVII, Vote 11. NHS Superannuation &c. (England and Wales)
Class XVII, Vote 12. NHS Superannuation &c. (Scotland)

Action affecting other Departments

10. The strike action also significantly affected the accounting arrangements in some other Departments, as dealt with in my Reports on the Department of Health and Social Security (Class XII, Votes 1, 2, 3 and 4 and National Insurance Fund), Customs and Excise (Class XIII, Vote 5) and Inland Revenue (Class XIII, Vote 6).

MINISTRY OF DEFENCE

Votes A

11. The Statement on page 3 shows that the maximum numbers maintained during 1980-81 for the Naval, Army and Air Force Services and for the Army and Air Force Reserves were within the respective numbers voted by Parliament. Strength returns supporting this Statement have been furnished to my officers.

CLASS 1: VOTES 1 AND 2 DEFENCE

Provision of Army Vehicle Assemblies

Introduction

12. The Army's fleet of vehicles includes approximately 8,500 armoured combat vehicles ('A' vehicles) and some 56,000 normally unarmoured vehicles used mainly for load and personnel carrying ('B' vehicles). Repair of these vehicles is the responsibility of the Corps of Royal Electrical and Mechanical Engineers (REME) whose primary task is to ensure the operational fitness of Army equipment.

13. The first and second line REME support units carry out unit and field repairs needed to keep fit equipments in the hands of the user. Part of their work is the replacement of unserviceable major assemblies (engines, gearboxes and axles) but, for operational reasons, they do not repair them.

14. The following paragraphs describe the arrangements for repair of unserviceable assemblies at third line by REME workshops or by industry. The main issues raised are the extent to which these base repairs need to be undertaken in REME workshops; whether industry could meet all or a larger part of the requirements; whether it would be more cost-effective for them to do so; and the nature of the further review now proposed on REME's operational role.

Programmes and Resources

15. When MOD buy a new type or range of 'A' or 'B' vehicles and decide on operational grounds to maintain the major assemblies by base repair by REME, they also buy sufficient spare assemblies to provide a repair pool and thus a reasonable degree of assurance that an assembly will be available to replace one which has become unserviceable. Annual programmes for the base repair of major assemblies are based on estimates of the likely demand for replacement, and the allocation of the repair work is controlled by MOD headquarters branches. Some 89 per cent of the work is carried out within REME, with the balance being undertaken by industry (9.7 per cent) and an MOD funded civilian workshop (1.3 per cent). In 1980-81 114 programmes for 'A' vehicle major assemblies and 292 programmes for 'B' vehicle assemblies were allocated to REME workshops, involving some 1.3 million production hours at a cost, including spares, of about £25 million.

16. Within REME most of the base repair of major assemblies is undertaken at two workshops in Germany (BAOR) and four Central workshops in the UK,

CLASS I, VOTES 1 AND 2 *contd.*

although some is undertaken also in Command workshops in the UK. All workshops carrying out base repairs use mainly civilian labour working under military control.

Control of repair costs

17. Major assemblies undergoing REME base repair are completely dismantled and rebuilt using refurbished parts, new components and items salvaged from discarded assemblies. REME aims to ensure that rebuilt assemblies have a performance equal to new and a durability of not less than 80 per cent of the expected life as new. The Ministry in the main assume that once they have decided to sustain equipments in service by repair, the option of purchasing further assemblies will not be available and as a general rule do not apply overall cost limits which link the cost of repairing vehicle major assemblies to the replacement cost of new assemblies. Special approval is however required when the cost of repair is expected to exceed 160 per cent of replacement cost. (On repairs of other equipment MOD currently apply a cost limit of 80 per cent of replacement cost, though this figure is being revised to allow decisions to be made on a different cost basis.)

18. Subject to exceptions in BAOR, the main REME workshops operate a management information and accounting system (MIAS) to control jobs, labour and materials. As assemblies progress through the workshop MIAS records manhours against each job number as well as total usage of spares. Programme control sheets issued to workshops specify the assemblies to be repaired and the estimated average repair times and completed sheets are returned quarterly to the controlling headquarters branches. Three of the four Central workshops do not record times on these sheets, but MOD have informed me that they do not regard the omission of workshop times as significant since MIAS provides quarterly management reports on costs of all significant UK Central workshop programmes. Though in 1980-81 these reports covered only 65 per cent of all programme work in Central workshops, the Ministry improved the figure to 80 per cent for 1981-82 and hope to extend this system eventually to those Command workshops which have a significant programme load.

19. In addition to the Repair pool of spare major assemblies MOD also buy large quantities of component spare parts to be used in base repairs and in vehicle maintenance. Some 240,000 separate items are so held. MOD incur additional costs in storing and managing assemblies and spare parts, including capital expenditure, storage accommodation, transportation and packing costs. These costs were not until 1980-81 included in REME base repair costings. MIAS records total usage of spares, but not for individual jobs or programmes except for major programmes in UK Central workshops; nor do Command and BAOR workshops render returns of material used. MOD have assessed the costs of spares for base repair at 38 per cent of the man-hour rate, representing an estimated expenditure on spares of some £6.9 million a year.

20. Whilst recognising MOD efforts to improve control over the costs of the base repair, as referred to in paragraph 18 above, it seemed to me that until (i) wider control over workshop times and labour costs had been secured in the UK and BAOR (ii) control over spares was more effective, and (iii) all additional costs were

CLASS I, VOTES 1 AND 2 *contd.*

taken fully into account, MOD could not satisfactorily compare the total cost of a programme at one workshop with that at another or with the alternative costs of purchase or repair within industry.

Availability of Assemblies from Manufacturers

21. Manufacturers current price lists offer new and reconditioned major assemblies for commercial vehicles, some of which are identical to 'B' vehicle assemblies overhauled by REME. The lists do not cover assemblies built to precise MOD specifications or those for older vehicles because the base repair arrangements mean that MOD restrict procurement to an initial once-and-for-all purchase of assemblies, and the lack of a subsequent regular demand has not encouraged industry to ensure continued availability of new or reconditioned units. However REME overhaul many engine assemblies which incorporate basic engines available new or reconditioned from manufacturers, and MOD have in fact arranged supplies of assemblies (gearboxes, axles and basic engines) on occasions when these were not available from their own resources. The operational risk of relying to a larger extent on industry for the provision of assemblies seems no greater than that now accepted in REME's dependence on the supply of manufacturers' spare parts, although MOD would need to increase the size of their repair pools. Major assemblies for armoured vehicles are not commercial items and the possibility of manufacturers being able to supply reconditioned assemblies or to carry out major overhauls would depend on agreement at the time of initial purchase. But manufacturers have overhauled on contract a limited range of 'A' vehicle engines at times when REME workshops were unable to do the work.

Cost-effectiveness of MOD arrangements

22. My staff first questioned the cost-effectiveness of REME overhaul arrangements in 1973-74 after REME costs for a selection of assemblies were shown to be above prices quoted by manufacturers for new or reconditioned units. The Ministry acknowledged in reply that some of the assemblies concerned were available from commercial sources and they undertook to keep the position under review to see if trade supply would be a cost-effective alternative to REME overhaul. There was however no subsequent purchase of the assemblies quoted which continued to be overhauled by REME until superseded.

23. In recent enquiries through MOD Headquarters my staff established that the major manufacturers of the Army's Landrover and Bedford fleets of 45,000 vehicles are willing to supply reconditioned assemblies. My staff also prepared costings for the 1980-81 'B' vehicle engine and gearbox overhaul programmes carried out in the UK and BAOR. Comparisons showed that in a significant number of REME programmes, overhaul costs exceeded the MOD's stated replacement price and in some cases exceeded the upper repair limit of 160 per cent of replacement price. In more than a quarter of the 66 cases where comparison was possible overhaul costs exceeded the manufacturers' prices for new assemblies.

24. I therefore asked MOD the reasons for relying essentially on REME for the replacement of unserviceable major assemblies and whether they considered these arrangements cost-effective. They informed me that their policy was largely

CLASS I, VOTES 1 AND 2 *contd.*

determined by operational rather than economic considerations. A future conventional war in Europe might be relatively short and intense and could occur after a period of heightened tension measured in days rather than weeks. Operationally important equipments had to be readily available in times of crisis and flexibility was essential. Manufacturers were not always able to guarantee complete support of their equipments or might require a guaranteed throughput greater than the Army could provide. Industry had not been willing in times of prosperity to give adequate priority to the repair of assemblies and many of their assemblies did not meet the Army's specifications for operations in the field or consisted only of basic units. MOD questioned my using full workshop costs in making the cost comparisons referred to in paragraph 23 above. They considered that, provided that the overall workshop capacity was regularly reviewed against REME's operational role, and with due regard to economy in determining that role, then the need to maintain this capacity justified the use of marginal costs in making the appropriate comparisons. The marginal costs of REME repair they calculated as considerably less than the cost of a replacement assembly.

25. MOD therefore considered that the base repair of assemblies for operationally important equipments should be retained within REME. For equipments and assemblies not regarded as operationally important however, they accepted that *prima facie* there might be grounds for entering into limited exchange schemes with industry and were investigating further. They recognised that the relationships between REME's labour costs and external prices could vary significantly from year to year, and that they should devote more effort to considering whether particular programmes previously carried out by repair should be met by, for example, further purchases or indeed by larger initial purchases of replacement assemblies. They therefore intended to review the position annually, covering also REME repairs of other equipments not of operational importance. If a significant proportion of work was transferred to commercial companies there would be scope for rationalising and reducing the number of main workshops and associated store holdings, but additional work would be given to commercial companies only where any impairment of operational efficiency could be limited to an acceptable level and the transfer would lead to worthwhile savings in Defence expenditure.

Future structure of REME

26. The Statement on Defence Estimates 1981 (Cmnd. 8212-1) recorded that in line with Government policy MOD are working towards a reduction in UK-based civilian staff by April 1984. I asked MOD when they had last reviewed the number and capacity of REME main workshops, the basis on which existing facilities had been determined and about the outcome of a current REME study to identify how the manpower likely to be available to REME could best be utilised, whilst minimising operational risk. MOD informed me that during the period 1975-80 they had taken a number of measures to reduce the number and capacity of REME workshops. The REME study was not expected to offer a view on the operational and financial issues raised above, but a further review would start shortly which would re-assess REME's operational role and examine the optimum balance of

CLASS I, VOTES 1 AND 2 *contd.*

repair activity between REME and industry after taking account of any other possibly more cost-effective solutions such as the larger initial purchase of assemblies.

CLASS I, VOTES 1, 2, 4 AND 5. DEFENCE

Estimating, monitoring and control of procurement expenditure by Ministry of Defence*Introduction*

27. In 1980-81, for the third year in succession, expenditure on the four cash limited defence Votes exceeded the approved aggregate cash limit. Though the original cash limit of £10,125 million was increased during the year to £10,492 million, total expenditure of £10,556 million led to a net excess of £64 million. Overspending of £204 million on Vote 2 (Procurement) was partly offset by total savings of £140 million on Votes 1 (Pay, stores etc.), 4 (Accommodation Services) and 5 (Dockyards). Although expenditure on Vote 2 exceeded the approved cash limit, Supplementary Estimates presented in February 1981 (H.C. 138) avoided the need for an Excess Vote.

28. The following paragraphs deal with MOD efforts to contain spending in the year; the outcome of internal reviews of their systems for estimating, monitoring and control of expenditure; and their proposals to improve control of procurement expenditure.

Preparation of the estimates

29. MOD prepare the defence budget under five Target Headings, each containing expenditure to be met from two or more Votes. Three Target Headings, one for each of the Armed Services, account for nearly 90 per cent of voted expenditure. They cover such items as service pay, accommodation and administrative services and include the costs of equipment development and production. Each is managed by a Service Board which is chaired by a Minister and includes a senior civil servant, the appropriate Service Chief of Staff and the Systems Controller responsible for equipment procurement for the Service concerned. The Service Boards scrutinise and agree their estimates, after which they are examined by central planning and finance staffs.

30. Prior to the new arrangements now being introduced for cash planning from 1982-83 onwards, MOD have produced estimates of the amounts required for the programme in each Target Heading at current survey prices (i.e. Autumn 1979 prices for 1980-81 Estimates). Block adjustments were however made before the estimate as agreed by Service Boards was allocated to the appropriate Votes to allow for unforeseen setbacks in equipment procurement. The cash limit was arrived at by converting survey prices to forecast outturn prices by use of a factor approved by Ministers. Since 1979-80 the factor allowed has generally been less than the full inflation rate in an attempt to contain government expenditure. The original

CLASS I, VOTES 1, 2, 4 AND 5 *contd.*

estimate of £9,002 million at 1980 survey prices for the cash limited Votes 1, 2, 4 and 5, converted to forecast outturn prices, produced the original 1980-81 cash limit of £10,125 million.

Monitoring of 1980-81 expenditure

31. MOD monitor expenditure mainly through monthly computer prints of voted cumulative expenditure and receipts for each ledger head, supplemented by information on expenditure in the pipeline and amounts in suspense and supported by financial and technical analysis. Financial progress and outturn forecasts are reported to the Financial Planning and Management Group (FPMG), consisting of the Defence Chiefs of Staff and the Chief of Defence Procurement under the chairmanship of the Permanent Under Secretary of State, some 4 to 8 weeks after the end of each accounting period.

32. In June 1980 FPMG was presented with an initial forecast of outturn as at the beginning of the financial year, which indicated the likelihood of a large overspend. A further report a month later forecast a total excess for all cash limited Votes of £524 million, including £342 million for Vote 2 alone. As a result of this report, FPMG ordered savings of about £150 million. The cash limit was raised to £10,289 million in July 1980 to meet centrally-agreed civil pay increases for which no provision had been made in MOD's original estimates. In August 1980 the cash limit was raised to £10,492 million, including £53 million for the additional cost of the Armed Forces pay award. The original Vote 2 provision was increased by £277 million, offset by forecast savings of £74 million on other Votes. In total, therefore, against a forecast excess of over £500 million savings had been ordered of about £150 million and the cash limit had been increased by over £350 million.

33. Financial reports continued, however, to forecast expenditure exceeding both the revised cash limit and the original programme at survey prices, and in an effort to save between £450 and £500 million MOD imposed cuts in Service activity and a 3 month moratorium on new commitments and ordered a general drive for economy.

34. An analysis of MOD's financial problems presented in December 1980 concluded that as a result of these measures the programmes on all Votes except Vote 2 had been successfully brought below the original level. On Vote 2, however, although increased prices had been adequately covered by increasing the cash limit and applying savings achieved on the other Votes, the actual volume of work carried out remained greater than had been provided for, particularly on equipment procurement. Changes in bill-paying arrangements, introduced to reduce staff numbers, had the effect of postponing payments of between £150 and £200 million from 1980-81 to 1981-82. Despite this, net expenditure finally charged to Vote 2 was £5,095 million, an excess of £204 million over the final cash limit of £4,891 million. The net excess on the aggregate cash limit was reduced to £64 million by savings on the other cash limited Votes.

Review of MOD's financial procedures

35. MOD told PAC in February 1981 that a study group had been appointed to examine MOD's financial procedures. Their report, presented in March 1981,

CLASS I, VOTES 1, 2, 4 AND 5 *contd.*

stated that the events of 1980-81 had highlighted weaknesses in MOD's forecasting and monitoring procedures. The main outturn forecasts, of which there were eight up to December 1980, were not sufficiently reliable and the scale of the potential overspending was consistently underestimated. Early projections from the financial information system had indicated a large overspend but were so distorted as to be completely unreliable. MOD had experienced considerable difficulty in preparing the original 1980-81 Target Headings and Estimates and, though Service programmes had included additional items to compensate for underspends in earlier years, reductions of some £250 million were made in arriving at the overall budget, mainly by increasing the block adjustment to the equipment programmes as a whole, without allocating cuts to individual programmes.

36. Block adjustments are made because MOD consider that, even with the most careful estimating of individual projects, it is necessary to make allowances for uncertainties and possible delays, particularly in the early years of a programme. They set the levels of the block adjustments mainly in relation to immediate past experience, with forecasts of economic indicators and judgement of industrial capacity playing a secondary part. The study group concluded that the underlying cause of MOD's financial problems in 1980-81 was that at a time of spare capacity in the defence industry the block adjustments of £800 million (19.4 per cent of the equipment programme) were too high. When the estimates were being finalised there were no clear unambiguous indications that contractors were using capacity made available by cutbacks in civil work to devote considerably more effort to defence work; signs of increased activity were regarded as short lived. In the event, economic trends in 1980-81 were not clearly foreseen; delays arising from industrial action and technical problems were much less than normal; work progressed faster than expected; and contractors were quicker in presenting their bills.

37. The study group considered that large block adjustments encouraged slack estimating and over-commitment of budget, and prevented project managers from realising that serious overspending was occurring. They recommended that central block adjustments should be limited to a maximum of 2½ per cent. They suggested that a principal reason for the failure of controls was the existence of three different figures used to prepare and control budgets: the original programme at survey prices; the block-adjusted estimate, also at survey prices; and these estimates uprated for inflation by cash limit factors. Because the block adjustments were not related to individual programmes, project managers continued to monitor progress on the basis of their original forecasts at survey prices on the understanding that control of the block adjustments and cash limits was a central finance responsibility. The report recommended that the Systems Controllers should be responsible for controlling expenditure and that expenditure should be monitored and controlled against forecast outturn prices, not survey prices.

38. The report thought that important problems arose from the inflexibility in the equipment programme, most of which was already committed at the start of the year. Insufficient attention had been paid to identifying areas where changes could be made during the year. Present contract procedures gave MOD insufficient control over progress once a contract had been let, which resulted in considerable

CLASS I, VOTES 1, 2, 4 AND 5 *contd.*

uncertainty both in timing of deliveries and presentation of bills. The report recommended additional effort on regular monitoring and analysis of the outstanding contract liability, and improved management control through accurate and up-to-date forecasts, including greater computer support and a new unit to analyse and monitor arrangements with contractors. Where possible, fundamental changes should be made to contract conditions to impose strict control over delivery schedules and to contain contract payments within pre-determined limits for the year.

39. I asked MOD whether they accepted the recommendations and what progress they had made to implement them and to ensure that expenditure in 1981-82 was contained within the cash limit. They told me that they accepted the general thrust of the conclusions in the report, but though they had fully considered the recommendations some were still being evaluated in detail. The extent of implementation would depend on these detailed studies, but major constraints on available staff resources meant that, unless other activities could be given up, they might have to be selective about new procedures introduced.

40. On the question of block adjustments, MOD accepted that those applied to the equipment programme in 1980-81 proved too great, though they pointed out that experience of recent years supported the level used. They also accepted that the practice of a large central block adjustment, together with the fact that cash limit increments were not allocated to projects, did not permit managers to monitor progress in cash limit terms. MOD fully endorsed the objective of improving estimating to a point which would allow substantial reductions in central block adjustments and accepted as a firm aim that they should be limited to 2½ per cent, although there could be difficulties in achieving this in some parts of the equipment programme. Additional advice on industrial performance and economic activity was to be given to assist managers in the preparation of realistic estimates.

41. Changes already introduced for 1981-82 included improved arrangements for vote managers to control programmes against 1981-82 current cash allocations and to propose action to correct overspending without waiting for information on the overall position on defence spending. The intention was to devolve responsibility so far as was sensible and practicable. To aid forecasting and control of cash flow in the equipment programme, cash profiles had been obtained from MOD's main suppliers and regular discussions had been arranged with the appropriate Trade Associations. All managers in MOD had been instructed to maintain a most careful watch on cash flow at all times.

42. MOD told me, however, that early forecasts suggested the possibility of a further overspend in 1981-82. To some extent this was because inflation was higher than allowed for in the cash limit but also because industry continued to make faster progress than expected. MOD had made or were considering a number of programme adjustments, some involving the deferment of new commitments. They were examining with contractors the scope for reducing the cash flow to industry and has told the Trade Associations of the difficulties and sought their co-operation in finding ways of tackling them.

CLASS I, VOTES 1, 2, 4 AND 5 *contd.**Effects on the UK defence capability and on future spending*

43. I asked MOD whether they had evaluated how far the extensive measures taken to restrict spending in 1980-81 had reduced the effectiveness of the UK's defence capability. They replied that it was difficult to isolate the results of the individual measures from all the other factors influencing the programme. Savings were directed mainly at support and administrative areas, such as fuel, stores, spares, etc., although all new equipment commitments had also been kept to a minimum. The overall aim was to minimise as far as possible the immediate effect on operational capability and individual exemptions were made where necessary. MOD stated that although the severity of the measures adopted should not be understated, it was possible in general to keep the front line operating, though at a lower level of activity. But it was likely, given the lengthy procurement cycle of many items, that the long term effects would take some time to become apparent.

44. On the effect on future spending, MOD replied that some savings such as reduced training exercises and a cutback in recruiting were one-time economy measures whose associated costs would not have to be met again. Those which involved postponing purchases, however, could involve higher expenditure in future through inflation; whether this would represent a real cost increase would depend on the relevant contract conditions and the period of deferment. Disruption to procurement and repair programmes could have affected industry's overheads, but it was not possible to quantify these and other additional costs. MOD did not expect that the faster progress achieved on existing contracts, which contributed to their cash flow problems, would necessarily mean corresponding reductions in future years. There was an implication of lower expenditure, but because of the level of outstanding contractual liabilities and the continued growth of the defence programme, the effect on cash flow was unlikely to be separately identifiable.

CLASS I, VOTE 2. DEFENCE PROCUREMENT

Pricing and post-costing of non-competitive contracts*Introduction*

45. In 1979-80, MOD placed non-competitive contracts and amendments to existing contracts worth over £4,000 million which were to be priced under arrangements agreed with industry in 1968. These arrangements include a profit formula designed to give contractors a fair return on capital employed, equal on average to the overall return earned by British manufacturing industry—the principle of comparability. It is accepted that the Government should have equality of information with contractors to facilitate the settlement of fair and reasonable prices and has the right to post-cost contracts. The agreement recognises the Government's intention to provide incentives by using risk contracts wherever possible and fixing prices as early as possible.

46. An independent Review Board for Government Contracts reviews the profit formula, normally every three years, and advises whether the agreed objectives

CLASS I, VOTE 2 *contd.*

have been achieved or whether either those objectives or the profit formula need modification. After each review the Government and industry, acting on the advice of the Board, agree an overall target rate of profit on capital employed to be operative for the following period. The Review Board issued their report on their Third General Review in October 1980.

47. The following paragraphs examine the main issues raised by the Board's 1980 report as they affect MOD, the largest department involved. These include the recommendation that the target rate of profit to be aimed at in Government contracts should not be reduced even though continuing with the current rate does not accord with the principle of comparability; the difficulties encountered by MOD in achieving full equality of information on some major contracts; and the results of MOD's post-costing, which indicate that some contractors have made profits well in excess of the target rates. The paragraphs also refer to the importance of ensuring that there are adequate incentives on contractors to contain costs in contracts where price fixing might be delayed.

Principle of Comparability

48. In their 1977 Report, the Review Board suggested that in assessing whether the profit formula gave contractors a fair return, regard should be paid to industry's expected future earnings as well as its past performance. They also suggested that the principle of comparability should be subject to an overriding concern to maintain an efficient and viable defence industry. Following the Board's report, an average target rate of 20 per cent on capital employed (23 per cent for risk work and 16 per cent on non-risk work) was agreed for Government contracts priced from October 1977. This anticipated some recovery in industry's profits accompanied by a fall in inflation.

49. The Committee of Public Accounts, Session 1978-79, thought that this rate might prove excessive when compared with industry's actual earnings, and welcomed the Treasury's assurance that any systematic bias in the results would be taken into account in future reviews. PAC regarded the principle of comparability as fundamental for determining profits allowed to an industry with a large and assured market financed from public funds; any problems concerning the viability of the defence industry should be dealt with outside the profit formula. They noted that the Treasury would seek to persuade the Board to recommend a return to the principle of comparability in future.

50. In 1980, the Review Board reported that financial returns from selected major contractors showed that on Government non-competitive work as a whole, their profits for the period 1975-78, at 21.2 per cent for risk work and 15.9 per cent for non-risk work, were marginally below the target rates for the period. The Review Board considered that these results were broadly consistent with those from MOD's post-costing. However, subsequent information available to MOD from the sample of contracts for which post-costing investigations were completed in 1980, making allowance for the fact that some of the contracts were priced in periods before 1975 (when target rates were lower), showed that profits were some 2 to 3 per cent above the relevant target rates.

CLASS I, VOTE 2 *contd.*

51. The Board noted that between 1973 and 1977 industry achieved an average return of 17·2 per cent on capital, with a sharp decline being forecast thereafter. Although strict application of the principle of comparability therefore called for the target rate of profit to be reduced to 17 per cent at the very most, the Board considered that a return this low, equivalent to 1·2 per cent on equity, if inflation averaged 15 per cent a year, would be manifestly inadequate. However, a return of 5 to 6 per cent on equity, which they had previously considered fair, would need a target return on capital of 23 to 25 per cent. They concluded that a return of this order could not be justified when industry generally might be earning a nil return on equity. The Board recommended retention of the existing target rate of 20 per cent, which was expected to give contractors a real return on equity of 3·7 per cent.

52. As the present target rate is some 3 per cent above that being earned by industry in general and will result in the target allowance for profit in pricing the £4,000 million of contracts mentioned in paragraph 45 being some £45 million higher, I asked MOD the grounds on which continuation of the 20 per cent rate was justified. While they and the Treasury, who were leading the negotiations, acknowledged that this did not represent a strict interpretation of the principle of comparability, they considered that any reduction in the 20 per cent rate, even if negotiable, would not be appropriate at a time when British industry was facing abnormally low profits. Industry had argued that an increased return was needed to maintain a viable defence industry, but MOD and the Treasury had made it clear that they did not consider a rate higher than 20 per cent justifiable at a time when many sections of industry were facing considerable financial difficulties.

53. Discussions with industry were continuing on whether current cost accounting might be introduced into the pricing arrangements. Changing the profit formula so as to calculate profitability on a current cost basis is a possibility before the Board's next review in 1983. MOD told me, however, that they were unable to predict when any such changes would be made or what would be their effect on prices and profits.

Equality of Information

54. MOD guidelines on equality of information, discussed with industry in 1977, provide for detailed appraisals of contractors' cost-estimating and accounting systems. The aim was to achieve earlier pricing of contracts by placing greater reliance on the information used by the contractor in preparing his quotation and concentrating on the conclusions and judgements made on the basis of that information. Such appraisals were to be confined to the top 20 or so contractors. However, because of the complexity of the task and because they could not recruit enough accountants and technical costs officers the work was expected to take several years.

55. As at end November 1980, written descriptions of systems—the first stage of detailed appraisals—had been prepared for 11 contractors, with a full appraisal being completed in only three cases. MOD told me that in addition to the technical and staffing difficulties, they attributed the slow progress to poor co-operation from industry, who in turn blamed lack of enthusiasm by MOD and their own staff shortages. Good progress had however been made with some 80 other contractors in

CLASS I, VOTE 2 *contd.*

agreeing formalised arrangements for the more systematic presentation of pricing data, and more than 60 such agreements had been signed. More generally, MOD are carrying out joint studies into various aspects of defence procurement, where the Defence Industries Council has proposed significant changes in the pricing and post-costing processes.

56. Examination of MOD's records showed that there were six major contractors whose cost estimating or accounting systems did not provide information for price fixing or post-costing that was fully satisfactory. MOD told me that they tried as far as possible to rely on the systems used by the contractor for the efficient management of his business and that they sought only changes which they regarded as essential; on that basis they were pursuing matters with the six contractors concerned. They assured me that there were no major contractors whose systems were totally inadequate for pricing purposes.

Incentive pricing arrangements: non-risk contracts

57. As an incentive to contain costs in non-risk contracts the profit formula provides for a variable profit addition of up to 3 per cent on cost, with 1½ per cent being the assumed average, to be awarded upon MOD's assessment of the contractor's efficiency in doing the work. Statistics provided to the Review Board showed that the average allowance was awarded in some 68 per cent of all non-risk contracts, with 10 per cent obtaining a below average and 22 per cent an above average addition. Although the Board were satisfied that the efficiency allowance played a worthwhile role, they recommended that MOD and industry should review the scheme, particularly in view of complaints by industry about delays in settling the allowance and that its operation was crude and subjective. MOD told me that they have asked industry to identify the particular aspects of the arrangements thought capable of improvement prior to setting up a joint working party.

Incentive pricing arrangements: risk contracts

58. A fundamental part of cost control of risk contracts is that prices are fixed at a stage when a sufficient degree of risk remains to justify the higher rate of profit allowed. Past Committees of Public Accounts have criticised delays in agreeing prices and PAC were told in 1979 that MOD intended in future to try to agree with contractors dates for quotations to be submitted and prices agreed.

59. In recent years there has been a steady and sustained reduction in the proportion of contracts remaining unpriced at the stage when 75 per cent of the work had been completed, although in 1980 about one-third by value of risk contracts remained unpriced when the work was 50 per cent complete. The Review Board expressed concern that there were still contracts for which quotations were outstanding when the work was substantially complete. They emphasised that unless there was a marked improvement, they would give serious consideration at their next review to ways of ensuring that the full reward for risk work was no longer available where the risk factor had substantially disappeared at the price fixing stage, a step already strongly urged by the Government.

CLASS I, VOTE 2 *contd.*

60. Up to 1979 the main responsibility for delay had alternated between MOD and the contractors, but in over half the contracts by value regarded as overdue for pricing it now rests with MOD. This caused MOD concern, especially as the main causes for the delays, following the submission of quotations, were their diminishing staff resources, both in numbers and experience, and the increased volume of purchases. They told me that in 1978 they had issued additional guidance to purchasing staff on how to handle contracts which remained unpriced at a late stage, with the objective of securing the lowest reasonable prices. They also expected that their discussions with industry on equality of information would provide a more systematic approach to pricing operations and help to reduce the instances of late, incomplete or inadequately substantiated quotations.

Incentive pricing arrangements: hybrid contracts

61. Where genuine doubt exists whether a non-competitive contract should be placed on a risk basis MOD have made use of an arrangement whereby work starts on a cost-reimbursement basis but with the intention if possible of being converted to a risk basis whilst a significant degree of risk remains. On conversion, the higher rate of profit would apply to the whole contract. Work placed on this basis totalled £199 million in 1979-80 and MOD had placed 48 'hybrid' contracts by 31 March 1980. Of these, 16 contracts have so far been converted to risk pricing, although 5 were nearly or more than two-thirds complete at the time; 14 contracts were found to be unsuitable for risk pricing; and 18 contracts have still to be negotiated.

62. A further two large contracts have been placed under arrangements which provide a 'two-tier' profit, which is intended to give the contractor an incentive to quote a fixed price at an early stage and, at the same time, extend the period when the incentive is available. These contracts stipulated a date by which the price was to be agreed and the risk rate of profit applied to the whole order; otherwise, the contract would remain on a cost-reimbursement basis except that, if a price were to be agreed while a meaningful degree of risk remained, the risk rate would apply to work completed after price-fixing. One contract has been converted to a risk price for the whole order; the other has not yet reached the conversion stage.

63. In view of the late stage at which prices were agreed for some of these hybrid contracts, I asked MOD whether they were satisfied that they gave contractors sufficient incentive to contain costs and to achieve maximum efficiency. MOD acknowledged that the earlier that contracts were converted to a risk basis the greater was the incentive on the contractor to contain costs. They pointed out, however, that the initial uncertainty inherent in hybrid contracts made early agreement on price unlikely. They were satisfied that sufficient incentives had remained on the contracts converted to a risk basis to make conversion preferable to allowing the contract to run out at cost-reimbursement. On the possible wider use of two-tier profits. MOD recognised that differential rates, varying according to the degree of risk remaining when pricing took place, had potential benefits; but the nature of the agreed profit formula meant that this approach was not one which could be generally adopted.

CLASS I, VOTE 2 *contd.**Post-costing of contracts*

64. MOD's right to post-cost contracts is an essential element in the pricing of follow-on contracts; acts as a check on the accuracy of Department's estimating procedures; and provides a basis for the Review Board to adjudicate on the fairness and reasonableness of the prices negotiated on individual contracts. MOD select for post-costing most contracts over a certain size and a limited number of smaller value; overall some 3-4 per cent of risk contracts are post-costed but these represent about one-third by value of such contracts. If MOD consider that the results indicate that the contractor achieved a profit unfairly, they decide whether to seek an appropriate refund, either by negotiation or by reference to the Review Board. Post-costing in the period 1978-80 showed that of 250 contracts examined, 70 exceeded the appropriate reference level; refunds were obtained or are being negotiated in 58 cases.

65. MOD told me that the main reason for the wide differences between the agreed prices and the outturn costs for these contracts lay in the uncertainties inherent in the forward estimation of prices. As a general rule they aimed to attain an accuracy of better than plus or minus 10 per cent in estimated costs on risk contracts, and in 60 per cent of all contracts post-costed, their estimates were accurate to within 5 per cent; in 80 per cent of the cases they were within 10 per cent, including about half of those which had exceeded the level for reference to the Review Board. MOD considered that overall this represented a not insignificant improvement over the results of the immediately preceding three-year period.

66. Essential ingredients in MOD's continuing endeavours to improve the accuracy and reliability of the price fixing process are their analyses of post-costing results for individual contractors; the compilation of contractor 'track records'; and the dissemination to staff of data from and lessons learned from post-costing. Their better understanding of contractors' cost estimating and accounting systems also played an important part.

67. Examination by my officers of MOD's post-costing results showed that six major contractors had achieved profits above target rate on average in 80 per cent of their post-costed contracts, 41 per cent of which were above the level permitting reference to the Review Board. Profits by one contractor with 36 post-costed contracts (value £52 million) had exceeded target levels in 31 cases (value £48 million); 19 of these contracts (value £43 million) had exceeded the reference level, with returns on capital employed of up to 176 per cent. In April 1981 MOD told the contractor that they found it difficult to accept that a pattern of post-costing results so pointed in one direction could be put down entirely to efficiency and requested discussions with the objective of improving pricing accuracy. In the case of another contractor with 97 post-costed contracts (value £127 million), 70 contracts (value £97 million) produced profits above target rates, including 46 contracts (£27 million) with profits above reference levels.

68. I was surprised at these consistently high profits and asked MOD whether they had established the reasons for them. They told me that they were not satisfied that all the profits above target levels resulted from better than average efficiency;

CLASS I, VOTE 2 *contd.*

some arose from inaccurate estimating. Where necessary, in the light of their post-costing experience, they would propose discussions with the contractor to sharpen up pricing accuracy, as they had done already in the first case referred to in paragraph 67 above.

Gordon Downey

Comptroller and Auditor General

Exchequer and Audit Department

8 December 1981

**CLASS I
DEFENCE**

VOTES A: STATEMENT

Votes A

MAXIMUM NUMBERS OF PERSONNEL TO BE MAINTAINED FOR SERVICE WITH THE ARMED FORCES

	NUMBERS VOTED by the House of Commons	MAXIMUM NUMBERS MAINTAINED	
Officers, Ratings and Royal Marines for NAVAL SERVICE	78,000	74,621	31 March 1981
Officers and Other Ranks for ARMY SERVICE	180,700	178,147	30 September 1980
Officers, Airmen and Airwomen for AIR FORCE SERVICE	95,000	93,787	31 March 1981

NOTE

The maximum number maintained for Army Service includes an estimate of 488 Commonwealth troops in the UK.

MAXIMUM NUMBERS OF PERSONNEL TO BE MAINTAINED FOR SERVICE WITH THE RESERVE FORCES

	NUMBERS VOTED by the House of Commons	MAXIMUM NUMBERS MAINTAINED	
Army Regular Reserve	60,000	57,026	31 August 1980
Territorial and Army Volunteer Reserve	83,000	77,250	31 March 1981
Ulster Defence Regiment	10,000	7,488	31 January 1981
Royal Air Force Reserve	10,775	7,580	30 June 1980
Royal Auxiliary Air Force	1,000	554	31 March 1981

NOTE

The average number of officers, ratings and other ranks of the reserve forces maintained during the year for Naval service was 12,428.

Frank Cooper

Accounting Officer

6 October 1981

CLASS I:

Page	No. of Vote	SERVICE	Estimated Gross Expenditure	Authorised Appropriations in Aid	Supply Grant
			£	£	£
6	1	Defence: Pay, &c., of the Armed Forces and Civilians, Stores, Supplies and Miscellaneous Services	5,294,138,000	571,862,000	4,722,276,000
19	2	Defence Procurement	5,782,458,000	627,825,000	5,154,633,000
30	3	Defence: Armed Forces Retired Pay, Pensions, &c.	547,126,000	2,528,000	544,598,000
33	4	Defence Accommodation Services &c.	754,930,000	106,267,000	648,663,000
37	5	Defence: Dockyard Services	420,816,000	3,411,000	417,405,000
		Total	£ 12,799,468,000	1,311,893,000	11,487,575,000

DEFENCE

Gross Expenditure	Appropriations in Aid applied	Net Expenditure	Gross Expenditure compared with Estimate: Saving	Deficiency of Appropriations in Aid	Amount to be surrendered	Extra Receipts payable to Consolidated Fund	No. of Vote
£	£	£	£	£	£	£	
5,073,160,297	570,673,024	4,502,487,273	220,977,703	1,188,976	219,788,727	8,235-00	1
5,712,762,501	617,656,258	5,095,106,243	69,695,499	10,168,742	59,526,757	7,935,078-29	2
505,161,891	2,497,090	502,664,801	41,964,109	30,910	41,933,199	—	3
659,360,917	87,290,390	572,070,527	95,569,083	18,976,610	76,592,473	189,890-05	4
389,111,063	2,324,608	386,786,455	31,704,937	1,086,392	30,618,545	2,543-57	5
12,339,556,669	1,280,441,370	11,059,115,299	459,911,331	31,451,630		8,135,746-91	
Total amount to be surrendered					£	428,459,701	
Actual total amount to be surrendered						£428,459,700-91	

**DEFENCE: PAY &c. OF THE ARMED FORCES AND CIVILIANS,
STORES, SUPPLIES AND MISCELLANEOUS SERVICES**

See also Report of Comptroller and Auditor General

SUMMARY OF PROGRAMME OUTTURN, and the ACCOUNT of the sum expended, in the year ended 31 March 1981, compared with the sum granted, for expenditure by the Ministry of Defence on pay, allowances, &c., of the Armed Forces and their Reserves and Cadet Forces, &c.; pay &c., of Defence Ministers and of certain civilian staff employed by the Ministry of Defence; on movements; certain stores; supplies and services; plant and machinery; charter and contract repair of ships; certain research; lands and buildings; sundry grants; payments abroad including contributions and subscriptions to international organisations; and grants in aid.

SUMMARY OF PROGRAMME OUTTURN

Section	Estimated			Actual		
	Gross Expenditure	Appropriations in Aid	Net Expenditure	Gross Expenditure	Appropriations in Aid	Net Expenditure
	£	£	£	£	£	£
PROGRAMME 1.1						
DEFENCE BUDGET						
A	580,787,000	7,930,000	572,857,000	576,348,009	8,011,299	568,336,710
B	1,280,688,000	85,770,000	1,194,918,000	1,277,795,302	88,536,068	1,189,259,234
C	717,802,000	13,085,000	704,717,000	715,255,203	14,034,323	701,220,880
D	1,145,457,000	39,698,000	1,105,759,000	1,076,259,630	39,085,788	1,037,173,842
E	232,297,000	8,387,000	223,910,000	219,335,775	9,171,705	210,164,070
F	140,829,000	9,559,000	131,270,000	129,276,360	9,297,516	119,978,844
G	194,330,000	71,221,000	123,109,000	188,277,974	72,555,232	115,722,742
H	554,638,000	67,621,000	487,017,000	501,395,534	59,845,528	441,550,006
I	89,257,000	80,183,000	9,074,000	67,109,389	80,144,205	(13,034,816)
J	135,104,000	33,207,000	101,897,000	102,525,615	33,658,909	68,866,706
K	835,500	—	835,500	796,594	—	796,594
L	222,113,500	155,201,000	66,912,500	218,784,912	156,332,451	62,452,461
Total	£5,294,138,000	571,862,000	4,722,276,000	5,073,160,297	570,673,024	4,502,487,273

ACCOUNT

Service	Grant	Expenditure	Expenditure compared with Grant	
			Less than Granted	More than Granted
£	£	£	£	£
PROGRAMME 1.1				
SECTION A				
PAY &c., OF THE ROYAL NAVY AND ROYAL MARINES				
A1 Pay and National Insurance of RN and RM Personnel				
<i>Original</i> 522,331,000				
<i>Supplementary</i> 13,096,000				
	535,427,000	531,368,430	4,058,570	—
A2 Allowances, &c., of RN and RM Personnel				
<i>Original</i> 44,327,000				
<i>Less Supplementary</i> 4,738,000				
	39,589,000	39,340,995	248,005	—
A3 Pay, Allowances, &c., of RN and RM Reserves and Cadet Forces	4,642,000	4,588,031	53,969	—
A4 Pay, &c., of Locally Entered Personnel Abroad				
<i>Original</i> 796,000				
<i>Supplementary</i> 333,000				
	1,129,000	1,050,553	78,447	—
SECTION B				
PAY &c., OF THE ARMY				
B1 Pay and National Insurance of Army Personnel				
<i>Original</i> 1,025,240,000				
<i>Supplementary</i> 47,520,000				
	1,072,760,000	1,076,002,210	—	3,242,210
B2 Allowances, &c., of Army Personnel				
<i>Original</i> 175,107,000				
<i>Less Supplementary</i> 51,797,000				
	123,310,000	120,201,229	3,108,771	—
B3 Pay, Allowances, &c., of Army Reserves, the Ulster Defence Regiment and Cadet Forces				
<i>Original</i> 66,869,000				
<i>Supplementary</i> 1,199,000				
	68,068,000	63,620,898	4,447,102	—

DEFENCE: PAY &C. OF THE ARMED FORCES AND CIVILIANS,
STORES, SUPPLIES AND MISCELLANEOUS SERVICES

1980-81, Class I, Vote 1

Service	Grant	Expenditure	Expenditure compared with Grant	
			Less than Granted	More than Granted
£	£	£	£	£
B4 Pay, &c., of Gurkha and certain Commonwealth (including Colonial) and other troops <i>Original</i> 16,598,000 <i>Less Supplementary</i> 48,000	16,550,000	17,970,965	—	1,420,965
SECTION C				
PAY &c., OF THE ROYAL AIR FORCE				
C1 Pay and National Insurance of RAF Personnel <i>Original</i> 650,877,000 <i>Supplementary</i> 21,289,000	672,166,000	671,314,710	851,290	—
C2 Allowances, &c., of RAF Personnel <i>Original</i> 56,309,000 <i>Less Supplementary</i> 12,636,000	43,673,000	42,295,660	1,377,340	—
C3 Pay, Allowances, &c., of RAF Reserves, Royal Auxiliary Air Force and Cadet Forces	1,963,000	1,644,833	318,167	—
SECTION D				
PAY &c., OF CIVILIANS				
D1 Salaries, &c., at Headquarters <i>Original</i> 56,919,000 <i>Allocated from Class XIII, Vote 31⁽¹⁾</i> 8,035,000	64,954,000	61,782,603	3,171,397	—
D2 Salaries, &c., at Outstations <i>Original</i> 990,801,000 <i>Allocated from Class XIII, Vote 31⁽¹⁾</i> 89,702,000	1,080,503,000	1,014,477,027	66,025,973	—
SECTION E				
MOVEMENTS				
E1 Conveyance of Personnel <i>Original</i> 175,131,000 <i>Supplementary</i> 5,236,000	180,367,000	169,328,548	11,038,452	—

⁽¹⁾ See Note.

EXPLANATION of the Causes of Variation between Expenditure and Grant
C3 Mainly lower numbers than expected.

DEFENCE: PAY & C. OF THE ARMED FORCES AND CIVILIANS,
STORES, SUPPLIES AND MISCELLANEOUS SERVICES

1980-81, Class I, Vote 1

Service	Grant	Expenditure	Expenditure compared with Grant	
			Less than Granted	More than Granted
£	£	£	£	£
E2 Conveyance of Stores and Equipment				
<i>Original</i>	46,934,000			
<i>Supplementary</i>	4,996,000			
	51,930,000	50,007,227	1,922,773	—
SECTION F				
ACCOMMODATION SERVICES, STORES, PLANT AND MACHINERY AND CONTRACT REPAIR				
F1 Accommodation Stores and Services				
<i>Original</i>	70,394,000			
<i>Less Supplementary</i>	2,097,000			
	68,297,000	69,323,975	—	1,026,975
F2 Other Stores				
<i>Original</i>	44,906,000			
<i>Less Supplementary</i>	4,116,000			
	40,790,000	34,068,470	6,721,530	—
F3 Plant and Machinery				
<i>Original</i>	12,657,000			
<i>Less Supplementary</i>	937,000			
	11,720,000	12,389,117	—	669,117
F4 Contract Repair of Ships	1,058,000	92,313	965,687	—
F5 Administrative Computers: Capital Expenditure	12,026,000	6,579,649	5,446,351	—
F6 Administrative Computers: Current Expenditure				
<i>Original</i>	7,202,000			
<i>Less Supplementary</i>	264,000			
	6,938,000	6,822,836	115,164	—
SECTION G				
CLOTHING, TEXTILES AND VICTUALLING				
G1 Clothing and Textiles				
<i>Original</i>	79,423,000			
<i>Supplementary</i>	4,351,000			
	83,774,000	82,663,018	1,110,982	—
G2 Victualling				
<i>Original</i>	105,671,000			
<i>Supplementary</i>	4,885,000			
	110,556,000	105,614,956	4,941,044	—

EXPLANATION of the Causes of Variation between Expenditure and Grant *contd.*

F2 Mainly greater than expected effects of savings measures.

F4 Mainly fewer repairs to Ocean Weather ships than expected.

F5 Mainly effects of savings measures.

DEFENCE: PAY & C. OF THE ARMED FORCES AND CIVILIANS,
STORES, SUPPLIES AND MISCELLANEOUS SERVICES

1980-81, Class I, Vote 1

Service	Grant	Expenditure	Expenditure compared with Grant	
			Less than Granted	More than Granted
£	£	£	£	£
SECTION H				
FUEL AND UTILITIES				
H1 Liquid Fuels, Lubricants, &c.	431,590,000	390,724,111	40,865,889	—
H2 Solid Fuels, Electricity, Gas, Water, &c.				
<i>Original</i>	113,249,000			
<i>Supplementary</i>	9,799,000			
	<u>123,048,000</u>	110,671,423	12,376,577	—
SECTION I				
LANDS AND BUILDINGS				
I1 Lands and Buildings	83,549,000	61,855,972	21,693,028	—
I2 Repayment and Interest Charges under the Armed Forces (Housing Loans) Act, 1949, 1958 and 1965				
<i>Original</i>	5,879,000			
<i>Less Supplementary</i>	171,000			
	<u>5,708,000</u>	5,253,417	454,583	—
SECTION J				
INTERNATIONAL ACTIVITIES				
SUBSCRIPTIONS TO INTERNATIONAL ORGANISATIONS				
J1 North Atlantic Treaty Organisation	28,531,000	24,978,712	3,552,288	—
J2 Other International Subscriptions	5,457,000	3,287,011	2,169,989	—
INFRASTRUCTURE PROJECTS				
J3 North Atlantic Treaty Organisation	100,805,000	73,856,268	26,948,732	—
OTHER PAYMENTS ABROAD AND MILITARY ASSISTANCE				
J4 Payments to NATO Countries for the Maintenance of Defence Facilities				
<i>Original</i>	209,000			
<i>Less Supplementary</i>	63,000			
	<u>146,000</u>	139,256	6,744	—

EXPLANATION of the Causes of Variation between Expenditure and Grant *contd.*

- H2 Mainly greater than expected effects of savings measures.
I1 Mainly effects of savings measures and exchange rate variations.
J1 Mainly reduced requirements and exchange rate variations.
J2 Mainly slippage into 1981-82.
J3 Mainly delays in project approval by NATO.

DEFENCE: PAY & C. OF THE ARMED FORCES AND CIVILIANS,
STORES, SUPPLIES AND MISCELLANEOUS SERVICES

1980-81, Class I, Vote 1

Service	Grant	Expenditure	Expenditure compared with Grant	
			Less than Granted	More than Granted
£	£	£	£	£
J5 World Weather Watch Stations Overseas				
<i>Original</i>	254,000			
<i>Less Supplementary</i>	89,000			
	165,000	160,975	4,025	—
J6 ANZUK Force Final Settlement				
<i>Original</i>	110,000			
<i>Less Supplementary</i>	110,000			
	—	103,393	—	103,393
SECTION K				
GRANTS IN AID				
K1 Welfare Grants in Aid				
<i>Original</i>	160,000			
<i>Supplementary</i>	18,000			
	178,000	177,761	239	—
K2 Grants in Aid to Museums (<i>See appended Accounts</i>)				
	170,000	170,000	—	—
K3 Grants in Aid to Services Sports Control Boards				
<i>Original</i>	109,000			
<i>Less Supplementary</i>	8,000			
	101,000	102,741	—	1,741
K4 Other Grants in Aid				
<i>Original</i>	436,500			
<i>Less Supplementary</i>	50,000			
	386,500	346,092	40,408	—
SECTION L				
OTHER SERVICES				
L1 Telecommunications, Postage and Monitoring				
<i>Original</i>	66,583,000			
<i>Supplementary</i>	5,105,000			
	71,688,000	70,148,844	1,539,156	—
L2 Publicity and Recruiting Services				
<i>Original</i>	4,430,000			
<i>Less Supplementary</i>	1,123,000			
	3,307,000	3,082,485	224,515	—

EXPLANATION of the Causes of Variation between Expenditure and Grant *contd.*

J6 The Estimate provision was removed in error.

K4 Mainly effects of savings measures.

DEFENCE: PAY & C. OF THE ARMED FORCES AND CIVILIANS,
STORES, SUPPLIES AND MISCELLANEOUS SERVICES

1980-81, Class I, Vote 1

Service	Grant	Expenditure	Expenditure compared with Grant	
			Less than Granted	More than Granted
£	£	£	£	£
L3 Service Welfare Expenses				
<i>Original</i>	3,856,000			
<i>Supplementary</i>	6,000			
	3,862,000	3,893,848	—	31,848
L4 Fees and Other Payments for Professional and Specialist, &c., Services				
<i>Original</i>	11,647,000			
<i>Less Supplementary</i>	369,000			
	11,278,000	10,734,023	543,977	—
L5 Miscellaneous Education and Training Expenses				
<i>Original</i>	20,777,000			
<i>Less Supplementary</i>	2,362,000			
	18,415,000	18,635,978	—	220,978
L6 Civil Marine, Flying and Hydrographic, &c., Services				
<i>Original</i>	37,767,000			
<i>Supplementary</i>	578,000			
	38,345,000	36,775,889	1,569,111	—
L7 Compensation for Losses, Damage, Indemnities, &c.				
<i>Original</i>	10,763,000			
<i>Supplementary</i>	214,000			
	10,977,000	10,967,295	9,705	—
L8 Reserve, Auxiliary and Cadet Forces: Grants and Expenses				
<i>Original</i>	13,371,000			
<i>Supplementary</i>	200,000			
	13,571,000	13,095,840	475,160	—
L9 General Administrative Expenses, &c.				
<i>Original</i>	52,242,500			
<i>Less Supplementary</i>	1,572,000			
	50,670,500	51,450,710	—	780,210

DEFENCE: PAY & C. OF THE ARMED FORCES AND CIVILIANS,
STORES, SUPPLIES AND MISCELLANEOUS SERVICES

1980-81, Class I, Vote 1

Service	Grant	Expenditure	Expenditure compared with Grant	
			Less than Granted	More than Granted
	£	£	£	£
GROSS TOTAL				
Original	5,160,126,000			
Allocated from Class XIII, Vote 31 ⁽¹⁾	97,737,000			
Supplementary	36,275,000			
	<u>£5,294,138,000</u>	<u>5,073,160,297</u>	<u>228,475,140</u>	<u>7,497,437</u>
		Estimated	Surplus of Gross Estimate over Expenditure <u>220,977,703</u>	
		Realised		
Z Deduct Appropriations in Aid				
Original	535,588,000			
Supplementary	36,274,000			
	<u>571,862,000</u>	<u>570,673,024</u>		Deficiency of Appropriations in Aid realised <u>1,188,976</u>
NET TOTAL				
Original	4,624,538,000			
Allocated from Class XIII, Vote 31 ⁽¹⁾	97,737,000			
Supplementary	1,000			
	<u>£4,722,276,000</u>	<u>4,502,487,273</u>		Net Surplus <u>219,788,727</u>
				<u>£219,788,727-04</u>
		Actual surplus to be surrendered		

NOTE

(1) An addition has been made to Subheads D1 and D2 in respect of provision made in Class XIII, Vote 31 for increases in civil service remuneration.

Receipts

	Estimated	Realised
	£	£
Receipts payable to Consolidated Fund	—	<u>8,235-00</u>

Details of Receipts

	Estimated	Realised
	£	£
(i) Receipts of classes authorised to be used as Appropriations in Aid		
Subhead AZ		
Receipts in respect of personnel lent to other governments	2,442,000	2,578,485
Other receipts	5,488,000	5,432,814
	<u>£7,930,000</u>	<u>8,011,299</u>

DEFENCE: PAY & C. OF THE ARMED FORCES AND CIVILIANS,
STORES, SUPPLIES AND MISCELLANEOUS SERVICES

1980-81, Class I, Vote 1

Details of Receipts *contd.*

	Estimated	Realised
	£	£
Subhead BZ		
Receipts in respect of personnel lent to other governments	15,725,000	18,519,770(a)
Colonial and other contributions	59,853,000	61,794,020
Other receipts	10,192,000	8,222,278(b)
	<u>£85,770,000</u>	<u>88,536,068</u>
Subhead CZ		
Receipts in respect of personnel lent to other governments	6,345,000	6,870,903
Other receipts	6,740,000	7,163,420
	<u>£13,085,000</u>	<u>14,034,323</u>
Subhead DZ		
Receipts in respect of pay, etc., of civilians	£39,698,000	39,085,788
Subhead EZ		
Movements receipts	£8,387,000	9,171,705
Subhead FZ		
Accommodation stores and services	4,393,000	4,748,263
Meteorological stores and services, medical and miscellaneous stores	3,247,000	3,025,532
Repayment use of Royal Maritime Auxiliary Service vessels and rental and sale of plant to shipbuilders	1,900,000	1,503,467(c)
Administrative Computers: miscellaneous receipts for computer services	19,000	20,254
	<u>£9,559,000</u>	<u>9,297,516</u>
Subhead GZ		
Clothing and textiles	7,355,000	7,125,369
Victualling	63,866,000	65,429,863
	<u>£71,221,000</u>	<u>72,555,232</u>
Subhead HZ		
Liquid fuels, lubricants, etc.	36,582,000	29,779,076(d)
Solid fuels, electricity, gas, water, etc.	31,039,000	30,066,452
	<u>£67,621,000</u>	<u>59,845,528</u>
Subhead IZ		
Sale of land, buildings and produce	65,500,000	65,842,705
Occupation of land and buildings	14,065,000	14,118,475
Sale of married quarters originally financed under the Armed Forces (Housing Loans) Acts, 1949, 1958 and 1965	618,000	183,025(e)
	<u>£80,183,000</u>	<u>80,144,205</u>

(a) Mainly faster recoveries than expected.

(b) Mainly over-estimation of receipts.

(c) Mainly a reduction in repayment work and slippage of receipts into 1981-82.

(d) Mainly less sales than expected.

(e) Mainly slippage of receipts into 1981-82.

Details of Receipts *contd.*

	Estimated	Realised
	£	£
Subhead JZ		
NATO infrastructure projects	30,852,000	31,330,839
North Atlantic Ocean Stations Agreement: Receipts from World Meteorological Organisation	2,355,000	2,328,070
	<u>£33,207,000</u>	<u>33,658,909</u>
Subhead LZ		
Receipts relating to telecommunications and postage	4,621,000	4,183,612
Receipts relating to medical services	996,000	991,903
Receipts relating to educational services and training	32,249,000	36,517,738(f)
Receipts relating to marine, flying, hydrographic, etc., services	26,144,000	24,020,781
Receipts in connection with claims under section 9(1) of the Visiting Forces Act, 1952	100,000	76,822(g)
Accommodation charges for the occupation of public quarters by Service personnel	78,311,000	78,698,281
Receipts from hostels	872,000	915,490
Recovery of Input Value Added Tax relating to taxable supplies of the department	3,968,000	3,310,099(h)
Other receipts	7,940,000	7,617,725
	<u>£155,201,000</u>	<u>156,332,451</u>
Total	<u>£571,862,000</u>	<u>570,673,024</u>
(ii) Receipts of other classes		
Trade-in allowance on computer equipment purchased in a prior year	—	4,495
Unresolved credit balances on suspense accounts	—	2,540
Refund of overpayment of rents in 1976	—	1,200
Total		<u>£8,235</u>

(f) Mainly under-estimation of receipts and recoveries faster than expected.

(g) Mainly less claims than expected.

(h) Mainly an over-estimation of recoveries of Input Value Added Tax.

Losses Statement

	£
<i>Summary</i>	
Cash losses due to theft, fraud or arson* (38 cases)	7,691
Cash losses due to other causes (2,599 cases)	1,222,900
Total Cash Losses	<u>£1,230,591</u>
Claims abandoned (7,461 cases)	£971,862
Stores losses due to theft, fraud, arson or sabotage, etc.* (4,895 cases)	2,164,669
Stores losses due to other causes (35,197 cases)	6,041,165
Total Stores Losses	<u>£8,205,834</u>

Prosecution was undertaken wherever appropriate and practicable.

etails

	£
Cash losses due to theft, fraud or arson (cases over £1,000)	
Falsification of overtime claims by a civilian at an Army unit between 1976 and 1978. He was sentenced to 1 year's imprisonment. A short service award of £427 was used in offset	3,540

Losses Statement *contd.*

	£
Cash losses due to other causes (cases over £2,000)	
Overissue of pay to Territorial Army volunteers between 1970 and 1980 due to administrative error. The amount had to be estimated	900,000
Overissue of Dearness Allowance to 5,328 Gurkhas between 1978 and 1980 due to administrative error. The amount had to be estimated	47,365
Overissue of Foreign Service Allowance to 476 civilian employees between 1976 and 1978 due to administrative error. The amount had to be estimated	34,300
Overissue of pay to 36 civilian employees at various Naval establishments between 1972 and 1979 due to administrative error. The amount had to be estimated	20,500
Extra costs incurred on a locally placed contract at an Army unit overseas due to administrative error	17,157
Overissue of pay between 1975 and 1979 to 6 civilians at an Army unit due to administrative error. The amount had to be estimated	15,000
Overissue of pay to 51 civilian employees between 1974 and 1977 due to administrative error	12,258
Payment for services rendered to a Royal Fleet Auxiliary for which liability was incurred when the agent funded by the Department went into liquidation	8,992
Overissue of Boarding School Allowance to a Warrant Officer between September 1975 and July 1977 due to administrative error	2,718
Claims abandoned (cases over £2,000)	
Delay due to industrial trouble in completion of a repair contract in 1975 contributed to delay by the Department in returning a vessel to the owners at the end of the charter period. A claim against the ship repairing firm which subsequently became insolvent for a due share of the additional expense incurred was abandoned on legal advice	451,374
Under-recovery of the costs of accommodation stores sold at Army units between January and May 1980 due to administrative error. The amount had to be estimated	45,000
Fees waived under special arrangements for treatment of non-entitled patients in 2 Service hospitals abroad	25,665
Under-recovery of charges for electricity supplied to foreign navy vessels between 1975 and 1977 due to administrative error	16,766
Claim waived for tuition fees and other charges for 2 foreign cadets attending training courses	11,959
Part of the cost of training services provided to a foreign government. £95,200 was recovered	5,399
Remission of contributions in lieu of rates from a non-public Naval amenity between 1974 and 1978	4,968
Under-recovery of accommodation charges between August 1979 and April 1980 at a Royal Air Force station due to administrative error	3,875
Waiver of a claim against a maritime charitable trust for part of the cost of supplying fresh water to a training ship. £192 was recovered	3,717
Under-recovery of accommodation charges between December 1974 and January 1978 at Army units due to administrative error	2,899
Charges incurred during the irregular occupancy of a married quarter by a soldier's estranged wife	2,801
A claim for costs of refurbishment of a tank could not be pursued	2,609
Remission of food and accommodation charges from a Royal Air Force Officer between February 1976 and August 1979 due to administrative error	2,439
Limited supplies and services were provided on a reciprocal basis to Commonwealth and foreign navy vessels visiting British naval ports.	
Stores losses due to theft, fraud, arson or sabotage, etc. (cases over £5,000)	
14 separate incidents of MOD property (buildings, vehicles and stores) damaged or destroyed by fire resulting from negligence	399,852
7 separate incidents of MOD property (buildings and stores) damaged or destroyed by arson (proved or suspected)	217,230
4 separate incidents of aircraft damaged as a result of negligence	153,982
11 separate incidents of MOD property damaged in traffic accidents resulting from driver negligence	120,052
2 separate incidents of stores stolen from MOD establishments	74,227
Equipment damaged in transit as a result of negligence	37,123
Fuel loss and environmental damage as a result of negligence	6,745

DEFENCE: PAY & C. OF THE ARMED FORCES AND CIVILIANS,
STORES, SUPPLIES AND MISCELLANEOUS SERVICES

1980-81, Class I, Vote 1

Losses Statement contd.

Stores losses due to other causes (cases over £25,000)	£
A quantity of stores was condemned following reassessment of their life expectancy in operational use	1,348,436
3 separate incidents of MOD property destroyed by fire during overseas exercises	662,858
MOD property destroyed by an explosion at an overseas establishment	332,673
Incomplete records resulted in an inability to account for a quantity of stores in an MOD depot	56,697
Equipment damaged beyond repair during an exercise	45,041

A case of deterioration (over £100,000) beyond the control of any person responsible is noted below but is not included in the Summary of Losses.

A quantity of ships' propeller shafts stored at Royal Navy Depots since 1972 was found to have corroded beneath preservative packaging. Refurbishment is estimated at £212,750.

Missing, Incomplete or Abandoned Store Accounts

The vehicle spares account of an Army unit covering a period of 20 months was abandoned.
Various stores accounts of a Royal Navy ship covering a period of 31 months were abandoned.
The ration stock account of an Army unit covering a period of 8 months was abandoned.
An account in respect of surplus gauges at an MOD establishment was abandoned.

Notes

Ex gratia Payments

5 payments	£2,251
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Extra-statutory Payments

Pending issue of the necessary Royal Warrants to authorise retrospectively certain changes in Army and Royal Air Force pay and allowances, payments were in the interim made extra-statutorily. The amounts involved cannot be readily assessed.

Gifts Made

678 Gifts totalling	£84,924
Cases £1,000 and over	£
Ammunition issued free to the National Rifle Association for use at the 1980 Bisley meeting	47,776
Meteorological equipment, in situ, to the Government of the Republic of Seychelles	23,475
Scholarships awarded under special arrangements to 4 local children attending Service schools overseas	3,002
Navigational marker buoy, in situ, to Orkney Islands Council	2,352
Exchanges of <i>matériel</i> were made with Commonwealth and foreign governments, public bodies, etc., for reciprocal benefits (Class I, Vote 2 was also concerned).	

Transfers of Land and Buildings

Free transfers of land and buildings to Exchequer Departments (cases over £250,000)	£
7 parcels of land and buildings transferred to the Department of Health and Social Security	4,788,000
3 parcels of land and buildings transferred to the Department of the Environment	2,663,000
1 parcel of land and buildings transferred to the Department of Education and Science	1,500,000
1 parcel of land and buildings transferred to the Home Office	480,000

Loans outstanding at 31 March 1981

Balance outstanding (excluding interest) on a credit sale transaction	£61,000
Loan to a Service newspaper	7,500
Loan to a NATO mess	865
Loan to a staff restaurant	470

DEFENCE: PAY & C. OF THE ARMED FORCES AND CIVILIANS,
STORES, SUPPLIES AND MISCELLANEOUS SERVICES

1980-81, Class I, Vote 1

Notes contd.

Hostels

Summary of outturn of 8 hostels for non-industrial and industrial civil servants

	Estimated	Realised
	£	£
Expenditure	1,939,000	1,480,601
Income	872,000	889,835
Deficit	<u>£1,067,000</u>	<u>£590,766</u>

Other Notes

In the interests of saving expenditure on fuel, etc., estimated at about £1.2 million, a number of establishments were closed over the Christmas and New Year holidays and about 29,000 civilian staff were sent home on stand-by. Their staff costs for this period amounted to approximately £2.7 million. The Army has with Treasury approval continued to provide treatment free of charge to non-entitled Nepalese patients in a medical establishment in Nepal. The extra cost in 1980-81 borne on Defence Votes was £168,074.

GRANT IN AID ACCOUNTS, SERVICE MUSEUMS (SUBHEAD K2)
(PURCHASE OF EXHIBITS)

NAVAL AND MARINE MUSEUMS

RECEIPTS	£	PAYMENTS	£
Balance, 1 April 1980	16,981	Expenditure, 1980-81	53,680
Grant in Aid, 1980-81	40,000	Balance, 31 March 1981	8,110
Other Receipts	4,809		
	<u>£61,790</u>		<u>£61,790</u>

NATIONAL ARMY MUSEUM

RECEIPTS	£	PAYMENTS	£
Balance, 1 April 1980	11,182	Expenditure, 1980-81	63,287
Grant in Aid, 1980-81	70,000	Balance, 31 March 1981	19,688
Other Receipts	1,793		
	<u>£82,975</u>		<u>£82,975</u>

ROYAL AIR FORCE MUSEUM

RECEIPTS	£	PAYMENTS	£
Balance, 1 April 1980	13,989	Expenditure, 1980-81	74,053
Grant in Aid, 1980-81	60,000	Balance, 31 March 1981	236
Other Receipts	300		
	<u>£74,289</u>		<u>£74,289</u>

Frank Cooper

Accounting Officer

6 October 1981

I have examined the foregoing Accounts in accordance with the provisions of the Exchequer and Audit Departments Act 1921. I have obtained all the information and explanations that I have required, and I certify, as the result of my audit, that in my opinion these Accounts are correct.

Gordon Downey

Comptroller and Auditor General

DEFENCE PROCUREMENT

See also Report of Comptroller and Auditor General

SUMMARY OF PROGRAMME OUTTURN, and the ACCOUNT of the sum expended in the year ended 31 March 1981, compared with the sum granted, for expenditure by the Procurement Executive of the Ministry of Defence in operating its Headquarters and Establishments and for its other common services; for research, &c., by contract; for development by contract, production, repair, &c., and purchases for sale abroad of sea systems, land systems, air systems and associated equipment; for reservation of capacity in Royal Ordnance Factories; for certain contingent liabilities, and for sundry other Procurement Executive services including those on repayment terms to non-Exchequer customers.

SUMMARY OF PROGRAMME OUTTURN

Section	Estimated			Actual		
	Gross Expenditure	Appropriations in Aid	Net Expenditure	Gross Expenditure	Appropriations in Aid	Net Expenditure
	£	£	£	£	£	£
PROGRAMME 1.1						
DEFENCE BUDGET						
A	53,000,000	5,780,000	47,220,000	52,980,942	5,846,846	47,134,096
B	355,412,000	34,227,000	321,185,000	345,947,627	32,998,994	312,948,633
C	116,722,000	1,830,000	114,892,000	114,814,707	1,719,048	113,095,659
D	278,984,000	17,847,000	261,137,000	272,149,581	19,678,644	252,470,937
E	291,220,000	1,577,000	289,643,000	285,047,860	1,625,408	283,422,452
F	1,275,200,000	101,297,000	1,173,903,000	1,216,868,524	104,977,868	1,111,890,656
G	124,000	—	124,000	—	—	—
H	27,456,000	20,387,000	7,069,000	26,026,531	18,937,477	7,089,054
I	186,510,000	7,940,000	178,570,000	188,488,838	6,852,535	181,636,303
J	1,004,630,000	234,440,000	770,190,000	950,124,729	228,210,339	721,914,390
K	4,900,000	—	4,900,000	4,472,485	—	4,472,485
L	531,200,000	47,300,000	483,900,000	541,017,711	41,830,693	499,187,018
M	1,657,100,000	155,200,000	1,501,900,000	1,714,822,966	154,978,406	1,559,844,560
Total	<u>£5,782,458,000</u>	<u>627,825,000</u>	<u>5,154,633,000</u>	<u>5,712,762,501</u>	<u>617,656,258</u>	<u>5,095,106,243</u>

ACCOUNT

Service	Grant	Expenditure	Expenditure compared with Grant	
			Less than Granted	More than Granted
£	£	£	£	£
PROGRAMME 1.1				
SECTION A				
HEADQUARTERS ADMINISTRATION				
A1 Headquarters: Salaries, &c.				
<i>Original</i> 39,380,000				
<i>Allocated from Class XIII, Vote 31⁽¹⁾</i> 5,496,000				
	44,876,000	45,479,024	—	603,024
A2 Headquarters: General Administrative Expenses				
<i>Original</i> 9,685,000				
<i>Less Supplementary</i> 1,561,000				
	8,124,000	7,501,918	622,082	—
SECTION B				
RESEARCH AND DEVELOPMENT ESTABLISHMENTS, &c.				
B1 Research and Development Establishments, &c.: Salaries, &c.				
<i>Original</i> 182,735,000				
<i>Allocated from Class XIII, Vote 31⁽¹⁾</i> 23,151,000				
	205,886,000	204,758,788	1,127,212	—
B2 Research and Development Establishments, &c.: General Administrative Expenses				
	14,386,000	13,454,289	931,711	—
B3 Research and Development Establishments &c.: Other Current Expenditure				
<i>Original</i> 103,748,000				
<i>Less Supplementary</i> 1,930,000				
<i>Less Supplementary</i> 1,600,000				
	100,218,000	97,609,225	2,608,775	—
B4 Research and Development Establishments, &c.: Capital Expenditure				
<i>Original</i> 44,933,000				
<i>Less Supplementary</i> 6,540,000				
<i>Less Supplementary</i> 3,471,000				
	34,922,000	30,125,325	4,796,675	—

(1) See Note.

EXPLANATION of the Causes of Variation between Expenditure and Grant

B4 Mainly reduced requirements and slower progress as a result of the moratorium.

Service	Grant	Expenditure	Expenditure compared with Grant	
			Less than Granted	More than Granted
£	£	£	£	£
SECTION C				
OTHER OUTSTATION ESTABLISHMENTS				
C1 Other Outstation Establishments:				
Salaries, &c.				
Original	87,652,000			
Allocated from Class XIII, Vote 31 ⁽¹⁾	10,858,000			
	98,510,000	98,959,786	—	449,786
C2 Other Outstation Establishments:				
General Administrative Expenses				
Original	11,247,000			
Less Supplementary	941,000			
	10,306,000	8,969,818	1,336,182	—
C3 Other Outstation Establishments:				
Other Current Expenditure				
Original	3,474,000			
Supplementary	1,760,000			
	5,234,000	4,898,082	335,918	—
C4 Other Outstation Establishments:				
Capital Expenditure				
Original	4,432,000			
Less Supplementary	1,760,000			
	2,672,000	1,987,021	684,979	—
SECTION D				
RESEARCH, &c., BY CONTRACT				
D1 Research, &c., by Contract				
Original	288,876,000			
Less Supplementary	12,700,000			
Supplementary	2,808,000			
	278,984,000	272,149,581	6,834,419	—
SECTION E				
SEA SYSTEMS - DEVELOPMENT BY CONTRACT				
E1 Development by Contract				
Original	232,940,000			
Supplementary	28,500,000			
Supplementary	29,780,000			
	291,220,000	285,047,860	6,172,140	—

⁽¹⁾ See Note.

EXPLANATION of the Causes of Variation between Expenditure and Grant *contd.*

C2 Reduced expenditure on travel, subsistence and telephone costs as a result of economy measures.

C4 Mainly reduced requirements and slower progress as a result of the moratorium.

Service	Grant	Expenditure	Expenditure compared with Grant	
			Less than Granted	More than Granted
£	£	£	£	£
SECTION F				
SEA SYSTEMS - PRODUCTION AND REPAIR				
F1 Ships Hulls and Machinery				
<i>Original</i>	401,030,000			
<i>Supplementary</i>	16,500,000			
<i>Supplementary</i>	43,370,000			
	<u>460,900,000</u>	422,034,165	38,865,835	—
F2 Weapon Systems, &c.				
<i>Original</i>	361,130,000			
<i>Supplementary</i>	47,300,000			
<i>Supplementary</i>	42,200,000			
	<u>450,630,000</u>	444,299,799	6,330,201	—
F3 Ship Equipment and Support Services				
<i>Original</i>	76,080,000			
<i>Supplementary</i>	6,500,000			
<i>Supplementary</i>	13,060,000			
	<u>95,640,000</u>	92,513,718	3,126,282	—
F4 Ship/Weapon Maintenance Equip- ment, Stores and Services				
<i>Original</i>	218,170,000			
<i>Supplementary</i>	22,142,000			
<i>Supplementary</i>	27,718,000			
	<u>268,030,000</u>	258,020,842	10,009,158	—
SECTION G				
SEA SYSTEMS - INDEMNITIES				
G1 Indemnities Incidental to the Con- struction of Ships by Contract for the US Navy Department				
<i>Original</i>	167,000			
<i>Less Supplementary</i>	43,000			
	<u>124,000</u>	—	124,000	—
SECTION H				
MISCELLANEOUS PROCUREMENT SERVICES				
H1 Joint UK/Australian Government Research and Development Facilities				
<i>Original</i>	1,228,000			
<i>Less Supplementary</i>	550,000			
<i>Less Supplementary</i>	311,000			
	<u>367,000</u>	497,288	—	130,288

EXPLANATION of the Causes of Variation between Expenditure and Grant *contd.*

G1 Payment has been delayed pending agreement on the equitable distribution between preferential and non-preferential claims.

H1 Faster progress on the clearance of a range site than expected.

Service	Grant	Expenditure	Expenditure compared with Grant	
			Less than Granted	More than Granted
£	£	£	£	£
H2 Saudi Arabian Air Defence Scheme (Net)	10	—	10	—
H3 Promotion of Sales and Disposal of Surpluses				
<i>Original</i>	4,221,000			
<i>Less Supplementary</i>	892,000			
	3,329,000	2,633,812	695,188	—
H4 Services on Repayment Terms	10	—	10	—
H5 International Military Services Limited	10	—	10	—
H6 Miscellaneous Services				
<i>Original</i>	24,858,970			
<i>Less Supplementary</i>	1,099,000			
	23,759,970	22,895,431	864,539	—
SECTION I				
LAND SYSTEMS - DEVELOPMENT BY CONTRACT				
I1 Development by Contract				
<i>Original</i>	140,047,000			
<i>Supplementary</i>	20,836,000			
<i>Supplementary</i>	25,627,000			
	186,510,000	188,488,838	—	1,978,838
SECTION J				
LAND SYSTEMS - PRODUCTION AND REPAIR				
J1 Guns, Small Arms and CD Stores				
<i>Original</i>	66,209,000			
<i>Supplementary</i>	3,675,000			
<i>Supplementary</i>	2,186,000			
	72,070,000	63,104,226	8,965,774	—
J2 Ammunition, Mines and Explosives				
<i>Original</i>	254,914,000			
<i>Less Supplementary</i>	32,044,000			
<i>Supplementary</i>	5,130,000			
	228,000,000	211,666,657	16,333,343	—
J3 Fighting Vehicles				
<i>Original</i>	100,672,000			
<i>Supplementary</i>	4,465,000			
<i>Supplementary</i>	1,813,000			
	106,950,000	92,860,168	14,089,832	—

EXPLANATION of the Causes of Variation between Expenditure and Grant *contd.*

H3 Mainly the cancellation of a number of sales promotional activities as a result of the moratorium.

J1 Mainly late billing by an overseas government, late deliveries and the effects of an earlier industrial dispute.

J3 Mainly slower progress than expected and slippage into 1981-82.

Service	Grant	Expenditure	Expenditure compared with Grant	
			Less than Granted	More than Granted
£	£	£	£	£
J4 Load Carrying Vehicles				
<i>Original</i>	128,455,000			
<i>Supplementary</i>	41,120,000			
<i>Supplementary</i>	9,425,000			
	179,000,000	177,404,264	1,595,736	—
J5 Engineering Equipment				
<i>Original</i>	41,789,000			
<i>Supplementary</i>	7,941,000			
<i>Supplementary</i>	5,670,000			
	55,400,000	53,879,503	1,520,497	—
J6 Guided Weapons, Electronic Equipment and Instruments				
<i>Original</i>	272,760,000			
<i>Supplementary</i>	30,054,000			
<i>Supplementary</i>	17,186,000			
	320,000,000	310,036,153	9,963,847	—
J7 Plant and Machinery				
<i>Original</i>	4,855,000			
<i>Less Supplementary</i>	1,803,000			
<i>Supplementary</i>	748,000			
	3,800,000	3,956,332	—	156,332
J8 Other Stores				
<i>Original</i>	38,155,000			
<i>Supplementary</i>	1,942,000			
<i>Less Supplementary</i>	687,000			
	39,410,000	37,217,426	2,192,574	—
SECTION K				
RESERVE CAPACITY IN ROYAL ORDNANCE FACTORIES*				
K1 Reserve Capacity in Royal Ordnance Factories				
<i>Original</i>	5,040,000			
<i>Less Supplementary</i>	251,000			
<i>Supplementary</i>	111,000			
	4,900,000	4,472,485	427,515	—
SECTION L				
AIR SYSTEMS — DEVELOPMENT BY CONTRACT				
L1 Development by Contract				
<i>Original</i>	480,993,000			
<i>Supplementary</i>	15,855,000			
<i>Supplementary</i>	34,352,000			
	531,200,000	541,017,711	—	9,817,711

*See also the Royal Ordnance Factories Trading Fund Accounts published separately as a White Paper.

Service	Grant	Expenditure	Expenditure compared with Grant	
			Less than Granted	More than Granted
£	£	£	£	£
SECTION M				
AIR SYSTEMS – PRODUCTION AND REPAIR				
M1 Aircraft, Aero Engines and Aircraft Equipment				
<i>Original</i>	1,131,997,000			
<i>Supplementary</i>	71,845,000			
<i>Supplementary</i>	110,158,000			
	<u>1,314,000,000</u>	1,346,559,984	—	32,559,984
M2 Guided Weapons and Electronic Equipment				
<i>Original</i>	370,029,000			
<i>Less Supplementary</i>	12,000,000			
<i>Less Supplementary</i>	14,929,000			
	<u>343,100,000</u>	368,262,982	—	25,162,982
GROSS TOTAL				
<i>Original</i>	5,146,288,000			
<i>Allocated from Class XIII, Vote 31⁽¹⁾</i>	39,505,000			
<i>Supplementary</i>	250,857,000			
<i>Supplementary</i>	345,808,000			
	<u>£5,782,458,000</u>	5,712,762,501	140,554,444	70,858,945
		<u>Estimated</u>		<u>Realised</u>
				Surplus of Gross Estimate over Expenditure 69,695,499
Z Appropriations in Aid				
<i>Original</i>	684,932,000			
<i>Less Supplementary</i>	26,644,000			
<i>Less Supplementary</i>	30,463,000			
	<u>627,825,000</u>	617,656,258		Deficiency of Appropriations in Aid realised 10,168,742
NET TOTAL				
<i>Original</i>	4,461,356,000			
<i>Allocated from Class XIII, Vote 31⁽¹⁾</i>	39,505,000			
<i>Supplementary</i>	277,501,000			
<i>Supplementary</i>	376,271,000			
	<u>£5,154,633,000</u>	5,095,106,243		<u>Net Surplus</u> 59,526,757
				<u>Actual surplus to be surrendered</u> £59,526,757·33

NOTE

(1) An addition has been made to Subheads A1, B1 and C1 in respect of provision made in Class XIII, Vote 31 for increases in civil service remuneration.

DEFENCE PROCUREMENT

1980-81, Class I, Vote 2

Receipts	Estimated	Realised
	£	£
Receipts payable to Consolidated Fund	2,307,000	7,935,078.29
Details of Receipts		
	Estimated	Realised
	£	£
(i) Receipts of classes authorised to be used as Appropriations in Aid		
Subhead AZ Headquarters Administration	£5,780,000	5,846,846
Subhead BZ Research and Development Establishments, etc.	£34,227,000	32,998,994
Subhead CZ Other Outstation Establishments	£1,830,000	1,719,048
Subhead DZ Research, etc., by contract	£17,847,000	19,678,644(a)
Subhead EZ Development by contract	£1,577,000	1,625,408
Subhead FZ Production receipts Recovery of Input Value Added Tax	99,562,000 1,735,000	103,106,423 1,871,445
	<u>£101,297,000</u>	<u>104,977,868</u>
Subhead HZ Joint UK/Australian Government research and development facilities Promotion of sales Disposal of surpluses Miscellaneous receipts Recovery of Input Value Added Tax	2,000 1,099,000 14,501,000 1,632,000 3,153,000	131,254(b) 1,118,592 13,059,822 1,480,413 3,147,396
	<u>£20,387,000</u>	<u>18,937,477</u>
Subhead IZ Development by contract	£7,940,000	6,852,535(c)
Subhead JZ Sales negotiated by Defence Sales organisation Miscellaneous receipts Recovery of Input Value Added Tax	135,000,000 78,550,000 20,890,000	124,813,992 82,992,359 20,403,988
	<u>£234,440,000</u>	<u>228,210,339</u>

- (a) A payment from a non-Exchequer customer was received earlier than expected.
(b) The unexpected sale of equipment due to closure of UK/Australian project.
(c) Mainly over-estimation of development levies.

DEFENCE PROCUREMENT

1980-81, Class I, Vote 2

Details of Receipts *contd.*

	Estimated	Realised
	£	£
Subhead LZ		
Development by contract	47,190,000	41,299,495(d)
Recovery of Input Value Added Tax	110,000	531,198(e)
	<u>£47,300,000</u>	<u>41,830,693</u>
Subhead MZ		
Production receipts	146,437,000	148,854,590
Recovery of Input Value Added Tax	8,763,000	6,123,816(f)
	<u>£155,200,000</u>	<u>154,978,406</u>
Total	<u>£627,825,000</u>	<u>617,656,258</u>
(ii) Receipts of other classes		
Accrued interest on advances held by agencies for contractual purposes	—	3,875,993
Refund of overpayments on overseas contracts	—	2,429,836
Accrued interest on advances held by agencies for contractual purposes	2,300,000	1,595,456(g)
Refunds by contractors due to price adjustment following post costing	—	12,000
Refund due to price adjustment on computer equipment purchased in a prior year	—	10,846
Interest on, and repayment of, loans made to staff for house purchase	7,000	7,897(h)
Trade-in allowance on computer equipment purchased in a prior year	—	3,050
Total	<u>£2,307,000</u>	<u>7,935,078</u>

(d) Mainly delay in signing Memorandum of Understanding by an overseas government and slippage of receipts into 1981-82.

(e) Under-estimation of recoveries of Input Value Added Tax.

(f) Over-estimation of recoveries of Input Value Added Tax.

(g) Slippage of interest receivable into 1981-82.

(h) Certain loans repaid in full earlier than expected.

Losses Statement

<i>Summary</i>	£
Cash losses due to theft, fraud or arson* (3 cases)	1,490
Cash losses due to other causes (115 cases)	11,738
Total Cash Losses	<u>£13,228</u>
Fruitless payments (9 cases)	£10,277
Claims abandoned (68 cases)	£1,440,171
Stores losses due to theft, fraud, arson or sabotage, etc.* (38 cases)	50,715
Stores losses due to other causes (161 cases)	66,860
Total Stores Losses	<u>£117,575</u>

*Prosecution was undertaken wherever appropriate and practicable.

Losses Statement contd.*Details*

Cash losses due to theft, fraud or arson (cases over £1,000)	£
Fraudulent claims for permanent transfer allowances (£1,808) by a civilian employee between February 1975 and February 1976. He was given a 12 months' prison sentence suspended for 2 years. £428 has been recovered	1,380
Fruitless payment (cases over £5,000)	
Expenditure incurred on a cancelled ordnance contract	9,192
Claims abandoned (cases over £2,000)	
Extra costs of purchase in default against a company in liquidation	1,086,038
Charges for the loan of aircraft and aero engines to manufacturers for displays in aid of export sales (9 cases)	101,315
Partial waiver of charges for the loan of an aircraft and associated equipment to a manufacturer for display in aid of an export sale. The insurance requirement was also waived	78,500
Part of a claim (£113,264) against a Commonwealth Government for radio equipment originally supplied on hire/loan between 1964 and 1967 and subsequently converted to purchase could not be sustained due to lack of evidence of issue and receipt	56,632
Extra costs incurred due to default by a company which repudiated the contracts and ceased trading (estimated as £31,446) and non-recovery of progress payments for goods not delivered (£18,525)	49,971
Extra costs of purchase in default against a company in receivership	28,235
Claims for loan charges (£11,232) and part of the cost of services (£10,152) provided to a contractor between March 1978 and April 1979 could not be sustained due to administrative error	15,768
A claim against a carrier for loss of equipment in transit in 1978 could not be sustained because it was time expired	5,814
Claims for stores damaged in transit in 1977 were not pursued against the contractor or carrier on legal advice	5,348
Cost of stores supplied in 1978 to a foreign company now in liquidation	4,200
Stores losses due to theft, fraud, arson or sabotage, etc. (cases over £5,000)	
MOD Stores were found to be missing on transfer to a new site. Theft was suspected	40,000

Notes*Ex gratia Payments*

13 payments	£4,407,960
Cases £1,000 and over	£
Estimated value of additional payments (at September 1979 price levels) to a contractor over the period 1981 to 1986 as a result of agreement to a significantly later delivery programme than originally intended arising from development difficulties. The moneys actually payable will depend upon prevailing rates of inflation as recorded in D of I indices	3,740,000
Payments to a contractor between 1976 and 1981 due to development and production costs being greater than anticipated. Future deliveries on the contract will attract further payments of £371,323 and an additional £250,000 will be payable on completion if the contractor's costs exceed £4,000,000	470,354
Payment for design rights to 7 suppliers of equipment sold by the Ministry of Defence to overseas customers	138,376
Balance of payment to a contractor for a negotiated uplift in price due to an expected follow-on order not being placed by an overseas customer. (See also Class I, Vote 2, 1979-80 Page 34)	45,070
Payment to a contractor for extra costs due to the supply of possibly misleading information at the tender stage and subsequent administrative delay	11,500
Contribution towards losses sustained on a fixed price contract for which the contractor's quotation was subject to price variation	1,725

Gifts Made

47 Gifts totalling	£3,138
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Notes contd.

<i>Loans outstanding and shares held at 31 March 1981</i>	£
Balance outstanding (excluding interest) on 3 credit sale transactions	2,614,074
999,999 £1 shares in International Military Services Ltd at cost	999,999
Housing loans granted by Atomic Energy Authority to 93 of its employees now with Ministry of Defence	20,111

£808,579 of a loan of £918,409 in 1966 has been remitted. The balance of £109,830 was recovered by set-off.

David Cardwell

Accounting Officer

8 October 1981

I have examined the above Account in accordance with the provisions of the Exchequer and Audit Departments Act 1921. I have obtained all the information and explanations that I have required, and I certify, as the result of my audit, that in my opinion the above Account is correct.

Gordon Downey

Comptroller and Auditor General

DEFENCE: ARMED FORCES RETIRED PAY, PENSIONS &c.

See also Report of Comptroller and Auditor General

SUMMARY OF PROGRAMME OUTTURN, and the ACCOUNT of the sum expended, in the year ended 31 March 1981, compared with the sum granted, for expenditure by the Ministry of Defence on retired pay, pensions, &c., and related non-recurrent payments and for the Royal Hospital, Chelsea.

SUMMARY OF PROGRAMME OUTTURN

Section	Estimated			Actual		
	Gross Expenditure £	Appropriations in Aid £	Net Expenditure £	Gross Expenditure £	Appropriations in Aid £	Net Expenditure £
PROGRAMME 1.1						
DEFENCE BUDGET						
A	547,126,000	2,528,000	544,598,000	505,161,891	2,497,090	502,664,801

ACCOUNT

Service	Grant £	Expenditure £	Expenditure compared with Grant	
			Less than Granted £	More than Granted £
PROGRAMME 1.1				
A1 Retired Pay, Pensions and Other Payments (including Commutation) to RN and RM Personnel or their Dependants				
<i>Original</i>	128,570,000			
<i>Supplementary</i>	3,107,000			
	131,677,000	118,301,097	13,375,903	—
A2 Retired Pay, Pensions and Other Payments (including Commutation) to Army Personnel or their Dependants				
<i>Original</i>	239,098,000			
<i>Less Supplementary</i>	2,389,000			
	236,709,000	222,884,562	13,824,438	—

EXPLANATION of the Causes of Variation between Expenditure and Grant

A1 Mainly slippage into 1981-82 as a result of industrial action.

Service	Grant	Expenditure	Expenditure compared with Grant	
			Less than Granted	More than Granted
£	£	£	£	£
A3 Retired Pay, Pensions and Other Payments (including Commutation) to RAF Personnel or their Dependants <i>Original</i> 173,695,000 <i>Less Supplementary</i> 923,000	172,772,000	157,623,506	15,148,494	—
A4 Royal Hospital, Chelsea* <i>Original</i> 1,850,000 <i>Allocated from Class XIII, Vote 31⁽¹⁾</i> 118,000 <i>Supplementary</i> 400,000	2,368,000	2,333,582	34,418	—
A5 Payments to Civilians, &c. <i>Original</i> 3,723,000 <i>Less Supplementary</i> 123,000	3,600,000	4,019,144	—	419,144
GROSS TOTAL <i>Original</i> 546,936,000 <i>Allocated from Class XIII, Vote 31⁽¹⁾</i> 118,000 <i>Supplementary</i> 72,000	£ 547,126,000	505,161,891	42,383,253	419,144
	Estimated	Realised	Surplus of Gross Estimate over Expenditure 41,964,109	
<i>Deduct</i> AZ Appropriations in Aid <i>Original</i> 4,313,000 <i>Less Supplementary</i> 1,785,000	2,528,000	2,497,090	Deficiency of Appropriations in Aid realised 30,910	
NET TOTAL <i>Original</i> 542,623,000 <i>Allocated from Class XIII, Vote 31⁽¹⁾</i> 118,000 <i>Supplementary</i> 1,857,000	£ 544,598,000	502,664,801	Net Surplus 41,933,199	
	Actual surplus to be surrendered		£41,933,199.20	

NOTE

(1) An addition has been made to Subhead A4 in respect of provision made in Class XIII, Vote 31 for increases in civil service remuneration.

EXPLANATION of the Causes of Variation between Expenditure and Grant *contd.*

A5 Mainly more awards than expected.

*See also the Accounts for the Royal Hospital Chelsea published separately as a White Paper.

Receipts	Estimated	Realised
	£	£
Receipts of classes authorised to be used as Appropriations in Aid		
Transfer of values in respect of personnel entered from employment outside the Armed Forces	106,000	96,109
Other receipts	2,422,000	2,400,981
Total	£2,528,000	2,497,090

Losses Statement*Summary*

	£
Cash losses due to theft, fraud or arson* (7 cases)	2,347
Cash losses due to other causes (66 cases)	29,277
Total Cash Losses	£31,624

*Prosecution was undertaken wherever appropriate and practicable.

Details

	£
Cash losses due to theft, fraud or arson (cases over £1,000)	
Fraudulent encashment of the pension order book of a deceased Army Serviceman between November 1979 and February 1980 by a third party who was sentenced to 7 months' imprisonment suspended for 2 years	1,277
Cash losses due to other causes (cases over £2,000)	
Overissue of retired pay and pensions to 9 Royal Air Force pensioners between December 1975 and December 1980 due to administrative error	9,878
Overissue of Forces Family Pensions to the widow of an Army Officer between July 1977 and September 1980 due to administrative error (£1,303 is being recovered by instalments over an extended period)	3,539
Overissue of pay to 6 civilian employees at the Royal Hospital Chelsea between July 1967 and March 1980 due to administrative error	3,318
Overissue of Service Attributable Pension to 4 Army pensioners between September 1978 and July 1980 due to administrative error	2,942
Overissue of pension between 1969 and 1980 to the widow of an Army Serviceman whose entitlement ceased due to co-habitation. She received £1,279 less in Social Security benefit because she disclosed the fact to the Department of Health and Social Security	2,007

Notes*Extra-statutory Payments*

Pending issue of the necessary Prerogative Instruments to authorise retrospectively certain changes in pensions, etc., benefits of the Army and Royal Air Force, payments have in the interim been made extra-statutorily. The amounts involved cannot be readily assessed.

Loans outstanding at 31 March 1981

Loans to 4 former senior officers of the Polish Forces	£4,050
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Frank Cooper

Accounting Officer 6 October 1981

I have examined the above Account in accordance with the provisions of the Exchequer and Audit Departments Act 1921. I have obtained all the information and explanations that I have required, and I certify, as the result of my audit, that in my opinion the above Account is correct, subject to the observations in paragraphs 9 of my Report.

Gordon Downey

Comptroller and Auditor General

DEFENCE ACCOMMODATION SERVICES &c.

see also Report of Comptroller and Auditor General

SUMMARY OF PROGRAMME OUTTURN, and the ACCOUNT of the sum expended, in the year ended 31 March 1981, compared with the sum granted, for expenditure including loans by the Property Services Agency of the Department of the Environment on public building work and certain accommodation services, &c., for defence purposes.

SUMMARY OF PROGRAMME OUTTURN

Section	Estimated			Actual		
	Gross Expenditure	Appropriations in Aid	Net Expenditure	Gross Expenditure	Appropriations in Aid	Net Expenditure
	£	£	£	£	£	£
PROGRAMME 1.1						
DEFENCE BUDGET						
A	702,284,000	55,667,000	646,617,000	605,155,490	30,130,168	575,025,322
B	52,646,000	50,600,000	2,046,000	54,205,427	57,160,222	(2,954,795)
Total	<u>£754,930,000</u>	<u>106,267,000</u>	<u>648,663,000</u>	<u>659,360,917</u>	<u>87,290,390</u>	<u>572,070,527</u>

ACCOUNT

Service	Grant	Expenditure	Expenditure compared with Grant	
			Less than Granted	More than Granted
£	£	£	£	£
PROGRAMME 1.1				
SECTION A				
DEFENCE ESTABLISHMENTS, &c.				
A1 New Works and Furniture	332,547,000	302,507,170	30,039,830	—
A2 Grants and Loans towards the cost of works	822,000	560,134	261,866	—
A3 Maintenance, Operating Expenses, &c.				
<i>Original</i>	364,471,000			
<i>Allocated from Class XIII, Vote 31⁽¹⁾</i>	4,444,000			
	<u>368,915,000</u>	<u>302,088,186</u>	<u>66,826,814</u>	—

⁽¹⁾ See Note.

Service	Grant	Expenditure	Expenditure compared with Grant	
			Less than Granted	More than Granted
£	£	£	£	£
SECTION B				
AGENCY SERVICES FOR UNITED STATES FORCES IN THE UNITED KINGDOM				
B1 Expenditure on Agency Services for United States Forces	52,646,000	54,205,427	—	1,559,427
GROSS TOTAL				
Original	750,486,000			
Allocated from Class XIII, Vote 31 ⁽¹⁾	4,444,000			
	<u>£ 754,930,000</u>	659,360,917	97,128,510	1,559,427
	Estimated	Realised	Surplus of Gross Estimate over Expenditure	
			95,569,083	
Deduct			Deficiency of Appropriations in Aid realised	
Z Appropriations in Aid	106,267,000	87,290,390	18,976,610	
NET TOTAL			Net Surplus	
Original	644,219,000		76,592,473	
Allocated from Class XIII, Vote 31 ⁽¹⁾	4,444,000			
	<u>£ 648,663,000</u>	572,070,527	<u>£76,592,472.56</u>	
	Actual surplus to be surrendered			

NOTE

⁽¹⁾ An addition has been made to Subhead A3 in respect of provision made in Class XIII, Vote 31 for increases in civil service, &c., remuneration.

EXPLANATION of the Causes of Variation between Expenditure and Grant.

A2 Due to late requests for payment from local authorities, etc.

A3 Due to the effects of the moratorium and subsequent period of stringency.

Receipts

	Estimated	Realised
	£	£
Receipts payable to Consolidated Fund	—	189,890.05

Details of Receipts

	Estimated	Realised
	£	£
(i) Receipts of classes authorised to be used as Appropriations in Aid		
Subhead AZ		
Disposals of stores, &c.	472,000	699,218(a)
Contributions to cost of works services	55,195,000	29,430,950(b)
	<u>£55,667,000</u>	<u>30,130,168</u>
Subhead BZ		
Contributions to the cost of works for United States Forces	£50,600,000	57,160,222(c)
Total	<u>£106,267,000</u>	<u>87,290,390</u>
(ii) Receipts of other classes		
Recovery from firm in respect of damage to harbour cables at Portsmouth	—	136,725
Refund from contractor in respect of faulty equipment charged in prior year	—	35,048
Recovery from German contractor in respect of damage to airfield equipment charged in prior year	—	10,684
Refund of overpayment to contractor in Cyprus	—	7,433
Total		<u>£189,890</u>

(a) Due mainly to receipts from unforecast demolition work and other various sources.

(b) Due to deferment and slippage on major works.

(c) Due to slippage on receipts from previous year and increased expenditure by United States Government.

Losses Statement*Summary*

	£
Cash losses due to overpayments of salaries, wages and allowances, etc. (16 cases)	£2,042
Fruitless payments (9 cases)	£63,276
Claims abandoned (31 cases)	£62,908
Stores losses due to theft, fraud, arson or sabotage, etc.* (30 cases)	4,784
Stores losses due to other causes (46 cases)	199,985
Total Stores Losses	<u>£204,769</u>

*Prosecution was undertaken wherever appropriate and practicable.

Details

	£
Cash losses due to overpayment of salaries, wages and allowances, etc.	
Overpayment of pay and allowances of 3 watchmen as a result of misinterpretation of regulations	1,194
Fruitless payments	
Repairs to drains at RAF Wildenrath due to design faults	41,408
Excess payment to German contractor due to unauthorised approval of contract	12,289
Deficiencies in contract specifications	5,000
Excess payment to German contractor due to painting irregularities	1,584
Expenditure on a Tattoo incorrectly accepted as a charge to the Vote	1,470

Losses Statement contd.

Claims abandoned	£
Claim against a firm in receivership	27,442
Claims against contractors in liquidation (£10,703, £3,811, £3,443, £1,776)	19,773
Claim against a contractor for poor workmanship	7,345
Claim against a contractor in respect of damage to harbour cables at Portsmouth	5,451
Stores losses due to other causes	
Destruction of M&E Stores by fire (cause unknown) in contractor's compound at RNAD Coulport, near Faslane	190,000
Contractor's equipment damaged by flooding	6,548
Carpet damaged by flooding	1,728

Notes

<i>Ex gratia payments</i>	
2 payments	£1,300

<i>Detail</i>	£
Underestimation of firm's tender	1,000

Other Note

By long standing arrangement this Account includes expenditure on the retail trading premises occupied by NAAFI for the benefit of Service families in pursuance of those obligations to the Armed Services prescribed in NAAFI's Memorandum and Articles of Association. These arrangements are under review.

G. W. Moseley
Accounting Officer

2 September 1981

I have examined the above Account in accordance with the provisions of the Exchequer and Audit Departments Act 1921. I have obtained all the information and explanations that I have required, and I certify, as the result of my audit, that in my opinion the above Account is correct.

Gordon Downey
Comptroller and Auditor General

DEFENCE: DOCKYARD SERVICES**See also Report of Comptroller and Auditor General**

SUMMARY OF PROGRAMME OUTTURN, and the ACCOUNT of the sum expended, in the year ended 31 March 1981, compared with the sum granted, for operating the Royal Dockyards and for the repair of ships by contract including work undertaken on repayment terms for Exchequer and non-Exchequer customers.

SUMMARY OF PROGRAMME OUTTURN

Section	Estimated			Actual		
	Gross Expenditure	Appropriations in Aid	Net Expenditure	Gross Expenditure	Appropriations in Aid	Net Expenditure
	£	£	£	£	£	£
PROGRAMME 1.1						
DEFENCE BUDGET						
A	420,816,000	3,411,000	417,405,000	389,111,063	2,324,608	386,786,455

ACCOUNT

Service	Grant	Expenditure	Expenditure compared with Grant	
			Less than Granted	More than Granted
£	£	£	£	£
PROGRAMME 1.1				
A1 Personnel, Salaries, Wages, &c.				
<i>Original</i>	206,695,000			
<i>Allocated from Class XIII, Vote 31⁽¹⁾</i>	22,083,000			
	228,778,000	225,641,981	3,136,019	—
A2 Other Current Expenditure	96,274,000	91,010,395	5,263,605	—
A3 Contract Repair of Ships and Vessels	66,068,000	44,082,674	21,985,326	—
A4 Capital Provision	29,696,000	28,376,013	1,319,987	—

⁽¹⁾ See Note.

EXPLANATION of the Cause of Variation between Expenditure and Grant

A3 Mainly non-implementation of Dockyard Efficiency Scheme, cash provision for which had been temporarily made on A3, and effects of savings measures and moratorium.

Service	Grant	Expenditure	Expenditure compared with Grant	
			Less than Granted	More than Granted
	£	£	£	£
GROSS TOTAL				
<i>Original</i>	398,733,000			
<i>Allocated from Class XIII, Vote 31⁽¹⁾</i>	22,083,000			
	<u>£ 420,816,000</u>	389,111,063	31,704,937	—
	<i>Estimated</i>	<i>Realised</i>	Surplus of Gross Estimate over Expenditure 31,704,937	
<i>Deduct</i>				
AZ Appropriations in Aid	3,411,000	2,324,608		Deficiency of Appropriations in Aid realised 1,086,392
NET TOTAL				
<i>Original</i>	395,322,000			
<i>Allocated from Class XIII, Vote 31⁽¹⁾</i>	22,083,000			
	<u>£ 417,405,000</u>	386,786,455		Net Surplus 30,618,545
			Actual surplus to be surrendered <u>£30,618,544.78</u>	

NOTE

- (1) An addition has been made to Subhead A1 in respect of provision made in Class XIII, Vote 31 for increases in civil service remuneration.

Receipts

	Estimated	Realised
	£	£
Receipts payable to Consolidated Fund	—	2543.57

Details of Receipts

	Estimated	Realised
	£	£
(i) Receipts of classes authorised to be used as Appropriations in Aid		
Ship repairs by contract	1,500,000	584,057(a)
Repairs and refits through Defence Sales	59,000	11,093(b)
Other repayment services	1,322,000	847,603(c)
Personnel	55,000	85,721(d)
Gas, water and electricity	414,000	457,668(e)
Miscellaneous receipts	61,000	338,466(f)
	<u>£3,411,000</u>	<u>2,324,608</u>

- (a) Non-settlement of claim by an overseas government.
(b) Mainly non-settlement of claim by an overseas government.
(c) Mainly reduced capacity for work on repayment.
(d) Mainly an unexpected receipt from an overseas government.
(e) Under-estimation of receipts for utilities.
(f) Mainly unexpected receipts from overseas governments.

Details of Receipts <i>contd.</i>	<u>Estimated</u>	<u>Realised</u>
(ii) Receipts of other classes	£	£
Unresolved credit balances on suspense accounts	—	<u>£2,544</u>

Losses Statement*Summary*

Cash losses due to causes other than theft, fraud or arson (160 cases)	<u>£8,969</u>
Claims abandoned (24 cases)	<u>£21,386</u>
Stores losses due to theft, fraud, arson or sabotage, etc.* (69 cases)	<u>£30,303</u>

*Prosecution was undertaken wherever appropriate and practicable.

Details

Claims abandoned (cases over £2,000)	£
Part of a claim against a contractor for damage caused in 1973 to harbour cables at a Naval Establishment. Interest charges on the part claim amounting to £7,686 were also abandoned. (See also claims abandoned, Class I, Vote 4)	10,662
A claim for services provided to a foreign government could not be sustained due to administrative error	5,124
Stores losses due to theft, fraud, arson or sabotage, etc. (cases over £5,000)	
MOD property was damaged by fire. (Stores lost in the same incident are reported under Vote 1)	16,098

Note

Due to the Civil Service industrial dispute wages (and the corresponding employer's share of ERNIC) at Devonport and Rosyth for the last two pay weeks of 1980-81 had to be assessed and their computation deferred. The Accounts therefore reflect the assessed payments made (£6,427,322) (Includes £2,779,333 paid from Class I, Vote 1 and £586,691 from Class I, Vote 2).

W. T. Pillar

Accounting Officer

14 October 1981

I have examined the above Account in accordance with the provisions of the Exchequer and Audit Departments Act 1921. I have obtained all the information and explanations that I have required, and I certify, as the result of my audit, that in my opinion the above Account is correct.

Gordon Downey

Comptroller and Auditor General

DEFENCE

**H.M. DOCKYARDS
OPERATING ACCOUNTS**

Because of the accumulative effect of selective strike action by non-industrial civil servants from March to August 1981, information was not available to enable these Accounts to be finalised for inclusion in this Volume. They will now be published separately as a White Paper.

DEFENCE

**ADMIRALTY GAUGE FACTORY AND
HYDROGRAPHIC DEPARTMENT**

PRODUCTION ACCOUNTS

AND BALANCE SHEETS

PRODUCTION ACCOUNTS**FOREWORD**

1. These accounts have been prepared to meet the requirements of the Exchequer and Audit Departments Act 1921, section 5, as implemented by Treasury directives and are arranged to show the production costs of:

- (a) The Gauge Factory
- (b) The Hydrographic Department

The accounts for the Gauge Factory and the Hydrographic Department comprise:

- (a) Production Account
- (b) Balance Sheet

SCOPE OF THE ACCOUNTS

2. The accounts relate only to certain areas of activity undertaken or administered by the Gauge Factory and the Hydrographic Department.

Gauge Factory

The accounts reflect the cost of manufacturing and repairing Navy Department gauges, but do not include costs incurred at Sheffield in providing other Naval ordnance services. As an administrative economy and in view of the very small element of Defence expenditure which the Admiralty Gauge Factory reflects, the Treasury have directed, with the concurrence of the Comptroller and Auditor General, that preparation of the Account in its present form and its certification by the C & AG should be discontinued. The 1980-81 Account will therefore be the last published version although internal management accounts will continue to be prepared in respect of the Factory and remain available for audit examination.

Hydrographic Department

The accounts reflect the costs directly attributable to the printing of charts and ancillary work at Taunton, together with appropriate shares for administration, engineering and computer support. The accounts do not include costs incurred by the Charting and Sciences, Naval and Supply Branches of the Hydrographer's organisation, since these branches are not directly concerned with the printing production processes.

REPAYMENT WORK

3. Repayment work was undertaken at the Factory and at the Hydrographic Department during the year. In addition the Hydrographic Department sells charts and navigational publications to the public at prices which recover the production and distribution costs and also make a contribution towards the initial costs of compilation.

Prior to 1 April 1980, the printing of some Hydrographic publications which were sold to the public was sub-contracted by HMSO to the Hydrographic Department on a repayment basis: all printing costs were thus incurred by HMSO who were also credited with the related receipts. On 1 April 1980, HMSO became a Trading Fund organisation. The Hydrographic Department continues to print the publications which were previously sub-contracted to them but this work is now classified as ancillary rather than repayment work and the receipts are credited to the appropriate MOD Vote. The value (net) of charts and publications sold amounted to £7,710,161 and cash receipts amounted to £7,540,079 in the year.

ADMIRALTY GAUGE FACTORY

BALANCE SHEET AS AT 31 MARCH 1981

<i>Previous Year</i>		£	£
£	FUNDS EMPLOYED		
578,373	Capital Account		619,695
221,635	Additional Depreciation Reserve (Note 3)		289,788
1,507	Factory Expenses under-absorbed brought forward	(3,224)	
(4,731)	Factory Expenses under-absorbed in 1980-81	(2,185)	
			(5,409)
<u>£796,784</u>	TOTAL FUNDS EMPLOYED		<u>£904,074</u>
	REPRESENTED BY		
	Fixed Assets at historical book value (Notes 1 and 2)		
1,373	Land	1,373	
28,937	Buildings	52,465	
427,142	Plant, machinery and equipment	454,623	
			508,461
	Current Assets:		
339,332	Work in progress at cost		395,613
<u>£796,784</u>	TOTAL ASSETS EMPLOYED		<u>£904,074</u>

Notes

	Land	Buildings	Plant and Machinery	Total
1. Fixed Assets				
Original cost or valuation	£ 5,492	£ 249,312	£ 1,023,506	£ 1,278,310
Less: Cumulative depreciation to date	—	98,231	402,897	501,128
Historical book value	£ 5,492	151,081	620,609	777,182
Estimated proportion employed in production	£ 1,373	52,465	454,623	508,461

The original valuation of buildings has been reduced by £12,490 to account for the notional application of Regional Development Grants.

2. Provision has been made for the depreciation of fixed assets except land. The provision is assessed on the straight line basis and examples of rates of depreciation used during the year are:

	<i>Per cent</i>
Buildings	2
Most production machinery	7½

Other rates have been used where appropriate to the expected useful life of the asset concerned.

3. During the period of the Production Account, the annual depreciation for fixed assets is supplemented by an additional charge which is the difference between annual depreciation on historical book values and annual depreciation based upon assessed replacement costs; this additional charge is transferred to an Additional Depreciation Reserve.

4. The value on a current cost accounting basis to the business at 31 March 1981 of fixed assets was:

	£
Land	30,430
Buildings	218,066
Plant and Machinery	880,438
Total as at 31 March 1981	<u>£1,128,934</u>

Notes contd.

The current value of land, buildings and plant and machinery has been assessed by reference to the age of the assets and the GNP Deflator Index.

David Cardwell
Accounting Officer

12 October 1981

I have examined the foregoing Account and Balance Sheet in accordance with the provisions of the Exchequer and Audit Departments Act 1921. I have obtained all the information and explanations that I have required, and I certify, as the result of my audit, that in my opinion this Account and Balance Sheet are properly drawn up so as to exhibit a true and fair view of the transactions and state of affairs of the services to which they relate.

Gordon Downey
Comptroller and Auditor General

HYDROGRAPHIC DEPARTMENT

PRODUCTION ACCOUNT FOR THE YEAR ENDED 31 MARCH 1981

<i>Previous Year</i> £	COST OF PRODUCTION	£	£
367,243	Materials:		
585,252	Stocks at 1 April 1980	421,380	
	Purchases	633,308	
952,495		1,054,688	
421,380	Less: Stocks at 31 March 1981	354,235	
531,115			700,453
1,650,451	Salaries		2,117,319
	General factory expenses:		
163,424	National Insurance	210,986	
24,096	Rates	28,691	
27,979	Heat, light, power and water	37,262	
68,767	Repairs and maintenance	60,812	
641,555	General charges (Headquarters charges, etc.)	757,863	
293,062	Superannuation	393,995	
—	Fixed Assets written off to Revenue (Note 5)	44,331	
			1,533,940
253,475	Interest on Capital		368,518
	Depreciation (Note 3):		
10,223	Buildings	10,047	
60,968	Plant, machinery and equipment	58,990	
			69,037
	Additional depreciation (Note 4):		
30,825	Buildings	37,764	
88,184	Plant, machinery and equipment	99,008	
			136,772
3,844,124	COST OF PRODUCTION		4,926,039
25,842	Work in progress at 1 April 1980	31,801	
31,801	Less: Work in progress at 31 March 1981 (Note 6)	58	
			31,743
£3,838,165	COST OF COMPLETED WORK		£4,957,782
	ANALYSIS OF COMPLETED WORK		
3,252,533	Charts		4,010,385
444,347	Ancillary work		931,643
3,696,880			4,942,028
126,709	Repayment work for other government departments		5,581
14,576	Miscellaneous repayment work		10,173
£3,838,165			£4,957,782

HYDROGRAPHIC DEPARTMENT
BALANCE SHEET AS AT 31 MARCH 1981

<i>Previous Year</i> £		£	£
	FUNDS EMPLOYED		
1,319,131	Capital Account		1,544,848
398,859	Additional Depreciation Reserve (Note 4)		535,631
<u>£1,717,990</u>	TOTAL FUNDS EMPLOYED		<u>£2,080,479</u>
	REPRESENTED BY		
	Fixed Assets at historical book value (Notes 1 and 2)		
707	Land	695	
356,534	Buildings	348,073	
691,138	Plant and machinery	586,142	
<u>1,048,379</u>			934,910
216,430	Fixed Assets under construction, at cost (Notes 1 and 2)		791,276
	Current Assets at cost:		
421,380	Production stocks	354,235	
31,801	Work in progress	58	
		<u>354,293</u>	
<u>£1,717,990</u>	TOTAL ASSETS EMPLOYED		<u>£2,080,479</u>

Notes

1. Fixed Assets
(a) Original cost or valuation
Less: Cumulative depreciation to date
Historical book value
Estimated proportion employed in, or to be employed in, production

Land	Buildings	Fixed Assets Under Construction
£	£	£
1,998	1,466,640	2,275,088
—	465,856	—
£ 1,998	1,000,784	2,275,088
£ 695	348,073	791,276

- (b) Plant and Machinery employed in Production at original cost or valuation
Less: Cumulative depreciation to date
Historical book value

£
1,068,525
482,383
£586,142

2. The value on a current cost accounting basis to the business at 31 March 1981 of fixed assets was:

Land	£ 15,623
Buildings	1,695,784
Plant and Machinery	1,374,623
Fixed Assets under Construction	842,404
Total as at 31 March 1981	£3,928,434

The current value of land, buildings, plant and machinery and assets under construction has been assessed by reference to the age of the assets and the GNP Deflator Index.

Notes contd.

3. Provision has been made for the depreciation of fixed assets except land and fixed assets under construction. The provision is assessed on the straight line basis and examples of rates of depreciation used during the year are:

	<i>Per cent</i>
Buildings and other work structures	2
Most production, printing, engraving and photographic equipment	5
Computer equipment	14

Other rates have been used where appropriate to the expected useful life of the asset concerned.

4. During the period of the Production Account, the annual depreciation for fixed assets is supplemented by an additional charge which is the difference between annual depreciation on historical book values and annual depreciation based upon assessed replacement costs: this additional charge is transferred to an Additional Depreciation Reserve.
5. The minimum financial level for items appearing on plant and machinery assets records was raised to £2,000 from 1 April 1980. Items of less than £2,000 value (except M/T Vehicles) were removed from the fixed assets account and charged to operating costs.
6. By convention the only category of work shown in the Production Account as Work in Progress is incomplete repayment work. With the introduction of a Trading Fund in HMSO from 1 April 1980 the Hydrographic Department has ceased to act as sub-contractor to HMSO for the printing of certain Hydrographic publications and as a result all such work has now been classified as ancillary.

Frank Cooper

Accounting Officer

30 September 1981

I have examined the foregoing Account and Balance Sheet in accordance with the provisions of the Exchequer and Audit Departments Act 1921. I have obtained all the information and explanations that I have required, and I certify, as the result of my audit, that in my opinion this Account and Balance Sheet are properly drawn up so as to exhibit a true and fair view of the transactions and state of affairs of the services to which they relate.

Gordon Downey

Comptroller and Auditor General

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