

FIRST AND SECOND REPORTS

FROM

THE COMMITTEE OF PUBLIC ACCOUNTS

TOGETHER WITH THE
PROCEEDINGS OF THE COMMITTEE,
MINUTES OF EVIDENCE, APPENDICES
AND INDEX

*Ordered by The House of Commons to be Printed
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Monday, 1st November, 1937.

Sir Irving Albery, Mr. Benson, Sir Edmund Brocklebank, Colonel Colville, Mr. Culverwell, Mr. Morgan Jones, Mr. Lathan, Mr. Mabane, Mr. Peat, Mr. Pethick-Lawrence, Sir Assheton Pownall, Sir Eugene Ramsden, Mr. Wilfrid Roberts, Sir Isidore Salmon, and Sir Robert Smith *nominated* Members of the Committee of Public Accounts.—(*Mr. James Stuart.*)

Thursday, 2nd June, 1938.

Ordered, That Mr. Secretary Colville be discharged from the Committee of Public Accounts and that Captain Wallace be added to the Committee.—(*Mr. James Stuart.*)

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FIRST REPORT

The Committee of Public Accounts have made progress in the matters to them referred, and have agreed to the following First Report:—

EXCESS VOTES.

1. Your Committee have to report that during the year ended 31st March, 1937, expenditure in excess of the net amounts voted by Parliament has been incurred as follows:—

Civil Departments,

	£	s.	d.
Class VI, Vote 2, Mercantile Marine Services	724	19	3
„ VII, Vote 15, Works and Buildings in Ireland... ..	1,723	7	4
„ VIII, Vote 4, Superannuation and Retired Allowances	12,723	11	9

Class VI, Vote 2, Mercantile Marine Services.

2. The Gross Excess over Grants amounted to £6,820 6s. 10d., of which £6,095 7s. 7d. has been met, with Treasury sanction, from savings on certain Subheads, leaving a Net Excess of £724 19s. 3d. Authority is sought to appropriate in aid of this sum £714 19s. 3d. from surplus receipts available in excess of the Estimate, leaving a token sum of £10 to be voted.

3. Your Committee were informed that the main cause of the excess was an unexpected increase during the last quarter of the year in the expenditure by consular and other officers abroad on relief and repatriation of British seamen, owing probably to general increase in shipping activity and to exceptional conditions in certain trades. Qs. 352-357.

Class VII, Vote 15, Works and Buildings in Ireland.

4. The gross Excess over Grants amounted to £5,812 7s. 3d., of which the sum of £4,088 19s. 11d. has been met, with Treasury sanction, from savings on certain Subheads, leaving a Net Excess of £1,723 7s. 4d. Authority is sought to appropriate in aid of this sum surplus receipts to the amount of £258 12s. 5d., available in excess of the Estimate, leaving a sum of £1,464 14s. 11d. to be voted.

5. Your Committee were informed that early in the financial year urgent and unforeseen requirements arose in connection with Inland Revenue Offices in Northern Ireland, but that arrangements were made to meet these out of savings, and in January, 1937, it was expected that there would be a small Qs. 411-426.

saving on the Vote. Subsequently it transpired that the cost of repair work at Leopardstown Park Hospital had been underestimated by the Office of Works in Dublin, which acts as agent in Eire for H.M. Office of Works, while unexpectedly heavy liabilities for furniture for Post Offices had been incurred and met by the Works Department in Northern Ireland, which acts in a similar capacity in that area.

Class VIII, Vote 4, Superannuation and Retired Allowances.

6. The gross Excess over Grants amounted to £46,008 13s. 2d., of which £33,285 1s. 5d. has been met, with Treasury sanction, from savings on certain Subheads, leaving a Net Excess of £12,723 11s. 9d. Authority is sought to appropriate in aid of this sum surplus receipts of £1,460 17s. 2d., available in excess of the Estimate, leaving a sum of £11,262 14s. 7d. to be voted.

Qs. 437-
467.

7. Your Committee were informed that the excess was due mainly to abnormally heavy expenditure on Additional Allowances paid on retirement during the last quarter of the year and particularly in the month of March. Expenditure under this head is very difficult to estimate, but the Accounting Officer has undertaken to consider whether steps can be taken, towards the end of the year, to ascertain whether an excess over estimate is to be anticipated, in order that a Supplementary Estimate may be applied for, if necessary. Your Committee recommend that such inquiries should be made each year.

8. Your Committee see no objection to the sums as set out above being provided by Excess Votes.

SECOND REPORT

The Committee of Public Accounts have made further progress in the matters to them referred, and have agreed to the following Second Report.

GENERAL.

I. Use of Cash Receipts to meet Expenditure.

The Public Accounts Committee of 1937, in paragraph 2 of their Second Report, remarked that the accumulation and use of cash receipts to meet expenditure had been a contributory factor facilitating a case of embezzlement which they were investigating. At their instance the Treasury undertook to review the procedure of other Departments where this practice was followed.

Your Committee are glad to record that as a result of this review the practice has been abolished in a number of Departments, including four large offices, and they have called for and received details of the cases, other than those in which the receipts are casual or trifling in amount, where it is proposed to maintain it. Your Committee accept the view of the Treasury that at the present time the maintenance of existing procedure is unavoidable or advantageous in these few instances. They have been assured that in these cases adequate arrangements exist for the control of the receipts and for check, at both fixed and irregular intervals, of the cash actually held, and that Departments are alive to the importance of reducing cash holdings to the minimum necessary for the proper conduct of business, and of submitting demands for imprests of cash to careful scrutiny.

Qs. 1168-
1188, 5225-
5232.
App. 18.

 PARTICULAR ACCOUNTS, 1936.

 REVENUE DEPARTMENTS APPROPRIATION
 ACCOUNTS.

VOTE 3.—POST OFFICE.

2. Contracts placed without Competition.

Para. 14 of
C. & A.G.'s
Revenue
Report.
Qs. 189-
225.

Q. 204.

On several occasions in recent years the attention of the Public Accounts Committee has been drawn to Bulk Supply Agreements concluded by the Post Office for the supply of Telephone equipment, apparatus and stores. The several contracts, which are of considerable amount and in force for a period of years, were negotiated in circumstances which ruled out effective competition. The arrangements, apparently, included no provisions for facilities to examine the contractors' costs and books, comparable to those now widely afforded to the Defence Departments in regard to non-competitive contracts under the rearmament programme. A system of technical costing is applied by the Post Office in certain cases and the personal approval of the Postmaster General is given to all contracts involving £20,000 or more—a limit suggested by the Public Accounts Committee, 1927.

App. 3.

Your Committee were informed that the value of the contracts to be placed by the Post Office for Stores and Works in the financial year 1937 (including an estimated figure for the month of March, 1938), is £23,861,000, of which no less than £11,869,000 will be executed under Bulk Supply Agreements. Owing to the growth of Post Office requirements it was felt that further special machinery was desirable to safeguard the placing of these non-competitive contracts, and in 1936 the Postmaster General appointed a standing committee under the chairmanship of the Assistant Postmaster General to review all cases involving £20,000 or more and to strengthen the branches concerned with the negotiation of contracts. Later, this standing committee was charged with the duty of exploring the whole field of Post Office Bulk Supply Agreements.

Your Committee learn with satisfaction that the standing committee has been engaged in discussions with the contractors with a view to evolving some machinery whereby assurances may be obtained that the prices charged under these non-competitive agreements are fair and reasonable, and they trust that as a result of the discussions this essential object will be secured without delay.

POST OFFICE COMMERCIAL ACCOUNTS.

3. *Interest on Capital Liability.*

The Comptroller and Auditor General drew attention to the fact that the charge to the Telegraph Income and Expenditure Account for 1936 in respect of Interest was arrived at after allowing a deduction for interest on the accumulated provision for the cost of renewals of Plant (Depreciation).

Para. 4 of
C. & A.G.'s
Report on
Post Office
Commercial
Accounts.
Qs. 482-
516.

Post Office receipts are paid over intact to the Exchequer and the Exchequer accepts the liability to provide, through Votes approved by Parliament, the sums necessary to carry out renewals when required. It follows that when the revenue earned is sufficient to meet depreciation charges, as in the case of the Telephone Service, the Exchequer has been placed in possession of the funds necessary to defray the cost of renewals when they arise. In the case of the Telegraph Service on the contrary, where the depreciation charges are not covered by the revenue earned, the Exchequer has not been provided with the moneys necessary to enable it to discharge its liability. The practice, which was explained to the Public Accounts Committee of 1928 and has hitherto been observed, has been to recognise this difference in the cash relationship of the Exchequer to the two Services, and accordingly to permit a deduction in respect of interest on the accumulated provision for depreciation, only when that provision has actually been earned.

It was urged, however, that Post Office Revenue as a whole is adequate to meet the depreciation charges in respect of all services and that for the purposes of the Telegraph Account surpluses on the Telephone and Postal Services can properly be regarded as available to provide for depreciation on the Telegraph Service, thereby justifying a credit for interest on the balance on the Telegraph Depreciation Account.

Your Committee note that owing to the large transfers of line plant during recent years from the Telegraph Service to the Telephone Service, the balance on the Telegraph Depreciation Account has been considerably reduced and that, as a result, the interest credit arising from the change of practice is not large. They observe, however, that the Telegraph (Money) Act, 1920, prescribes separate accounts for the Telegraph and Telephone Services respectively, and after careful consideration of all the circumstances they are not satisfied that, as the law now stands, adequate reasons have been advanced for a departure from the practice hitherto followed.

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CIVIL APPROPRIATION ACCOUNTS.

CLASS I, VOTE 15.—THE MINT.

4. *Special Purchase of Machinery.*

Para. 8 of
C. & A.G.'s
Civil
Report.
Qs. 3492-
3521.

Attention was drawn by the Comptroller and Auditor General to an order placed by the Mint for a coining press, without the price being fixed. The press was of a new type, built specially to meet the needs of the Mint, and the supplying contractors suggested that the price to be charged should be based on actual cost, offering, if this suggestion were adopted, to allow the Mint access to their books for purposes of verification.

In the event the Mint, deeming the price claimed to be eminently reasonable, decided to waive their right to inspect the contractors' books. There appear to be no grounds for thinking that this decision prejudiced the public funds, but in the opinion of Your Committee it was wrong in principle. They share the view expressed by the Treasury that only in very special circumstances would a Department which purchased goods at a price based on cost be justified in abstaining from taking advantage of any opportunity open to it, whether arising out of formal contract or otherwise, of verifying the manufacturer's charges by reference to his books.

CLASS III, VOTE 6.—SUPREME COURT OF JUDICATURE, &C.

5. *Tenure of Offices attached to Circuits of Assize.*

Qs. 3719-
3771.

In connexion with a payment to an officer whose resignation did not become effective until after his successor had been appointed, Your Committee inquired into the conditions of tenure of Clerks of Assize and other officers of the Circuits, who receive salaries, at rates sanctioned by the Treasury, out of moneys provided on this Vote. Under the Supreme Court of Judicature (Consolidation) Act, 1925, the power of appointment to such offices is vested in the Judges going on circuit, but there appears to be no provision for the termination of these appointments. An undertaking to vacate office on attaining the age of 70 has, however, been required in the case of appointments made in recent years.

Epit. pp.
315/6,
336.

It was explained to Your Committee that the process of providing for the termination of appointment of officers of the Courts of Justice has been slow and laborious and these circuit offices, which are not numerous, are the only cases not dealt with. Your Committee regret that steps were not taken to deal with these cases, as the question of imposing definite conditions for termination of appointment in the case of legal officers was before Committees of Public Accounts as far back as 1893. Further, in view of the decision of the Court of Session last

year in the case of a member of the Scottish Land Court, it is possible that an undertaking may not be fully effective in securing the purpose intended. Your Committee therefore trust that consideration will be given to the possibility of revising the method of appointment to these offices with a view to fixing definite conditions of tenure.

CLASS III, VOTE 9.—PUBLIC TRUSTEE.

6. *Disposal of Surplus Moneys in the Hands of the Public Trustee.*

The Comptroller and Auditor General has again drawn attention to the question of the disposal of a surplus arising from the investment of certain balances of trust moneys, this question having been the subject of discussion by the Public Accounts Committees of 1936 and 1937. These moneys consist of the temporary cash balances awaiting distribution or investment on a large number of trusts and were held on current or deposit account at the banks. It was noticed that the total remained constant at about £600,000, and in 1918 it was decided to invest a substantial part of this pooled sum, in order to earn a higher rate of interest for the benefit of the individual trusts. This higher rate of interest was credited to the trusts in respect of the period during which the temporary balances were held, but on distribution or investment the amount of the cash balance was guaranteed to the beneficiaries, no account being taken of any fluctuation in the market value of the investments of the pool. The substantial appreciation of the investments following the suspension of the gold standard created certain difficulties, and the Comptroller and Auditor General asked that the Treasury should be consulted on the matter.

Following this consultation the Committee of 1936 were informed that the investments were to be realised and the amount due to the various trusts placed in an account not subject to appreciation or depreciation. Any realised surplus was to be placed in a separate account pending a decision as to its disposal. It was anticipated that the matter would be dealt with by the time the Committee met in 1937. The sale of the investments in 1936 resulted in a surplus of £117,000 but the Committee of 1937 were informed that the disposal of the surplus still remained to be dealt with by legislation, and this year Your Committee are informed that there is nothing further to report.

Your Committee feel obliged to call attention to the delay which has occurred in disposing of this question, and they trust that the necessary legislation, which, they understand, is not likely to be contentious, will be introduced at an early date.

Para. 22 of
C. & A.G.'s
Civil
Report.
Qs. 3618-
3629.
Qs. 1608-
1657
(1936).

Qs. 6131-
6134
(1936).

Qs. 3455-
3461
(1937).

7. *Loss in Administration of a Trust.*

Qs. 3630-
3667.
App. 14.

The Appropriation Account of this Vote includes a charge of £800 paid in settlement of an action brought against the Public Trustee by a trustee in bankruptcy for damages to an estate alleged to have been suffered by reason of the negligent handling of a security. The Public Trustee was co-trustee with the widow and the managing clerk of a deceased solicitor, the only active partner in his firm, in respect of all the estate except the testator's interest in the firm, in which case the managing clerk was the only trustee. The security in question was an equitable mortgage by way of deposit of title deeds securing an advance of £1,000 made by the deceased to his managing clerk. Steps were taken to verify all securities except these particular title deeds, which were allowed to remain in the custody of the firm, the Public Trustee not anticipating any trouble regarding this advance, as there was a legacy of £3,500 to the clerk out of the estate which was sworn at £20,000, exclusive of the testator's interest in the firm. Considerable delay occurred in the administration of the estate owing to the evasions of the managing clerk who, having possession of the title deeds, was able to execute a legal mortgage in favour of another person, taking priority to the equitable charge belonging to the estate. He committed suicide in May, 1934. It was then discovered that the firm was insolvent and had been so at the time of the testator's death in 1929, and that there had been fraudulent dealings with the mortgage securities over a long period of years.

While recognising that the position of the Public Trustee in this case was extremely difficult throughout, owing to the high reputation of the firm and the fact that the managing clerk, in addition to being a beneficiary under the will, had the real conduct of the solicitor's business, Your Committee think that the Public Trustee should not have omitted to take the precaution of securing that the title deeds were removed from the clerk's possession, and they are glad to be assured by him that such an omission will not occur in future.

CLASS III, VOTE 19.—SUPREME COURT OF JUDICATURE, &C., NORTHERN IRELAND.

8. *Lunacy Administration in Northern Ireland.*

Para. 23 of
C. & A.G.'s
Civil
Report.
Qs. 1782-
1788.

The financial arrangements in connexion with the administration of lunacy in Northern Ireland differ from those which have been followed in England since 1933. In England the whole of the expenses are borne on, and the receipts credited as appropriations in aid of, the Vote for the Supreme Court

of Judicature (Class III, Vote 6). This procedure is in accordance with modern practice and secures Parliamentary control over the expenditure on a service.

In the case of Northern Ireland, however, while the greater part of the expenses in connexion with lunacy administration (though ultimately recoverable from Northern Ireland) are borne on the Vote for the Supreme Court of Judicature, &c., Northern Ireland, the receipts were credited to the Exchequer of Northern Ireland, if collected in stamps, and to the Lunacy Fund, if collected in cash. The Lunacy Fund, established under the Lunacy Regulation (Ireland) Act, 1871, bears certain expenses which are not met from the Vote. Your Committee were informed that the legal position was not clear, but that the Treasury proposed to discuss the question with the authorities in Northern Ireland. They trust that this discussion will result in an early settlement, and they regard it as very desirable that the arrangements in Northern Ireland should be put upon the same footing as in England.

CLASS VI, VOTE I.—BOARD OF TRADE.

9. *Joint Committee of Inquiry into the Anglo-Argentine Meat Trade.*

The attention of Your Committee was drawn to an expenditure of approximately £20,000, of which nearly one-half is recoverable from the Argentine Government, in respect of a joint inquiry by the British and Argentine Governments into the economic and financial structure and working of the meat trade, with particular reference to the means to be adopted to ensure a reasonable return to the cattle producers in the Argentine. A Joint Committee of the two Governments was set up in this country, and they decided that it would be necessary to set up a Sub-Committee in the Argentine to examine the accounts of the meat companies out there. More than £16,000 of the total expenditure was in respect of fees and allowances paid to a professional accountant sent to the Argentine in May, 1935, to assist the Sub-Committee in their inquiries and in making their report to the Joint Committee. These investigations were expected to last a few months, but unusual circumstances made it exceptionally difficult for the Joint Committee and the Board of Trade to ensure their diligent prosecution and to maintain adequate control over their cost, and eventually in the summer of 1937 the accountant was instructed to complete the particular investigations then in hand by the end of September, when his employment ceased.

The accountant, who was a partner in a well-known firm of accountants, received a fee of £500 a month, to include the cost of any clerical assistance he might need, plus £2 a night subsistence allowance. Payment was made monthly and the final

Para. 35 of
C. & A.G.'s
Civil
Report.
Qs. 531-
675.

instalment was issued to him before the completion of his investigation and report, which proved to be unsatisfactory when received. He resigned his partnership within a few months of arriving in Argentina, where he remained after the termination of his appointment. He was therefore not available to the Joint Committee for consultation in connexion with the unsatisfactory features of his report and it was found necessary to employ another accountant to revise and check his work.

Your Committee regret to learn that arrangements can be made for such a substantial expenditure without ensuring that commensurate value will be received, and they trust that in any future case of the kind steps will be taken to secure that full payment will not be made until the investigation has been satisfactorily completed.

CLASS VI, VOTE 4.—DEPARTMENT OF OVERSEAS TRADE.

10. *Imperial Institute: Compassionate Grant to a Retired Officer.*

Para. 38 of
C. & A.G.'s
Civil
Report.
Qs. 1795-
1861.

The Comptroller and Auditor General drew the attention of Your Committee to a compassionate gratuity of an unusual character awarded to an officer on his retirement from the service of the Imperial Institute.

In making this award the Board of Governors departed from the rules which they had previously laid down to regulate grants from the Compassionate Fund. These rules were designed to assimilate the practice of the Institute to that followed by the Treasury in administering the Superannuation Acts, but there is no suggestion that the Board were not acting within their technical powers in abrogating their own rules.

The service rendered by this officer, including that rendered to a body subsequently merged in the Institute, involved part-time attendance only, with freedom to engage in private practice, whereas the rules required as a qualification for an award that an officer should have given his whole time to his office; moreover the grant was considerably in excess of that prescribed by the rules for a full-time official with similar length of service. It was stated that the Institute had considered that in this instance the circumstances warranted a grant of a special nature, in view of the fact that the officer's employment was being terminated on account of a change of policy, which would save the cost of his remuneration, and further that the officer had given up pensionable employment in the Civil Service to take up a new employment which it was considered to be very desirable in the public interest that he should take. Your Committee were informed that the Treasury, who are represented on the Board of Governors, concurred in the view that the merits of this case justified an award outside the ordinary rules.

Had the case arisen in an ordinary Civil Service Department, the rule laid down on the recommendation of the Public Accounts Committee would have required that a special grant of this nature should be made the subject of explicit provision in an Estimate presented to Parliament. While Your Committee do not wish in the circumstances to express an opinion upon this particular case, they consider that, where public funds are concerned, it is undesirable, as a general rule, that departure should be made from the terms of a regulated scheme in favour of individual cases.

Epit. pp.
322, 631.

CLASS VI, VOTE 6.—MINES DEPARTMENT OF THE BOARD OF
TRADE.

II. *Trust Funds endowed by the Miners' Welfare Fund.*

In 1936 a new fund, called the Miners' Welfare National Students' Exhibitions Fund, was set up in the custody of the Mines Department by endowments provided from the Miners' Welfare Fund, and following the precedent of the Miners' Welfare National Scholarships Fund the accounts of the new fund have been appended to the Appropriation Account of the Department.

Para. 40 of
C. & A.G.'s
Civil
Report.
Qs. 810-
822.

The Public Accounts Committees of 1935 and 1936 drew attention to the growing pressure on the time at their disposal and, while Your Committee are in agreement with the practice by which the funds under the control of the Accounting Officer are audited by the Comptroller and Auditor General, they would suggest to the Treasury, who have promised to give the matter their consideration, that, if it is necessary to print Trust accounts of this character, they should be included in some publication other than the Civil Appropriation Accounts.

CLASS VI, VOTE 22.—FISHERY BOARD FOR SCOTLAND.

12. *Duties imposed by Private Legislation.*

In pursuance of certain Provisional Orders confirmed under the Private Legislation Procedure (Scotland) Acts the Fishery Board for Scotland were required to receive sums of money from the Corporations of Edinburgh and Aberdeen and to expend the money upon works or improvements for the benefit of the salmon fishings in Talla Water (a tributary of the Tweed) and the River Dee. There was no Financial Resolution in these cases, and no provision was made for the expenses incurred by the Board in the administration of the funds, which are being used for the purpose of making grants towards the cost of works carried out by the river authorities. The Board have been advised that, in view of the terms of the Orders, the

Para. 51 of
C. & A.G.'s
Civil
Report.
Qs. 3194-
3215.

funds could not be charged with administrative expenditure, and the expenses have in consequence to be borne by the Fishery Board Vote.

Copies of all Private Bills and Provisional Orders are deposited with the Treasury, but the attention of the Treasury was not specifically drawn to the effect of this legislation until the Comptroller and Auditor General brought the matter to notice, and owing to the absence of any obvious instruction for the expenditure of money out of Votes of Parliament the question of requiring a Financial Resolution was not raised. The Treasury explained that in their view this question should depend upon the nature as well as the amount of the expenditure involved, and that, had they been consulted in the present instance, where minor administrative duties were thrown on the Department, they would have regarded it as unnecessary to suggest that a Financial Resolution was required.

Your Committee understand that this view accords with present practice, and they do not wish to take exception to this particular case, but they recommend that it should be incumbent on Departments to consult the Treasury upon any clause in a Private Bill or Provisional Order which seeks to impose functions on a Department or to entrust money to it under special conditions, in order that the Treasury may have full opportunity of considering whether any special Parliamentary sanction is needed, or whether provision should be made for the charge of the incidental expenses of administration.

CLASS VII, VOTE 9.—ROYAL PALACES.

13. *Grant in Aid; Palaces in the Personal Occupation of the Sovereign.*

Para. 53 of
C. & A.G.'s
Civil
Report.
Qs. 3070-
3101.

The Select Committee on the Civil List, 1936, recommended that the former provision of £20,000 on the Civil List for internal works services should be discontinued, and that the necessary expenditure should be made out of a fixed grant in aid of £20,000 from Civil Votes. Accordingly this sum was added in 1936 through the medium of a Supplementary Estimate to the provision for a grant in aid under Subhead A of the Vote for Royal Palaces which had hitherto been available only for external works.

Your Committee are informed that no portion of the annual sum voted for internal maintenance can be properly diverted to external services nor, on the other hand, may it be supplemented by savings on the provision for the latter. They find, however, that the account presented for the year under review does not distinguish between expenditure on external and internal works, nor do the Estimates for the years 1937 and

1938 indicate that £20,000 and no more is earmarked for the latter purpose. Your Committee recommend that so long as it is considered necessary to maintain an accounting distinction between external and internal maintenance, the accounts presented to Parliament should clearly show under separate headings the expenditure and the amounts carried forward to the succeeding year.

CROWN LANDS ACCOUNTS.

14. *Arrears of Rents.*

Your Committee have given some attention to the increase in the arrears on the London Rental in recent years, and inquired what steps were being taken to deal with it. The greater portion of these arrears is attributable to the Regent Street area, and a statement has been compiled showing the variation in the arrears of ground rent from 1st April, 1934, to 1st April, 1938. It appears that there was a steady increase of arrears during the first three years of this period, followed by a fall in the year ended 1st April, 1938, but that this reduction is due in the main to remissions which led to arrears being written off.

Para. 2 of
C. & A.G.'s
Report on
Crown
Lands
Accounts.
Qs. 1279-
1359.
App. 6.

The results so far achieved cannot therefore be regarded as satisfactory, but Your Committee were assured by the Accounting Officer that definite arrangements had been made to secure settlements in these cases, and they hope that by the end of the current year there will be an improvement of the position.

NAVY.

15. *Conversion of Ships: Control of Cost.*

Your Committee have investigated at considerable length two cases in which the cost of conversion of commercial ships to naval use assumed proportions out of all reasonable relation to such estimates as were originally framed in the Admiralty, and they are left with a feeling of grave uneasiness as to the machinery of financial control over such operations within the Department.

Paras. 13-
16 of C. &
A.G.'s Navy
Report.
Qs. 4153-
4414, 4750-
4843, 4873-
4903.
Apps. 16 &
17.

The more important case is that of the former Cunard White Star liner *Majestic* (now named *Caledonia*) which was acquired with Treasury sanction in August, 1936, in exchange for surplus naval tonnage of the value of £140,000, to serve as a temporary training establishment for boys at Rosyth. The first tentative estimate of the cost of conversion made by the Admiralty and conveyed under reserve to the Treasury orally at a meeting of the Treasury Inter-Service Committee was £150,000. A provisional estimate made in October, 1936, amounted to £251,000 but the Treasury were not informed of

this at the time. In sanctioning on 31st October, 1936, the placing of the contract for conversion mainly on a cost-plus-percentage basis, the Treasury noted that no reliable estimate of the total cost of conversion could be formed, and trusted that all possible steps would be taken to ensure that the work was economically carried out. They also asked for an estimate of the total cost of the conversion to be furnished to them at the earliest practicable date. Your Committee note that the third Supplementary Estimate for 1936 presented in March, 1937, mentioned the sum of £366,000 as the cost in 1936 of the purchase and adaptation of the vessel, and that the Estimates for 1937 gave a figure of £391,000, being £140,000 for purchase and £251,000 (as previously stated) for conversion. It was not, however, until after enquiry by the Comptroller and Auditor General in December, 1937, that the Admiralty informed the Treasury in March, 1938, that the cost of the conversion alone had reached the provisional figure of £468,641. The final net cost has since been stated in the evidence given to Your Committee to be £472,058, apart from the figure of £140,000 for the purchase of the ship, thus making a total of £612,058.

Q. 4270.

16. Your Committee observe that the erection of temporary hutments was considered by the Admiralty as an alternative to the conversion of the *Majestic*. The cost of these hutments was tentatively estimated at £150,000, which was represented as prohibitive by the Admiralty when seeking Treasury sanction for purchasing the *Majestic*. The meaning of this statement is not altogether clear in the light of the facts disclosed, but in any case the later correspondence shows that this estimate was seriously incomplete, in that it did not include accommodation for officers and staff, or for heating, lighting and equipment. The hutments scheme appears in fact to have been rejected for other reasons, chiefly the time factor. After the high cost of converting the *Majestic* had been brought to the notice of Your Committee, further estimates were made by the Admiralty that the full cost of hutting accommodation for 2,000 boys and some 800 staff would have been £340,000 for hutments to last two or three years only, and £400,000 for a life of 10 years.

17. In the second case, Treasury sanction was obtained for purchasing and converting at an estimated cost of £27,000 a trawler (renamed *Vulcan*) for use as a tender to motor torpedo boats. The cost of the purchase was £19,000. The original estimate of the Admiralty for converting the vessel was £7,000, and the contract was placed without competition with a firm which subsequently tendered a price of £15,000 for the work originally specified. In view of the extent of the extra work required by the Admiralty, the whole transaction was dealt

with on a cost-plus-percentage basis and the final price of the conversion was no less than £31,697, making the total expenditure £50,697.

18. Your Committee note that the Admiralty and the Treasury agree with the findings of previous Committees of Public Accounts that the cost-plus-percentage type of contract should not be resorted to in other than very exceptional circumstances, and they do not dissent from the view that such circumstances existed in the cases under review. It does not appear, however, from the evidence given that the basis of payment had, in itself, any considerable effect on the large final costs of the two conversions. Express instructions were given in writing to the firm engaged on the *Majestic* strictly to limit the amount of work to that necessary to adapt the ship for her new service and otherwise to minimise expenditure, and it has not been suggested that the firm was remiss in carrying out these instructions. In the case of the *Vulcan*, the work had been almost completed before it was placed on a cost-plus-percentage basis.

While recognizing that the urgency of the operations, rising wages and costs, overtime and similar factors contributed in some measure to the large excesses over estimate, Your Committee conclude from the evidence that the major causes are to be sought in the incompleteness of the original estimates and in the further requirements added by Admiralty officers after the conversions had been put in hand, and also in the work being carried out to higher standards than provided for in the estimates. In this connexion they remark that the accommodation provided in the *Majestic* was sufficient for a larger complement than originally intended, and that, though in the first place only some two or three years' use was contemplated, the ship as completed is expected to be fit for some ten years' service.

19. Stress was laid by the Admiralty, with regard to the *Majestic*, upon the unexpected defects disclosed upon the opening up of the machinery, and in this respect the estimate was no doubt inevitably exceeded. It is clear, however, from the evidence that numerous additional requirements were put forward after the work of conversion had started, and it does not appear that any, except proposals of a minor nature, were disallowed on financial grounds. Though Your Committee were given to understand that the growing expenditure in both cases was kept under review, no clear picture was conveyed to them as to how financial control over the professional and technical officers directing the work was actually exercised at the successive stages.

It is pertinent to observe that in reviewing the causes of the excess cost of building the Fishery Cruiser *Challenger* at Chatham Dockyard, the Public Accounts Committee of 1933 had

P.A.C. 2nd
Report,
1933,
Para. 19.

occasion to remark upon conditions of a somewhat similar character to those now under consideration. Your Committee regret that there should be further evidence of failure in the Admiralty system of financial control at the present time, and they note that the Treasury stated in evidence that they regard the case of the *Majestic* with some anxiety. The heavy cost of the rearmament programme and the consequent large demands upon the tax-payer make it incumbent upon all concerned to see that expenditure is economically administered, and that no link in the chain of responsibility should be allowed to become weakened. Granted that it may be necessary under existing conditions to put projects in hand on the basis of estimates admittedly very tentative in character, it is most important that the financial aspect should be kept fully in mind, both at the inception and during the carrying out of schemes. Your Committee strongly recommend that the existing arrangements for financial criticism and control at the Admiralty should be carefully examined in order to secure that they operate effectively at all stages.

20. *Staff of Training Establishment, H.M.S. Caledonia.*

Qs. 4298-
4300,
4323-4337,
4342-4346,
4844-4872.

In the course of the evidence on the conversion of the *Majestic*, Your Committee were informed that the staff of all grades employed in connexion with the training ship, now *H.M.S. Caledonia*, was 826 on 1st April, 1938, when the number of boys and apprentices under training was 1,643. Returns handed in for other establishments of similar nature administered by the three Defence Services show a considerably smaller proportion of staff to trainees. It was stated that Treasury control covers only certain salaried civil posts in these establishments, a relatively small number, and Your Committee did not obtain any satisfactory explanations of the numbers employed in the various grades on the *Caledonia*. They did not feel able themselves to undertake a detailed investigation, in view of the technical considerations involved, but they recommend that a full review of the complement of this establishment should be made in whatever manner is thought most appropriate.

21. *Misappropriation of Cash.*

Paras. 17-
19 of C. &
A.G.'s Navy
Report.
Qs. 4415-
4466.

When investigating the misappropriation of public moneys to the amount of £5,500 by a Paymaster Commander, R.N., Your Committee learned with considerable misgiving that checks of cash balances devised to secure the early discovery of fraud had failed in their object because they were treated more or less as a formality by the considerable number of officers, from both the Executive and Accounting grades, who

carried out the duty over a period of two years. Your Committee would stress the importance of all verifications of public moneys being carried out with a full sense of responsibility.

The Admiralty censured the officers who made the checks, but decided in all the circumstances not to impose pecuniary penalties upon them. Your Committee understand that the decision in this case implies no departure from the principle that pecuniary penalties may in appropriate cases be properly imposed upon officers responsible, even indirectly, for the loss of public moneys.

22. It was stated that as an outcome of this case the Admiralty have obtained the agreement of the Treasury to revised regulations which will limit the function of the Commanding Officer of a ship to verifying each month the actual cash balance and reporting it to the Admiralty, but will institute an additional check at an uncertain time, and not less frequently than once in every six months, by Accountant Officers from outside the ship appointed by the Commander in Chief. Your Committee hope that the revised regulations will prove more effective in practice than those which they supersede.

DOCKYARD ACCOUNTS.

23. *Estimated Cost of Shipbuilding.*

The Committee of Public Accounts for 1937, in paragraph 23 of their Second Report, pointed out that even in the case of ships that have reached a fairly advanced stage of construction, no estimate of the total cost is available. Since, by the provision of money under Vote 8, Parliamentary authority is obtained for expenditure on ships of a new Programme, the building of which will extend over a period of years, the Committee raised the question whether information of the total commitments involved should not be given, as is the rule in the case of items contained in the Estimates for New Works and Buildings. The Accounting Officer agreed to consult the Board of Admiralty as to whether it would not be possible to give the estimated total cost of a ship under construction by contract or in the Dockyards at an earlier date than is now customary, and the matter was recommended for further consideration this year.

Your Committee are given to understand that the Board of Admiralty attach considerable importance on grounds of public interest to the continuance of the present practice of not publishing any estimate of the total cost of individual ships until the stage when the ship is nearing completion. Your Committee do not therefore wish to press this aspect of the matter further. It was stated in evidence that there is no objection to giving the total cost of a year's Programme of shipbuilding, and in some years

Qs. 4468-
4469, 4778-
4779.

Parliament has in fact been informed, either in Estimates or in the course of Debate, of the total commitment involved, but there is no regularity of practice in this matter. Your Committee consider that the aggregate anticipated cost of the ships proposed to be built should be regularly given in the Estimate or Supplementary Estimate in which the Programme is introduced.

Qs. 4479-
4497.

24. It was further brought out in evidence that the Dockyard Accounts offer a comparison of the total expenditure on individual ships under construction with the total estimated cost as last revised before publication of the Accounts, but do not show the original estimate as first published in the Estimates. Your Committee consider that it would allow of a better comparison of out-turn with estimate and increase the usefulness of the Dockyard Accounts if, when a ship is complete, the original estimate was also stated, and variation from that basis explained.

ARMY.

25. *Sales of Army Mares.*

Paras. 6 & 7
of C. &
A.G.'s Army
Report.
Qs. 4591-
4660.
App. 15.

In his Report on the Army Appropriation Account, 1936, the Comptroller and Auditor General referred to certain sales of Army mares for breeding purposes at prices approximating to carcase value. These sales were made in most cases to the Hunters' Improvement and National Light Horse Breeding Society which also receives a grant of £4,500 per annum from the War Office for the improvement of horse breeding. Your Committee have taken evidence upon this matter and have obtained further information, printed as Appendix 15 to the Minutes of Evidence.

It appears that in 1926 the Treasury sanctioned an arrangement, designed to encourage horse breeding, by which mares cast as no longer fit for Army Service should be sold to selected breeders by private treaty in lieu of public auction. Mares fit for further work on farms, &c., were to be sold at the best price obtainable, the arrangement being that the best bid from a selected list of buyers should be accepted. Those unfit for further work were to be sold at a nominal price of £1, which being less than carcase value, itself constituted some measure of subsidy.

These arrangements were radically altered in 1928 when the War Office, finding that the scheme failed to fulfil its primary object of securing that the mares were used for breeding, decided that all cast mares suitable for breeding should be offered in the first instance to the Hunters' Improvement Society which would place them on loan with selected custodians on suitable conditions. The new arrangements involved the abandonment

both of the differentiation between mares fit and unfit for work and of the measure of competition that formerly obtained. The Treasury were not informed of the change at the time, but were later told, in another connexion, that, while the sales were generally being made to the Society, and not to individual breeders, the original conditions were being rigidly adhered to and the change of procedure would not be allowed to entail loss to public funds.

26. Owing to mechanisation the number of mares cast from the Army in 1936 onwards was very considerable as compared with previous years, and from figures furnished in Appendix 15 it appears that of 2,958 mares cast in 1936 and 1937, 1,146 were destroyed, 1,207 were sold at auction, 339 were sold by private treaty to good homes (under a scheme approved by the Treasury), and 266 were sold for breeding at an average price of £3 10s. each, mainly to the Hunters' Improvement Society. It was considered that these 266 mares could not be sold at auction without spoiling the good name of Army horses, with the result that future prices would drop. On this point Your Committee observe that the War Office have now found it advisable to arrange that unfitness for sale at auction shall be determined in future by a veterinary officer and not, as hitherto, by the local remount officers.

It is stated that the prices at which sales were effected were negotiated by the local remount officers and approved by the War Office. The Accounting Officer admitted in evidence that the prices were too low and constituted a hidden subsidy to breeding, and that this is so is sufficiently demonstrated by a decision that in future no mare shall be sold for less than £10.

Your Committee consider that, when the arrangements approved by the Treasury were altered in 1928 and the competitive element abandoned, it became incumbent upon the War Office to ensure that the sales to the Society were made at reasonable prices, and they regret that the arrangements were insufficient to prevent loss to public funds. They trust that the new procedure will prove satisfactory in practice and will be carefully supervised by the War Office.

AIR SERVICES.

27. Airframe Contracts.

In paragraphs 26 to 30 of their Second Report last year the Public Accounts Committee reviewed in some detail the arrangements agreed between the Air Ministry and the Society of British Aircraft Constructors for determining final prices for airframes where the usual method of price negotiation could not

Paras. 4 & 5
of C. & A.
G.'s Air
Report.
Qs. 4954-
5024.

suitably be applied. Your Committee are glad to note that, following the recommendation made by the Committee last year the agreement, known as the McLintock agreement, has now been recast in a form suitable for incorporation in individual contracts, and that its provisions, including those for recourse to the arbitration of the Hardman Lever Committee, have thus been made binding not only on the Society but on its individual members as contractors to the Air Ministry.

The general procedure as to price-fixing was further reviewed this year, and Your Committee are glad to note in this connexion that, in their Minute of 8th November, 1937, upon the Report of the Public Accounts Committee last year, the Treasury expressed their complete agreement with the view of that Committee, that, in determining the rate of profit, regard should be had to the reduction of contractual risk where the price to be paid is actual cost plus a fixed profit, or where capital expenditure by contractors for expansion purposes is brought under the compensation clause of the McLintock agreement.

28. In his evidence this year the Accounting Officer to the Air Ministry emphasised the point that the contract procedure now obtaining for airframes takes the form of successive alternatives available to the negotiating parties as a means of arriving at a settlement, and these alternatives were fully described to Your Committee. It should, however, be explained in the first place that owing to urgency it is seldom possible to agree a price before a contract is placed, and it is therefore usually let on the basis of an "Instruction to Proceed" (I.T.P.), pending the fixing of prices on the following lines.

The first class of cases is where, owing to previous manufacturing experience of the type or a similar type of airframe, the parties are able to negotiate a fair and reasonable price without recourse to actual costing. This was the normal pre-expansion procedure which has on several occasions in the past been brought under review by the Public Accounts Committee, and Your Committee are informed that in many cases it has proved possible to settle expansion contracts on this basis.

If sufficient manufacturing experience is lacking, or if for any other reason it is not possible to agree a price on this basis, recourse is had to the McLintock procedure which provides, as a preliminary to further price negotiation, the ascertainment of the actual costs of the earliest batches off the contract. These costs will normally be higher than those which would be reasonable for the whole contract, but they serve as a useful index to both parties of the likely trend of manufacturing costs, and from such evidence as they afford the parties again endeavour to

reach the objective of a fixed price for the bulk of the contract. If this still proves impossible, the application of what is called the "basic-cost" method is considered, viz., payment at actual cost, plus a fixed profit, plus a share of any saving below an agreed "target" price.

It may be that agreement cannot be reached even on this basis, and in that event recourse is had to the arbitration of the Hardman Lever Committee which is final.

29. It will be clear from the above analysis of the procedure that the objective is agreement upon a reasonable fixed price, either initially or after ascertainment of the actual costs of the earliest batches off the contract, and that it is only in default of such agreement that recourse is had either to the so-called "basic-cost" method just described, or, failing all agreement, to an arbitrated price. As stated earlier, in many cases fixed prices for expansion contracts have already been negotiated under the normal pre-expansion procedure. Where this has not proved possible the general position was stated to be that preliminary batch costing was proceeding, but that except in a few cases final prices had not yet been settled. Your Committee trust that the outstanding cases will be dealt with as speedily as is practicable. In the meantime, while they see no reason to differ from the opinion expressed by the Public Accounts Committee last year that the arrangements appear to be suitable in principle, any final judgment must be deferred until experience of actual settlements is fully available.

30. *Shadow Factories.*

The Comptroller and Auditor General has given in paragraphs 6 to 11 of his Report upon the Air Services Account, 1936, a full summary of the main provisions of the agreements with certain firms for the manufacture of airframes and engines in what are known as "shadow" factories—the term "shadow" implying their potential capacity for production in time of war as distinct from the immediate use to be made of their manufacturing facilities for expansion and rearmament.

Paras. 6-11
of C. & A.G.'s
Air Report.
Qs. 5030-
5100.

These factories are the property of the State, and the whole of the expenditure directly incurred on their construction and in the production of airframes and engines is met from public funds. They are distinguished from the normal Government Factory only in that the immediate supervision of planning, layout, construction and production has been entrusted to commercial firms who are acting not as ordinary contractors but as direct agents of the Air Ministry. For their services as agents and to cover what may be called central, as distinct from

local, supervision and management the agents receive agreed fees. For the construction period the fee takes the form of a lump sum paid in equal monthly instalments, and regard was had in the negotiations to its relation to the estimated cost of construction, the latest figure for which was stated to be some £6,000,000 for the eight factories concerned. At the end of the construction period the fee for production begins to operate and takes the form of a fixed sum per airframe or engine produced. This fee was considered in the negotiations in relation to estimated cost of production. The percentages of estimated cost of construction and production respectively were given to Your Committee in confidence, and they have no comments to make on them. An incentive to economy is provided by arrangements for sharing savings below "target" costs to be fixed after sufficient manufacturing experience has been attained.

The expenditure in the Account under review covers only the earlier stages of the construction period and, while Your Committee have given a preliminary examination to the general scheme, further review of final construction costs and of production arrangements will be necessary in the following years.

31. Your Committee would, however, desire to emphasise at this stage that, while the day to day management is entrusted to agents, the expenditure is wholly from public funds and must be accounted for to the satisfaction of the Comptroller and Auditor General in pursuance of his statutory functions. The agreements require the agents to keep in separate books such full and accurate cost and other accounts and records as are necessary to supply the information required by the Secretary of State. These local accounts are examined by the Ministry's resident auditors, who report thereon to the principal professional accountant of the Air Ministry. The Comptroller and Auditor General reviews the periodical statements of expenditure based on the local records, together with the audit reports and inquiries resulting therefrom, and he hopes that this review will satisfy his requirements. Your Committee agree in thinking that it should not be necessary for him to have recourse to his power to make a direct audit of the expenditure by the agents in addition to that already made by the Departmental auditors. Your Committee trust that the agents whether of the Air Ministry or of other Service Departments under similar schemes will for their part fully realise the position, and accommodate themselves to the accounting requirements of the Departments.

DEFENCE SERVICES: GENERAL.

32. *Audit by Departmental Accountants.*

In his Reports upon the Accounts of the Defence Services the Comptroller and Auditor General has reviewed the activities of those Departments in securing the necessary expansion of the sources of supply of warlike stores, and in doing so has drawn attention to the fact that a very considerable body of expenditure will not come under his direct audit.

Para. 10 of
C. & A.G.'s
Navy
Report.
Para. 13 of
C. & A.G.'s
Army
Report.
Para. 11 of
C. & A.G.'s
Air Report.

Where new factories are erected and operated by Government staffs, e.g., the additional Royal Ordnance Factories, the expenditure will be audited in the normal way, but for "shadow" factories constructed and managed by commercial firms acting as agents for the particular Department different considerations arise. The expenditure incurred by the agent firms is examined by officers of the Department concerned, and, as stated in paragraph 31, the Comptroller and Auditor General has expressed the hope that it will not be necessary for him to exercise the power reserved to him to conduct a direct audit of the agents' books. There are further a number of schemes in which firms contracting in the ordinary sense of the term to supply warlike stores are given assistance from public funds for the purchase of machinery and extension of buildings. Normally such machinery or buildings become the property of the State, and the firms in buying them are acting as agents of the Department in the expenditure of public money. The Departments have also developed a contract procedure which, for the purpose of control of profits, requires in many cases the ascertainment of the actual costs of manufacture. In all these types of case—and no doubt others may develop as expansion or rearmament proceeds—the examination of the primary records is conducted by professional accountants on the staff of the Departments who certify and report upon the expenditure to their respective Accounting Officers.

33. Your Committee are glad to note from the references in the Comptroller and Auditor General's Reports and from the evidence given to them that Accounting Officers have readily accepted the necessity to satisfy his audit requirements, and they feel sure that, as experience of these new forms of accounting and control develops, he may rely fully on the co-operation of Departments to supply him with all the material he may need to satisfy himself on behalf of Parliament, in pursuance of his statutory functions, that the expenditure has been properly examined, and that the various checks and safeguards designed to protect the public purse conform to approved procedure and are being made effective for that purpose.

Qs. 4040-
4041, 4700,
5094-5100.

Paras. 7-10
of C. &
A.G.'s Navy
Report.
Paras. 12 &
13 of C. &
A.G.'s Army
Report.
Paras. 10 &
11 of C. &
A.G.'s Air
Report.
Qs. 4088-
4097, 4689-
4696, 5049-
5054.

34. *Purchase of Plant and Machine Tools.*

Your Committee have given consideration to the methods of purchase of plant and machine tools for the rearmament programme which were adopted in the year under review. From the Reports of the Comptroller and Auditor General and from the evidence given by the Accounting Officers of the Defence Departments it is clear that very large expenditure is being incurred on plant and machine tools which will remain the property of the Government, both at the "shadow" factories and in the form of extended equipment at contractors' works. The purchases are in the main being made on behalf of the Departments by the firms who are to use the machinery, and it would appear that the Departments are relying very considerably on the technical skill and commercial experience of these firms to make the most suitable purchases at the most economical price.

Your Committee were informed that considerable purchases had to be made abroad. As regards home supplies, while the agent firms have resorted to competition to some extent, much of the plant, &c., has consisted of proprietary articles bought at makers' list prices. In these circumstances, while the prices actually paid by the agent firms can be confirmed by examination of their books, the determination of the reasonableness of those prices is almost wholly a matter for the technical officers of the Departments, upon whose certificates the Comptroller and Auditor General must rely.

35. Your Committee have no reason to suggest that the agent firms have not expended public money with the same care with which they control their own expenditure, or that the departmental officers have not, for their part, been as vigilant in their judgment of prices as in determining suitability for the work in hand. They would point out, however, that the reasonableness of profits on these supplies is not being put to the positive tests which the Departments are applying to the costs of the warlike stores for the production of which the plant and machine tools are designed. In view of the greatly increased expenditure now being incurred upon these supplies, Your Committee suggest that consideration should be given to the possibility of making arrangements under which the reasonableness of prices could be more definitely checked.

PROCEEDINGS OF THE COMMITTEE

THURSDAY, 9TH DECEMBER, 1937.

Members present:

Sir Edmund Brocklebank.	Sir Assheton Pownall.
Mr. Culverwell.	Sir Eugene Ramsden.
Mr. Lathan.	Sir Isidore Salmon.
Mr. Peat.	Sir Robert Smith.
Mr. Pethick-Lawrence.	

Sir Assheton Pownall was called to the Chair.

Resolved, That Mr. Morgan Jones be Chairman of the Committee.
The Committee deliberated.

[Adjourned till Thursday, 3rd February, at half-past two o'clock.]

THURSDAY, 3RD FEBRUARY, 1938.

Members present:

Mr. MORGAN JONES in the Chair.

Mr. Benson.	Mr. Pethick-Lawrence.
Sir Edmund Brocklebank.	Sir Assheton Pownall.
Mr. Culverwell.	Sir Isidore Salmon.
Mr. Lathan.	Sir Robert Smith.

The Revenue Departments Appropriation Accounts, 1936, Vote 1, Customs and Excise, and Vote 2, Inland Revenue, were considered.

Sir Gilbert Upcott, K.C.B., Mr. W. R. Fraser, Mr. H. Brittain, Sir Evelyn Murray, K.C.B., and Sir Gerald Canny, K.B.E., C.B., were examined.

[Adjourned till Tuesday next at half-past two o'clock.]

TUESDAY, 8TH FEBRUARY, 1938.

Members present:

Mr. MORGAN JONES in the Chair.

Mr. Benson.	Mr. Pethick-Lawrence.
Sir Edmund Brocklebank.	Sir Assheton Pownall.
Mr. Culverwell.	Mr. Wilfrid Roberts.
Mr. Lathan.	Sir Isidore Salmon.
Mr. Mabane.	Sir Robert Smith.
Mr. Peat.	

The Committee deliberated.

The Revenue Departments Appropriation Accounts, 1936, Vote 3, Post Office, were considered.

Sir Gilbert Upcott, K.C.B., Mr. W. R. Fraser, Mr. H. Brittain, Sir Thomas Gardiner, K.C.B., K.B.E., and Mr. G. Ismay were examined.

[Adjourned till Thursday at half-past two o'clock.]

THURSDAY, 10TH FEBRUARY, 1938.

Members present:

Mr. MORGAN JONES in the Chair.

Sir Irving Albery.	Mr. Pethick-Lawrence.
Mr. Benson.	Sir Eugene Ramsden.
Sir Edmund Brocklebank.	Mr. Wilfrid Roberts.
Mr. Culverwell.	Sir Isidore Salmon.
Mr. Mabane.	Sir Robert Smith.
Mr. Peat.	

The Statement of Excesses on the Civil Estimates, 1936 (Class VI, Vote 2, Mercantile Marine Services; Class VII, Vote 15, Works and Buildings in Ireland; and Class VIII, Vote 4, Superannuation and Retired Allowances); the Civil Appropriation Accounts, 1936, Class VI, Vote 2, Mercantile Marine Services; Class VII, Vote 15, Works and Buildings in Ireland; Class VIII, Vote 4, Superannuation and Retired Allowances; Class VIII, Vote 3, Royal Irish Constabulary Pensions, etc.; the Post Office Commercial Accounts, 1936; and the Post Office Fund Account, 1936, were considered.

Sir Gilbert Upcott, K.C.B., Mr. W. R. Fraser, Mr. H. Brittain, Sir William Brown, K.C.M.G., C.B., C.B.E., Sir Patrick Duff, K.C.B., K.C.V.O., Mr. A. G. Barnett, C.B.E., Mr. J. Mahood, C.B.E., I.S.O., Sir Thomas Gardiner, K.C.B., K.B.E., and Mr. G. Ismay were examined.

[Adjourned till Tuesday next at half-past two o'clock.

TUESDAY, 15TH FEBRUARY, 1938.

Members present:

Mr. MORGAN JONES in the Chair.

Sir Irving Albery.	Mr. Pethick-Lawrence.
Sir Edmund Brocklebank.	Sir Assheton Pownall.
Mr. Culverwell.	Sir Eugene Ramsden.
Mr. Lathan.	Mr. Wilfrid Roberts.
Mr. Mabane.	Sir Isidore Salmon.
Mr. Peat.	Sir Robert Smith.

The Civil Appropriation Accounts, 1936, Class VIII, Vote 1, Merchant Seamen's War Pensions; Class VI, Vote 1, Board of Trade; Class VI, Vote 3, Assistance to British Shipping; the British Shipping (Assistance) Act, 1935, Account, 1936; the Cunard Insurance Fund Account, 1936; the Civil Appropriation Accounts, 1936, Class I, Votes 1 and 5; the Cinematograph Fund Account, 1936; and the Civil Appropriation Accounts, 1936, Class I, Votes 7, 8, 11 and 12, were considered.

Mr. F. N. Dixon, C.B., Mr. W. R. Fraser, Mr. H. Brittain and Sir William Brown, K.C.M.G., C.B., C.B.E., were examined.

[Adjourned till Thursday at half-past two o'clock.

THURSDAY, 17TH FEBRUARY, 1938.

Members present:

Mr. MORGAN JONES in the Chair.

Sir Irving Albery.	Mr. Pethick-Lawrence.
Mr. Benson.	Sir Assheton Pownall.
Sir Edmund Brocklebank.	Mr. Wilfrid Roberts.
Mr. Culverwell.	Sir Isidore Salmon.
Mr. Lathan.	Sir Robert Smith.
Mr. Peat.	

Draft First Report, proposed by the Chairman, brought up and read the first and second time, amended and agreed to.

The Exchange Equalisation Fund Account; the Civil Appropriation Accounts, 1936, Class VI, Vote 6, Mines Department of the Board of Trade; and Class VI, Vote 19, Clearing Offices; the Debts Clearing Offices and Import Restrictions Act, 1934, Accounts, 1936; the Civil Appropriation Accounts, 1936, Class VI, Vote 14, Ministry of Transport, and the Road Fund Accounts, 1936, were considered.

Sir Gilbert Upcott, K.C.B., Mr. W. R. Fraser, Mr. H. Brittain, Sir Richard Nind Hopkins, K.C.B., Sir Alfred Faulkner, C.B., C.B.E., Mr. H. S. Gregory and Mr. L. Browett, C.B., C.B.E., were examined.

[Adjourned till Tuesday next at half-past two o'clock.

TUESDAY, 22ND FEBRUARY, 1938.

Members present:

Sir Irving Albery.	Mr. Pethick-Lawrence.
Mr. Benson.	Sir Assheton Pownall.
Sir Edmund Brocklebank.	Mr. Wilfrid Roberts.
Mr. Culverwell.	Sir Isidore Salmon.
Mr. Peat.	Sir Robert Smith.

In the absence of the Chairman, Sir Assheton Pownall was called to the Chair.

The Civil Appropriation Accounts, 1936, Class II, Vote 1, Foreign Office; Class II, Vote 2, Diplomatic and Consular Services; Class II, Vote 3, League of Nations; Class IV, Vote 1, Board of Education; Class IV, Vote 12, Public Education, Scotland; Class III, Vote 14, Approved Schools, etc., Scotland; Class I, Vote 9, Exchequer and Audit Department; and Class I, Votes 14, 17, 18 and 19, were considered.

Sir Gilbert Upcott, K.C.B., Mr. W. R. Fraser, Mr. H. Brittain, Sir Frederick Butler, K.C.M.G., C.B., Sir Maurice Holmes, K.C.B., O.B.E., Mr. D. Du Bois Davidson and Sir James Peck, C.B., were examined.

[Adjourned till Thursday at half-past two o'clock.

THURSDAY, 24TH FEBRUARY, 1938.

Members present:

Mr. MORGAN JONES in the Chair.

Sir Irving Albery.	Mr. Mabane.
Mr. Benson.	Mr. Pethick-Lawrence.
Sir Edmund Brocklebank.	Sir Assheton Pownall.
Mr. Culverwell.	Sir Isidore Salmon.
Mr. Lathan.	

The Civil Appropriation Accounts, 1936, Class I, Vote 2, House of Commons; Class IV, Vote 6, National Gallery; Class IV, Vote 4, Imperial War Museum; and Class VI, Vote 7, Office of Commissioners of Crown Lands; the Crown Lands Abstract Accounts, 1936; and the Civil Appropriation Accounts, 1936, Class II, Vote 11, Class III, Votes 2, 8 and 10, Class IV, Votes 2, 3, 5, 7, 8 and 9, were considered.

Sir Gilbert Upcott, K.C.B., Mr. W. R. Fraser, Mr. H. Brittain, Sir Gilbert Campion, K.C.B., Mr. J. Luxford, O.B.E., Sir Kenneth Clark, K.C.B., Mr. H. Isherwood Kay, Mr. L. R. Bradley, O.B.E., and Mr. C. L. Stocks, C.B., were examined.

[Adjourned till Tuesday next at half-past two o'clock.

TUESDAY, 1ST MARCH, 1938.

Members present:

Mr. MORGAN JONES in the Chair.

Sir Irving Albery.	Mr. Pethick-Lawrence.
Sir Edmund Brocklebank.	Sir Assheton Pownall.
Mr. Culverwell.	Sir Isidore Salmon.
Mr. Mabane.	Sir Robert Smith.

The Civil Appropriation Accounts, 1936, Class V, Vote 11, Commissioner for Special Areas (England and Wales); Class V, Vote 8, Ministry of Labour; and Class V, Vote 10, Grants in Respect of Unemployment Schemes; the Unemployment Fund Accounts, 1936; and the Civil Appropriation Accounts, 1936, Class V, Vote 9, Unemployment Allowances; and Class V, Vote 12, Unemployment Assistance Board, were considered.

Sir Gilbert Upcott, K.C.B., Mr. W. R. Fraser, Mr. H. Brittain, Sir Thomas Phillips, K.C.B., K.B.E., Mr. F. N. Tribe, C.B., C.B.E., and Mr. G. T. Reid, C.B., were examined.

[Adjourned till Thursday at half-past two o'clock.

THURSDAY, 3RD MARCH, 1938.

Members present:

Mr. MORGAN JONES in the Chair.

Sir Irving Albery.	Mr. Peat.
Mr. Benson.	Sir Assheton Pownall.
Sir Edmund Brocklebank.	Sir Eugene Ramsden.
Mr. Culverwell.	Mr. Wilfrid Roberts.
Mr. Lathan.	Sir Isidore Salmon.
Mr. Mabane.	Sir Robert Smith.

The Civil Appropriation Accounts, 1936, Class VIII, Vote 2, Ministry of Pensions; Class I, Vote 16, National Debt Office; and Class I, Vote 10, Friendly Societies' Deficiency; the Local Loans Fund Account, 1936; the Sinking Funds Account, 1936; the Irish Land Purchase Fund Accounts, 1936; the Civil Appropriation Accounts, Class III, Vote 20, Land Purchase Commission, Northern Ireland; the Land Purchase Commission, Northern Ireland, Accounts, 1936; and the Civil Appropriation Accounts, 1936, Class III, Vote 19, Supreme Court of Judicature, etc., Northern Ireland, were considered.

Sir Gilbert Upcott, K.C.B., Mr. W. R. Fraser, Mr. H. Brittain, Sir Adair Hore, K.B.E., C.B., Mr. R. A. Ledgard, O.B.E., and Mr. M. F. Headlam, C.B., C.M.G., were examined.

[Adjourned till Tuesday next at half-past two o'clock.]

TUESDAY, 8TH MARCH, 1938.

Members present:

Mr. MORGAN JONES in the Chair.

Sir Irving Albery.	Mr. Pethick-Lawrence.
Mr. Benson.	Sir Assheton Pownall.
Sir Edmund Brocklebank.	Sir Eugene Ramsden.
Mr. Culverwell.	Mr. Wilfrid Roberts.
Mr. Mabane.	Sir Isidore Salmon.
Mr. Peat.	Sir Robert Smith.

The Civil Appropriation Accounts, 1936, Class VI, Vote 4, Department of Overseas Trade, were considered.

Sir Gilbert Upcott, K.C.B., Mr. W. R. Fraser, Mr. H. Brittain and Mr. T. St. Q. Hill, C.M.G., O.B.E., were examined.

The Chairman was called away from the Committee, and Sir Isidore Salmon was called to the Chair.

The Civil Appropriation Accounts, 1936, Class V, Vote 14, Department of Health for Scotland; the Housing Act, 1914, Account, 1936; the National Health Insurance Fund Accounts, 1936; the Widows', Orphans' and Old Age Contributory Pensions Act, 1936, Account, 1936; the Civil Appropriation Accounts, 1936, Class V, Vote 1, Ministry of Health; Class V, Vote 1A, Grants to Public Assistance Authorities (England and Wales); Class IX, Vote 1, Exchequer Contributions to Local Revenues, England and Wales, were considered.

Sir Gilbert Upcott, K.C.B., Mr. W. R. Fraser and Mr. H. Brittain were further examined.

Sir George Chrystal, K.C.B., and Mr. S. H. G. Hughes, C.B.E., were examined.

[Adjourned till Thursday at half-past two o'clock.]

THURSDAY, 10TH MARCH, 1938.

Members present:

Mr. MORGAN JONES in the Chair.

Mr. Benson.	Mr. Pethick-Lawrence.
Sir Edmund Brocklebank.	Sir Assheton Pownall.
Mr. Culverwell.	Mr. Wilfrid Roberts.
Mr. Lathan.	Sir Isidore Salmon.
Mr. Peat.	Sir Robert Smith.

The Civil Appropriation Accounts, 1936, Class VI, Vote 8, Ministry of Agriculture and Fisheries; Class VI, Vote 9, Beet Sugar Subsidy, Great Britain; and Class VI, Vote 11, Cattle Fund; and the Trading Accounts, Ministry of Agriculture and Fisheries, were considered.

Sir Gilbert Upcott, K.C.B., Mr. W. R. Fraser, Mr. H. Brittain and Sir Donald Fergusson, K.C.B., were examined.

[Adjourned till Tuesday next at half-past two o'clock.]

TUESDAY, 15TH MARCH, 1938.

Members present:

Mr. MORGAN JONES in the Chair.

Sir Irving Albery.	Mr. Pethick-Lawrence.
Mr. Benson.	Sir Assheton Pownall.
Sir Edmund Brocklebank.	Mr. Wilfrid Roberts.
Mr. Culverwell.	Sir Isidore Salmon.
Mr. Lathan.	Sir Robert Smith.
Mr. Mabane.	

The Civil Appropriation Accounts, 1936, Class VI, Vote 10, Milk (England and Wales and Northern Ireland); Class VI, Vote 20, Department of Agriculture, Scotland; the Trading Accounts, Department of Agriculture, Scotland; the Civil Appropriation Accounts, 1936, Class VI, Vote 21, Milk (Scotland); the Wheat Fund Accounts, 1936-37; the Agricultural Research Council Accounts, 1936; and the Civil Appropriation Accounts, 1936, Class V, Votes 2, 3, 4, 5 and 6, were considered.

Sir Gilbert Upcott, K.C.B., Mr. W. R. Fraser, Mr. H. Brittain, Sir Donald Fergusson, K.C.B., Mr. P. R. Laird, C.B., and Mr. H. D. Vigor, O.B.E., were examined.

[Adjourned till Thursday at half-past two o'clock.]

THURSDAY, 17TH MARCH, 1938.

Members present:

Mr. MORGAN JONES in the Chair.

Sir Irving Albery.	Mr. Pethick-Lawrence.
Sir Edmund Brocklebank.	Sir Assheton Pownall.
Mr. Culverwell.	Sir Eugene Ramsden.
Mr. Lathan.	Sir Isidore Salmon.
Mr. Mabane.	Sir Robert Smith.

The Civil Appropriation Accounts, 1936, Class III, Vote 1, Home Office; the Trading Accounts, Home Office; the Civil Appropriation Accounts, 1936, Class III, Vote 3, Police, England and Wales; Class III, Vote 5, Approved Schools, etc., England and Wales; Class III, Vote 18, Northern Ireland Services; and Class VI, Vote 18, State Management Districts; and the Trading Accounts, State Management Districts, were considered.

Sir Gilbert Upcott, K.C.B., Mr. W. R. Fraser, Mr. H. Brittain, Sir Alexander Maxwell, K.B.E., C.B., Mr. C. B. Hains, M.B.E., Sir John Moylan, C.B., C.B.E., and Colonel W. B. Vince, D.S.O., O.B.E., M.C., T.D., were examined.

[Adjourned till Tuesday next at half-past two o'clock.]

TUESDAY, 22ND MARCH, 1938.

Members present:

Mr. MORGAN JONES in the Chair.

Sir Irving Albery.	Mr. Mabane.
Mr. Benson.	Mr. Pethick-Lawrence.
Sir Edmund Brocklebank.	Mr. Wilfrid Roberts.
Mr. Culverwell.	Sir Isidore Salmon.
Mr. Lathan.	Sir Robert Smith.

The Civil Appropriation Accounts, 1936, Class VI, Vote 5, Export Credits; the Trading Accounts, Export Credits Guarantee Department; the Civil Appropriation Accounts, 1936, Class III, Vote 4, Prisons, England and Wales; Class VII, Vote 13, Stationery and Printing; and the Trading Accounts, Stationery Office, were considered.

Sir Gilbert Upcott, K.C.B., Mr. W. R. Fraser, Mr. H. Brittain, Mr. F. H. Nixon, C.B., Mr. H. R. Scott, C.B., and Sir William Codling, C.B., C.V.O., C.B.E., were examined.

[Adjourned till Thursday at half-past two o'clock.]

THURSDAY, 24TH MARCH, 1938.

Members present:

Mr. MORGAN JONES in the Chair.

Sir Irving Albery.	Mr. Pethick-Lawrence.
Mr. Benson.	Mr. Wilfrid Roberts.
Sir Edmund Brocklebank.	Sir Isidore Salmon.
Mr. Culverwell.	Sir Robert Smith.
Mr. Peat.	

The Civil Appropriation Accounts, 1936, Class VII, Vote 1, Art and Science Buildings, Great Britain; Class VII, Vote 2, Houses of Parliament Buildings; Class VII, Vote 3, Labour and Health Buildings, Great Britain; Class VII, Vote 4, Miscellaneous Legal Buildings, Great Britain; Class VII, Vote 5, Osborne; Class VII, Vote 6, Office of Works and Public Buildings; Class VII, Vote 7, Public Buildings, Great Britain; and Class VII, Vote 8, Public Buildings Overseas, were considered.

Sir Gilbert Upcott, K.C.B., Mr. W. R. Fraser, Mr. H. Brittain, Sir Patrick Duff, K.C.B., K.C.V.O., and Mr. A. G. Barnett, C.B.E., were examined.

[Adjourned till Tuesday next at half-past two o'clock.

TUESDAY, 29TH MARCH, 1938.

Members present:

Mr. MORGAN JONES in the Chair.

Sir Irving Albery.	Mr. Pethick-Lawrence.
Mr. Benson.	Sir Assheton Pownall.
Sir Edmund Brocklebank.	Mr. Wilfrid Roberts.
Mr. Culverwell.	Sir Isidore Salmon.
Mr. Mabane.	Sir Robert Smith.

The Civil Appropriation Accounts, 1936, Class VI, Vote 13, Forestry Commission; the Trading Accounts, Forestry Commission; the Civil Appropriation Accounts, 1936, Class VII, Vote 9, Royal Palaces; Class VII, Vote 10, Revenue Buildings; Class VII, Vote 11, Royal Parks and Pleasure Gardens; the Trading Accounts, Office of Works; and the Civil Appropriation Accounts, 1936, Class VI, Votes 12 and 17, were considered.

Sir Gilbert Upcott, K.C.B., Mr. W. R. Fraser, Mr. H. Brittain, Sir Roy Robinson, O.B.E., Sir Patrick Duff, K.C.B., K.C.V.O., and Mr. A. G. Barnett, C.B.E., were examined.

[Adjourned till Thursday at half-past two o'clock.

THURSDAY, 31ST MARCH, 1938.

Members present:

Mr. MORGAN JONES in the Chair.

Mr. Benson.	Mr. Pethick-Lawrence.
Sir Edmund Brocklebank.	Sir Assheton Pownall.
Mr. Culverwell.	Sir Eugene Ramsden.
Mr. Mabane.	Sir Isidore Salmon.

The Civil Appropriation Accounts, 1936, Class VI, Vote 22, Fishery Board for Scotland; Class V, Vote 17, Commissioner for Special Areas (Scotland); Class V, Vote 18, Grants to Public Assistance Authorities (Scotland); and Class VI, Vote 23, Herring Industry; the Herring Industry Act, 1935, Account, 1936; the Civil Appropriation Accounts, 1936, Class I, Vote 25, Scottish Office; Class III, Vote 12, Police, Scotland; Class IX, Vote 2, Exchequer Contributions to Local Revenues, Scotland; Class III, Vote 16, Law Charges and Courts of Law, Scotland; Class IV, Vote 14, National Library, Scotland; Class III, Vote 13, Prisons Department for Scotland; Class III, Vote 15, Scottish Land Court; Class III, Vote 17, Register House, Edinburgh; Class IV, Vote 13, National Galleries, Scotland; Class V, Vote 15, Board of Control for Scotland; and Class V, Vote 16, Registrar-General's Office, Scotland, were considered.

Sir Gilbert Upcott, K.C.B., Mr. W. R. Fraser, Mr. H. Brittain, Mr. G. Hogarth, Sir Horace Hamilton, K.C.B., Mr. A. B. Valentine, and Mr. J. A. Inglis, K.C., were examined.

[Adjourned till Tuesday next at half-past two o'clock.]

TUESDAY, 5TH APRIL, 1938.

Members present:

Mr. MORGAN JONES in the Chair.

Sir Irving Albery.	Mr. Pethick-Lawrence.
Mr. Benson.	Mr. Wilfrid Roberts.
Sir Edmund Brocklebank.	Sir Isidore Salmon.
Mr. Lathan.	Sir Robert Smith.

The Civil Appropriation Accounts, 1936, Class II, Vote 8, Colonial Office; Class II, Vote 9, Colonial and Middle Eastern Services; and Class I, Vote 15, The Mint; and the Trading Accounts, The Mint, were considered.

Sir Gilbert Upcott, K.C.B., Mr. W. R. Fraser, Mr. H. Brittain, Sir Cosmo Parkinson, K.C.M.G., O.B.E., Mr. H. Palmer, Mr. J. H. McC. Craig, C.B., Mr. W. Perry, O.B.E., and Mr. T. W. Kenner were examined.

[Adjourned till Thursday at half-past two o'clock.]

THURSDAY, 7TH APRIL, 1938.

Members present:

Mr. MORGAN JONES in the Chair.

Sir Irving Albery.	Mr. Pethick-Lawrence.
Mr. Benson.	Sir Assheton Pownall.
Sir Edmund Brocklebank.	Sir Eugene Ramsden.
Mr. Culverwell.	Sir Isidore Salmon.
Mr. Mabane.	Sir Robert Smith.
Mr. Peat.	

The Civil Appropriation Accounts, 1936, Class III, Vote 9, Public Trustee; and Class III, Vote 6, Supreme Court of Judicature, etc.; the Supreme Court of Judicature Account, 1936; the Civil Appropriation Accounts, 1936, Class III, Vote 7, County Courts; and the County Courts Account, 1936, were considered.

Sir Gilbert Upcott, K.C.B., Mr. W. R. Fraser, Mr. H. Brittain, Sir Ernest Fass, K.C.M.G., C.B., O.B.E., Mr. G. R. Firth, Sir Claud Schuster, G.C.B., C.V.O., K.C., and Mr. E. C. Martin, M.B.E., were examined.

[Adjourned till Tuesday, 3rd May, at half-past two o'clock.

TUESDAY, 3RD MAY, 1938.

Members present:

Mr. MORGAN JONES in the Chair.

Sir Irving Albery.	Mr. Peat.
Sir Edmund Brocklebank.	Mr. Pethick-Lawrence.
Mr. Culverwell.	Sir Assheton Pownall.
Mr. Lathan.	Mr. Wilfrid Roberts.
Mr. Mabane.	Sir Isidore Salmon.

The Civil Appropriation Accounts, 1936, Class II, Vote 12, Imperial War Graves Commission; Class II, Vote 4, Dominions Office; and Class II, Vote 5, Dominions Services; the Trading Accounts, Dominions Office; and the Civil Appropriation Accounts, 1936, Class II, Vote 6, Irish Free State Services; and Class II, Vote 7, Oversea Settlement, were considered.

Sir Gilbert Upcott, K.C.B., Mr. W. R. Fraser, Mr. H. Brittain, Major-General Sir Fabian Ware, K.C.V.O., K.B.E., C.B., C.M.G., LL.D., Sir Edward Harding, K.C.B., K.C.M.G., and Mr. A. S. Gaye, C.B., were examined.

[Adjourned till Thursday at half-past two o'clock.

THURSDAY, 5TH MAY, 1938.

Members present:

Mr. MORGAN JONES in the Chair.

Sir Irving Albery.	Mr. Peat.
Mr. Benson.	Sir Assheton Pownall.
Sir Edmund Brocklebank.	Sir Isidore Salmon.
Mr. Culverwell.	Sir Robert Smith.

The Navy Appropriation Account, 1936, was considered.

Sir Gilbert Upcott, K.C.B., Mr. E. E. Bridges, M.C., Mr. H. Brittain, Sir Archibald Carter, K.C.B., K.C.I.E., Mr. C. B. Coxwell, O.B.E., and Mr. E. C. Jubb, O.B.E., were examined.

[Adjourned till Tuesday next at half-past two o'clock.

TUESDAY, 10TH MAY, 1938.

Members present:

Mr. MORGAN JONES in the Chair.

Sir Irving Albery.	Mr. Pethick-Lawrence.
Mr. Benson.	Sir Assheton Pownall.
Sir Edmund Brocklebank.	Sir Isidore Salmon.
Mr. Culverwell.	Sir Robert Smith.
Mr. Mabane.	

The Navy Appropriation Account, 1936, was further considered.
The Greenwich Hospital and Travers Foundation Accounts, 1936, and the Navy Dockyard Accounts, 1936, were considered.

Sir Gilbert Upcott, K.C.B., Mr. E. E. Bridges, M.C., Mr. H. Brittain, Sir Archibald Carter, K.C.B., K.C.I.E., Mr. C. B. Coxwell, O.B.E., Mr. H. N. Morrison, Mr. W. J. Gick, C.B., C.B.E., and Mr. H. McM. Rigg, M.B.E., were examined.

[Adjourned till Thursday at half-past two o'clock.

THURSDAY, 12TH MAY, 1938.

Members present:

Mr. MORGAN JONES in the Chair.

Sir Irving Albery.	Mr. Pethick-Lawrence.
Mr. Benson.	Sir Assheton Pownall.
Mr. Culverwell.	Sir Isidore Salmon.
Mr. Lathan.	Sir Robert Smith.
Mr. Peat.	

The Army (Royal Ordnance Factories) Accounts, 1936, and the Army Appropriation Account, 1936, were considered

Sir Gilbert Upcott, K.C.B., Mr. E. E. Bridges, M.C., Mr. H. Brittain, Sir Herbert Creedy, G.C.B., K.C.V.O., and Sir Reginald Townsend, K.C.B., C.B.E., were examined.

[Adjourned till Tuesday next at half-past two o'clock.

TUESDAY, 17TH MAY, 1938.

Members present:

Mr. MORGAN JONES in the Chair.

Sir Irving Albery.	Mr. Peat.
Mr. Benson.	Mr. Pethick-Lawrence.
Sir Edmund Brocklebank.	Mr. Wilfrid Roberts.
Mr. Culverwell.	Sir Isidore Salmon.
Mr. Mabane.	Sir Robert Smith.

The Navy Appropriation Account, 1936, was further considered.

The Civil Appropriation Accounts, 1936, Class VI, Vote 14, Peterhead Harbour, were considered.

The Army Appropriation Account, 1936, was further considered.

The Royal Hospital, Chelsea, Account, 1936, was considered.

Sir Gilbert Upcott, K.C.B., Mr. E. E. Bridges, M.C., Mr. H. Brittain, Sir Archibald Carter, K.C.B., K.C.I.E., Mr. C. B. Coxwell, O.B.E., Mr. A. L. Anderson, C.B., M.I.C.E., and Sir Herbert Creedy, G.C.B., K.C.V.O., were examined.

[Adjourned till Thursday at half-past two o'clock.

THURSDAY, 19TH MAY, 1938.

Members present:

Mr. MORGAN JONES in the Chair.

Sir Irving Albery.

Mr. Culverwell.

Mr. Peat.

Mr. Pethick-Lawrence.

Sir Assheton Pownall.

Sir Isidore Salmon.

Sir Robert Smith.

The Air Services Appropriation Account, 1936, was considered.

Sir Gilbert Upcott, K.C.B., Mr. E. E. Bridges, M.C., Mr. H. Brittain, Colonel Sir Donald Banks, K.C.B., D.S.O., M.C., Mr. L. V. Meadowcroft and Mr. H. W. Clothier were examined.

[Adjourned till Tuesday next at half-past two o'clock.

TUESDAY, 24TH MAY, 1938.

Members present:

Mr. MORGAN JONES in the Chair.

Sir Irving Albery.

Mr. Culverwell.

Mr. Mabane.

Mr. Pethick-Lawrence.

Sir Assheton Pownall.

Sir Eugene Ramsden.

Mr. Wilfrid Roberts.

Sir Robert Smith.

The Air Services Appropriation Account, 1936, was further considered.

Sir Gilbert Upcott, K.C.B., Mr. E. E. Bridges, M.C., Mr. H. Brittain, Colonel Sir Donald Banks, K.C.B., D.S.O., M.C., Mr. H. W. Clothier and Mr. W. R. Fraser were examined.

[Adjourned till Thursday at half-past two o'clock.

THURSDAY, 26TH MAY, 1938.

Members present:

Mr. MORGAN JONES in the Chair.

Sir Irving Albery.

Mr. Culverwell.

Mr. Pethick-Lawrence.

Sir Isidore Salmon.

Sir Robert Smith.

The Public Income and Expenditure Account, 1936; the Consolidated Fund Abstract Account, 1936; the Civil Appropriation Accounts, 1936, Class I, Vote 3, Expenses under the Representation of the People Acts; Class I, Vote 4, Treasury and Subordinate Departments; Class I, Vote 6, Privy Seal Office; Class I, Vote 13, Government Hospitality; Class I, Vote 20, Repayments to Local Loans Fund; Class I, Vote 21, Royal Commissions, etc.; Class I, Vote 22, Miscellaneous Expenses; Class I, Vote 23, Secret Service, and Class I, Vote 24, Treasury Chest Fund; the Treasury Chest Fund Account, 1936; the Civil Appropriation Accounts, 1936, Class I, Vote 26, Repayments to Civil Contingencies Fund; the Civil Contingencies Fund Account, 1936; and the Civil Appropriation Accounts, 1936, Class I, Vote 28, Coronation of His Majesty, were considered.

Sir Gilbert Upcott, K.C.B., Mr. W. R. Fraser, Mr. H. Brittain and Sir Richard Nind Hopkins, K.C.B., were examined.

[Adjourned till Tuesday next at half-past two o'clock.

TUESDAY, 31ST MAY, 1938.

Members present:

Mr. MORGAN JONES in the Chair.

Sir Irving Albery.	Sir Assheton Pownall.
Mr. Benson.	Mr. Wilfrid Roberts.
Mr. Lathan.	Sir Isidore Salmon.
Mr. Mabane.	Sir Robert Smith.
Mr. Pethick-Lawrence.	

In the absence of the Chairman, Sir Assheton Pownall was called to the Chair.

The Civil Appropriation Accounts, 1936, Class I, Vote 27, Tithe Redemption Commission; the Tithe Act, 1936, Accounts, 1936; the Civil Appropriation Accounts, 1936, Class II, Vote 10, Colonial Development Fund; the Colonial Development Fund Accounts, 1936; the Civil Appropriation Accounts, 1936, Class III, Vote 11, Miscellaneous Legal Expenses; Class IV, Vote 10, Scientific Investigation, etc.; Class IV, Vote 11, Universities and Colleges, Great Britain; Class V, Vote 7, Widows', Orphans' and Old Age Contributory Pensions; Class V, Vote 13, Special Areas Fund; and Class VI, Vote 15, Development Fund; the Development Fund Accounts, 1936; and the Civil Appropriation Accounts, 1936, Class VI, Vote 16, Development Grants; and Class VII, Vote 12, Rates on Government Property, were considered.

Sir Gilbert Upcott, K.C.B., Mr. W. R. Fraser, Mr. H. Brittain, Sir Charles Howell Thomas, K.C.B., K.C.M.G., Sir Richard Nind Hopkins, K.C.B., and Mr. E. H. E. Havelock, O.B.E., were examined.

[Adjourned till Thursday, 7th July, at half-past two o'clock.

THURSDAY, 7TH JULY, 1938.

Members present:

Mr. MORGAN JONES in the Chair.

Mr. Benson.	Mr. Pethick-Lawrence.
Mr. Culverwell.	Mr. Wilfrid Roberts.
Mr. Lathan.	Sir Isidore Salmon.
Mr. Peat.	Sir Robert Smith.

Draft Second Report, proposed by the Chairman, brought up and read the first time.

Ordered, That the Draft Second Report, proposed by the Chairman, be read a second time, paragraph by paragraph.

Paragraph 1 agreed to.

Paragraph 2 amended and agreed to.

Paragraph 3:—

" 3. The Comptroller and Auditor General drew attention to the fact that the charge to the Telegraph Income and Expenditure Account for 1936 in respect of Interest was arrived at after allowing a deduction for interest on the accumulated provision for the cost of renewals of Plant (Depreciation).

Post Office receipts are paid over intact to the Exchequer and the Exchequer accepts the liability to provide, through Votes approved by Parliament, the sums necessary to carry out renewals when required. It follows that when the revenue earned is sufficient to meet depreciation charges, as in the case of the Telephone Service, the Exchequer

has been placed in possession of the funds necessary to defray the cost of renewals when they arise. In the case of the Telegraph Service on the contrary, where the depreciation charges are not covered by the revenue earned, the Exchequer has not been provided with the moneys necessary to enable it to discharge its liability. The practice, which was explained to the Public Accounts Committee of 1928 and has hitherto been observed, has been to recognise this difference in the cash relationship of the Exchequer to the two Services, and accordingly to permit a deduction in respect of interest on the accumulated provision for depreciation only when that provision has actually been earned.

It was urged, however, that Post Office Revenue as a whole is adequate to meet the depreciation charges in respect of all services and that for the purposes of the Telegraph Account surpluses on the Telephone and Postal Services can properly be regarded as available to provide for depreciation on the Telegraph Service, thereby justifying a credit for interest on the balance on the Telegraph Depreciation Account.

Your Committee note that owing to the large transfers of line plant during recent years from the Telegraph Service to the Telephone Service, the balance on the Telegraph Depreciation Account has been considerably reduced and that, as a result, the interest credit arising from the change of practice is not large. They observe, however, that the Telegraph (Money) Act, 1920, prescribes separate accounts for the Telegraph and Telephone Services respectively, and after careful consideration of all the circumstances they are not satisfied that adequate reasons have been advanced for a departure from the practice hitherto followed."

Amendment proposed in line 36, to leave out from the word "circumstances" to the end of the paragraph, and add the words "they have come to the conclusion that this separation of accounts might with advantage be terminated by legislation on a suitable occasion".—(*Sir Robert Smith*).

Question proposed, "That the words proposed to be left out stand part of the paragraph".

Amendment, by leave, withdrawn.

An Amendment made.

Paragraph, as amended, agreed to.

Paragraphs 4 to 7 agreed to.

Paragraph 8 amended and agreed to.

Paragraph 9:—

"9. The attention of Your Committee was drawn to an expenditure of approximately £20,000, of which nearly one half is recoverable from the Argentine Government, in respect of a joint inquiry by the British and Argentine Governments into the economic and financial structure and working of the meat trade, with particular reference to the means to be adopted to ensure a reasonable return to the cattle producers in the Argentine. A Joint Committee of the two Governments was set up in this country, and they decided that it would be necessary to set up a Sub-Committee in the Argentine to examine the accounts of the meat companies out there. More than £16,000 of the total expenditure was in respect of fees and allowances paid to a professional accountant sent to the Argentine in May, 1935, to assist the Sub-Committee in their inquiries and in making their report to the Joint Committee. These investigations were expected to last a few months, but unusual circumstances made it exceptionally difficult for the Joint Committee and the Board of

Trade to ensure their diligent prosecution and to maintain adequate control over their cost, and eventually in the summer of 1937 the accountant was instructed to complete the particular investigations then in hand by the end of September, when his employment ceased.

The accountant, who was a partner in a well-known firm of accountants, received a fee of £500 a month, to include the cost of any clerical assistance he might need, plus £2 a night subsistence allowance. Payment was made monthly and the final instalment was issued to him before the completion of his investigation and report, which proved to be unsatisfactory when received. He resigned his partnership within a few months of arriving in Argentina, where he remained after the termination of his appointment. He was therefore not available to the Joint Committee for consultation in connexion with the unsatisfactory features of his report and it was found necessary to employ another accountant to revise and check his work.

Your Committee regret to learn that arrangements can be made for such a substantial expenditure without ensuring that commensurate value will be received and they trust that in any future case of the kind steps will be taken to secure that full payment will not be made until the investigation has been satisfactorily completed."

Amendment proposed in line 36, at the end, to add the words:—

" They further are of the opinion that such tasks should be entrusted to a firm and not to an individual, in order that a fuller responsibility and continuity can be assured."—(*Sir Robert Smith*).

Question proposed, " That those words be there added."

Amendment, by leave, withdrawn.

Paragraph agreed to.

Paragraphs 10 and 11 agreed to.

Paragraph 12 amended and agreed to.

Paragraphs 13 and 14 agreed to.

Paragraphs 15 and 16 amended and agreed to.

Paragraph 17:—

" 17. In the second case, Treasury sanction was obtained for purchasing and converting at an estimated cost of £27,000 a trawler (renamed Vulcan) for use as a tender to motor torpedo boats. The cost of the purchase was £19,000. The original estimate of the Admiralty for converting the vessel was £7,000, and the contract was placed without competition with a firm which subsequently tendered a price of £15,000 for the work originally specified. In view of the extent of the extra work required by the Admiralty, the whole transaction was dealt with on a cost-plus-percentage basis and the final price of the conversion was no less than £31,697, making the total expenditure £50,697."

Amendment proposed in line 8, after the word " work " to insert the words " and alterations ".—(*Sir Robert Smith*).

Question proposed, " That those words be there inserted."

Amendment, by leave, withdrawn.

Paragraph agreed to.

Paragraphs 18 and 19 agreed to.

Paragraph 20:—

" 20. In the course of the evidence on the conversion of the *Majestic*, Your Committee were informed that the staff of all grades employed in connexion with the training ship, now H.M.S. *Caledonia*, was 826 on 1st April, 1938, when the number of boys and apprentices under training was 1,643. Returns handed in for other establishments of similar nature administered by the three Defence Services show a considerably smaller proportion of staff to trainees. It was stated that

Treasury control covers only certain salaried civil posts in these establishments, a relatively small number. and Your Committee did not obtain any satisfactory explanations of the numbers employed in the various grades on the Caledonia. They did not feel able themselves to undertake a detailed investigation, in view of the technical considerations involved, but they recommend that a full review of the complement of this establishment should be made in whatever manner is thought most appropriate."

Amendment proposed, in line 14 to leave out the word " establishment " and insert the words " and other similar establishments ".—(*Sir Robert Smith*).

Question proposed, " That the word ' establishment ' stand part of the paragraph."

Amendment, by leave, withdrawn.

Paragraph agreed to.

Paragraph 21:—

" 21. When investigating the misappropriation of public moneys to the amount of £5,500 by a Paymaster Commander, R.N., Your Committee learned with considerable misgiving that checks of cash balances devised to secure the early discovery of fraud had failed in their object because they were treated more or less as a formality by the considerable number of officers, from both the Executive and Accounting grades, who carried out the duty over a period of two years. Your Committee would stress the importance of all verifications of public moneys being carried out with a full sense of responsibility.

The Admiralty censured the officers who made the checks, but decided in all the circumstances not to impose pecuniary penalties upon them. Your Committee understand that the decision in this case implies no departure from the principle that pecuniary penalties may in appropriate cases be properly imposed upon officers responsible, even indirectly, for the loss of public moneys."

Amendment proposed in line 15, at the end to add the words: " It seems desirable that the accounts of senior officers should not be checked by their juniors in rank unless they are members of the accounting branch."—(*Sir Robert Smith*).

Question proposed, " That those words be there added."

Amendment, by leave, withdrawn.

Paragraph agreed to.

Paragraph 22 amended and agreed to.

Paragraphs 23 and 24 agreed to.

Paragraph 25 amended and agreed to.

Paragraphs 26 to 35 agreed to.

Resolved, That the Draft Report, as amended, be the Second Report of the Committee to the House.

Ordered, That the Papers forwarded on 3rd February, 1938, and 17th and 24th May, 1938, by His Majesty's Treasury; on 17th March, 1938, by the Home Office; on 12th May, 1938, by the War Office; on 17th May, 1938, by the Admiralty; on 8th and 10th February, 1938, by the General Post Office; on 24th February, 1938, by the Office of Commissioners of Crown Lands; on 3rd March, 1938, by the Ministry of Pensions; on 17th March, 1938, by the State Management Districts; on 24th March, 1938, by His Majesty's Office of Works; on 29th March, 1938, by the Forestry Commission; and on 7th April, 1938, by the Office of the Public Trustee, be printed as Appendices to the Minutes of the Evidence taken before the Committee.

Ordered, That the Minutes of the Evidence taken before the Committee, together with the Appendices, be reported to the House.

[Adjourned *sine die*.

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COMMITTEE OF PUBLIC ACCOUNTS

THURSDAY, 3RD FEBRUARY, 1938.

Members present:

Mr. MORGAN JONES in the Chair.

Mr. Benson.
Sir Edmund Brocklebank.
Mr. Culverwell.
Mr. Lathan.

Mr. Pethick-Lawrence.
Sir Assheton Pownall.
Sir Isidore Salmon.
Sir Robert Smith.

Sir GILBERT UPCOTT, K.C.B., Mr. W. R. FRASER and Mr. H. BRITAIN called in and examined.

Mr. Fraser.] May I hand in the statement of audited Expenditure for 1935* and the Treasury Minute on the Report of the Public Accounts Committee, 1937? †
Chairman.] Thank you.

REVENUE DEPARTMENTS APPROPRIATION ACCOUNTS, 1936.

VOTE 1.

CUSTOMS AND EXCISE.

Sir EVELYN MURRAY, K.C.B., called in and examined.

Chairman.

1. Revenue Departments Appropriation Accounts, 1936. Turn please to paragraph 1. Paragraphs 1, 2, 3 and 4 are formal. Are there any questions on those? I think there is nothing that arises from paragraph 5. We will turn, please, to paragraph 6. In paragraph 6 there is a reference to certain fraudulent operations?—(*Sir Evelyn Murray.*) Yes.

2. Will you be good enough to describe what those operations were?—This was a disquieting and fortunately very rare case of deliberately defrauding the Revenue over a long period by a Brewery Company. The principal method they employed (it is rather a long story, but I will tell it as shortly as I can) was that they generally brewed on a Tuesday and the product of that brew would be ready for racking into casks by about the following Saturday; it would probably be visited by the Revenue Officer on the Friday, who would check the quantity for duty, and that would be properly assessed. After it had been racked into casks on the Saturday morning the brewers then prepared a new brew on Saturday afternoon, without giving any of the notices or making any entry in the books, as the law requires. That brew was subjected to

special processes of heating and aeration which accelerated the fermentation, so that by the following Monday, when the officer might be expected to visit again, it would have all the appearance and would be the same in quantity and gravity as the brew which was left there the previous Friday. The officer therefore was expected to believe, and did, in fact, when he visited, believe that it was the stuff on which the duty had been properly assessed. The officer is required to pay certain surprise visits and, to guard against that, the brewers had provided a bell or a buzzer, I think it was, in the only gatehouse of the brewery, which was operated by the gatekeeper when the Excise man hove in sight. That rang in the brewers' room, and he could then make the proper entries in the books before the Excise Officer arrived to see them. That is briefly what happened.

3. In the next sub-paragraph, with reference to the failure of the Revenue Officers in control of the brewery to discharge with reasonable intelligence their duties, could you tell me in what respect the Revenue Officers failed?—We enquired into this, naturally, very closely, and we came to the conclusion that, while the officers had paid the visits which their instructions required, to put

* See Appendix 1.

† See Appendix 2.

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SIR EVELYN MURRAY, K.C.B.

[Continued.]

it briefly, they were not wide awake. If they had been wide awake, there are various means, which I need not explain in detail, by which they should have detected and would have detected the swindle. One obvious reason is that somewhere or other on the brewery premises there must have been two sets of beer, one of which had paid duty and one of which had not, and one of those was not accounted for. It is part of the Revenue Officer's duty to inspect the cellars and those parts of the brewery, and we think that, at some time or other, he ought to have become alive to what was happening.

4. What was the nature of the disciplinary action that was taken?—There were three officers, that is, of the rank and file grade, who were involved in this. They had, in fact, reported to the Surveyor, their superior officer, at some stage or other, and he had reported to the Collector, that they were uneasy about what was happening in this brewery, and they had suspicions. We felt, therefore, that the officers were not alone responsible, but the Surveyor and Collector must share the blame. One of the officers had his salary reduced by £15 per annum and he was removed elsewhere; another one had his salary reduced by £15 and a third was fined £15. The Surveyor was on the brink of retirement; his case was reported to the Treasury and the Treasury reduced his pension by 5 per cent. The Collector who was in charge of the district had already retired and we reported the facts to the Treasury and they reduced his pension by 7½ per cent.

5. Could you tell me how many people there were against whom criminal proceedings were instituted?—Two: the Managing Director, who was sentenced to 21 months imprisonment, and the Head Brewer, who was sentenced to 12 months.

6. The Head Brewer would be an employee, I suppose?—Yes, an employee; he is the principal practical employee of the Brewery Company.

7. Would there be any other Directors cognisant of this fraud?—There was no evidence against anybody else, except certain subordinates whom we did not prosecute; in fact, we called them as witnesses.

8. It was pretty certain that no other Directors did know?—I think that is so.

9. Could you tell me one other thing, Sir Evelyn: Are you now satisfied that you have taken adequate powers in the Finance Act of 1935?—Yes, that is of great assistance. We have got powers to examine the books and every document dealing with the brewing operations of a brewery; we can call for them and we have, in certain cases, used those powers. When this case occurred we had no powers of that kind and we had to get a warrant from the Sheriff to seize the books.

Sir Isidore Salmon.

10. I notice in the last paragraph you say: "the Board have since expressed themselves as satisfied that these steps have stimulated the vigilance of their officers and have more effectively safeguarded the Revenue." What does that mean?—Among other steps we have circulated to the officers of the service a more complete account of the methods of brewing, the points they have got to look out for and where the possibilities of frauds might occur. I think that is of great value in showing them, especially the younger men, what they have got to look out for.

11. In other words, you have put on record certain notices calling their attention to special points?—Yes.

Sir Robert Smith.

12. Could we know the number of years over which these frauds dated?—We have no very precise evidence, but we suspect about seven.

13. How long had the Revenue Officers who were in charge of that brewery been there—the ones who suffered disciplinary action?—I am afraid I do not remember offhand. They had been there some time.

14. It seems to me rather extraordinary that the fraud was so serious that the Director suffered imprisonment, and also one of the other people, but all that the Revenue Officer has suffered is a certain reduction in salary?—We took the view that the responsibility of the officers who, of course, were primarily responsible, had to be shared with their superiors.

15. I do not know whether they were subordinate officers or superiors, but nobody suffered anything like the penalty that the Director suffered?—Because they were not guilty of deliberate fraud.

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Sir EVELYN MURRAY, K.C.B.

[Continued.]

16. Is it quite proved that they were not guilty of deliberate fraud?—Absolutely. There was no suggestion whatever of collusion.

17. In how many cases, then, did they discover that there had been a special brew between Saturday and Monday? I will put it a little more clearly. You say that a bell was rung?—That was the method the brewery company adopted.

18. By that means the brewery company knew that the Revenue Officers were coming, and in those cases they produced information as to what they were making and it was properly accounted for. In how many cases was there brewing taking place between Saturday and Monday?—I have not got that information; it covers some seven years.

19. But did it happen in many cases?—Yes, certainly.

20. Then is it not extraordinary that this was not discovered, if that was so, and if they knew that there was this sudden brewing going on between Saturday and Monday which was taking so much less time to come to maturity?—The officers, of course, were not aware of that.

21. You said that, in certain cases, they were?—No.

22. I understood you to say that the bell was rung, and when the officers then appeared they saw this brewing going on, and it was accounted for in the ordinary way?—Yes.

23. The ordinary way, you told us, was that this brewing started on Tuesday and was finished on Friday; that was the ordinary thing, and it was on those days that the officers inspected, but you said that this firm between Saturday and Monday did a special brew?—Yes.

24. And in certain cases it was noticed?—When the officers went there they did occasionally find a brew and everything was in order. The notices had been given properly and the entries in the material books were properly made.

25. The notices of what?—It is technically called "A notice to brew."

26. That means they were going to brew between Saturday and Tuesday?—They were going to brew on Saturday, not necessarily between Saturday and Tuesday.

27. They gave special notice?—Not special notice, ordinary notice.

28. Ordinary notice to the Revenue Officer, and he came and saw that brew. You said that at certain times when the Revenue Officer turned up when he was not expected there was a bell rung?—We do not know that the bell was rung; we know, as a matter of fact, that the bell was there and the employees told us that the bell was rung.

29. Was that in evidence before the Court?—I could not say.

30. It seems to me that the disciplinary action, as far as the officers were concerned (whether junior officers or senior officers of the department) is rather small compared with the gravity of the occasion; and you admit it ought to have been discovered?—We regarded the penalties as severe.

Chairman.] It is a continuing imposition once the man has retired; it is 5 per cent. of his pension year by year.

Sir Robert Smith.

31. That is so in the case of the head man, but it was more the other two that I was referring to, the two officers who were in charge who had their salaries reduced. They will probably rise again, as they are still able to go on in the department. One man was reduced £15; he was a minor officer?—We felt that the officers, if they had received proper support from their superiors, would undoubtedly have discovered the fraud earlier. They reported their suspicions, and the superior officers, quite wrongly, rather threw cold water on them, and undoubtedly discouraged them. If they had received the support they were entitled to expect from their superiors, I have not the least doubt the fraud would have been discovered much earlier.

Mr. Lathan.

32. This was an ingenious fraud, it seems to me?—It was.

33. I was interested to hear you say that the Finance Act of 1935 now gives you powers you did not previously possess in the matter of the examination of the books?—Yes.

34. This is simply a suggestion that I am making. I wonder whether it would be possible for you to provide that the Auditors should make a declaration, supplementary to the customary declaration of an auditor in respect of the books, as to the quantity of output, having regard to the character of

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Sir EVELYN MURRAY, K.C.B.

[Continued.]

the product in such premises?—We will consider that. It would require statutory powers.

35. It seems to me that it is only in that way that you can really check effectively fraud of the character that you have described to us?—I would like to consider that point.

Sir Edmund Brocklebank.

36. I wonder if you could say, from the time the suspicions were put in the minds of the officers, what was the time between that and the actual action that was taken by their superiors? Was it long, do you know?—I am afraid I have not got that. It was some considerable time, as far as I recollect.

Sir Assheton Pownall.

37. What eventually brought things to a head if, when the juniors reported to the seniors, they did not forthwith take action?—An informer; not an unusual occurrence—a discharged employee of the Company.

38. Was this a brewery of any standing? If so, I should have thought you would have been in a position, as brewers are doing so well, to recover all the amount which had been misappropriated?—I think this brewery was not doing well. Of course, this was some considerable time ago. This was discovered at the end of 1933, and breweries were not doing so well then.

39. No.—Anyhow, we could only get a dividend of ros. 8d. in liquidation.

40. The company has gone into liquidation?—It went into liquidation.

41. Arising out of this case?—Arising out of this case. We distrained on what we could, and put in a claim for the duty against the liquidator, and he paid a dividend of ros. 8d.

Sir Assheton Pownall.] You mentioned dividend and liquidation, but I did not realise that the whole thing had gone.

Chairman.

42. You gave an answer a minute ago that the information was from an informer who was an ex-employee of the company?—Yes.

43. Is there anything confidential about that, or is it well known now?—There is nothing confidential about it.

44. Paragraph 7: "Fines, Forfeitures, etc." First about the horses. How was this fraud detected, Sir Evelyn, can you tell us?—The first case was an informer.

When we had examined that, we came to the conclusion that we had better go deeper into it and we examined practically all the import entries of horses from the Free State of any considerable value. We examined the books of the horse-dealers, and so on, and that gradually brought each case to light. I think we covered practically the whole of the horse-dealing trade.

45. That tax, so to speak, upon the import of horses is now dispensed with?—That was abolished about a year ago, I think.

46. Could you tell us the story of that company which systematically understated the value of imported manufactured articles?—That was a company importing motor-cars from America. Perhaps I ought to say that on motor-cars there is an import duty of 33½ per cent.; it is a high duty. The cars themselves were correctly valued, but they included a certain amount of what was called optional equipment, additional equipment and accessories which came over with the cars, but were the subject of separate invoices by the American suppliers. Consequently, while the value was correct as regards the value of the cars, the value of the accessories was not included. That went on for two or three years, and we got wise to it by an examination of the company's books. They admitted that duty had been underpaid, but they pleaded that the management of the company had since been changed, the person responsible (who was the then Chairman and Managing Director) was dead, and they asked for the case to be settled out of Court. It was a case in which ordinarily we should have taken legal proceedings, but we were advised that there was no case against anybody in the new management, and we thought it was a suitable case to deal with by a compromise penalty.

47. Could you say whether, in your judgment, the machinery is now fully effective?—Yes, I think so. Of course, the number of cases is very large, and they are bound to reveal certain frauds, but they are diminishing, and I think our inspection of books, and so on, is extremely effective.

Sir Isidore Salmon.

48. Was there a large number of staff engaged on the checking of horses coming from Ireland over the border?—No; it did not last very long.

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SIR EVELYN MURRAY, K.C.B.

[Continued.]

49. But did you have a special staff for it?—We detailed our special inquiries staff to go round and examine their books.

50. I did not mean that; I mean, during the period in which horses that were imported from Ireland were taxed, did you have a special staff dealing with that particular piece of work?—No, they were dealing with imports generally from Ireland; there was not a special staff for horses; they used to get the advice of a Ministry of Agriculture Inspector occasionally.

Chairman.

51. When you say "Ireland" in this matter, you mean the Free State?—Southern Ireland, yes.

Sir Isidore Salmon.

52. There is only just one other point on the question of the fines; parts of these fines are paid over to the informers, are they not?—Yes.

53. I know you distributed something like £11,900 odd in rewards, but in that distribution do you have any method of dealing with them in the way of a percentage?—Yes, the smaller cases are dealt with by a regular scale. If the reward proposed is over £50, I think, it has to go to the Treasury.

54. You have not any hard-and-fast rule as to the amount of the reward that you give to an informer?—Not an outside informer; that depends on circumstances.

55. Inside?—Inside the service, we have a definite scale.

Mr. Pethick-Lawrence.

56. With regard to the question of the motor-cars that the Chairman was asking you just now, do I understand that the firm had themselves left off this mal-practice since the new management had taken control?—I think, broadly speaking, that is so. I think they were aware that investigations were being conducted, though.

57. Investigations started before the new firm had clearly got the reins of office, and then they discontinued it?—We had no evidence whatever of any complicity by the new management.

Chairman.

58. What do you mean by saying "broadly speaking"; you used the words "broadly speaking" in reply to

Mr. Pethick-Lawrence. Had it any significance at all?—I forget what the answer was.

Mr. Pethick-Lawrence.

59. I thought the witness explained it by his after-statement, that he thought they were aware that proceedings were being taken. I took him to mean that.

Chairman.] Is that all you did mean?—Yes.

Mr. Pethick-Lawrence.

60. I was going to ask the question you put, Mr. Chairman, but I thought that was an explanation of his remark?—Yes.

Mr. Benson.

61. With regard to the horses, did any prosecutions arise over those?—Yes, in most of them. In nearly all of them penalties were inflicted by the Court.

62. You referred to a scale for informers inside the service?—Officers inside the service.

63. Does that really mean that an officer discovering any customs fraud has a bonus, as it were?—The water-guard officers who deal with passengers' baggage are paid rewards; the ordinary officers are not, except in very exceptional circumstances.

Chairman.] Turn, please, to page 4; on pages 4 and 5 I have no questions.

Sir Isidore Salmon.

64. When you were before the Estimates Committee, you told us that the total increased staff for 1937, you anticipated, would not exceed 70 in number, but on looking at the return of staffs employed in Government Departments in Command Paper 5543, I noticed that in your Department you have increased your staff by 219. I am referring to this Paper which is issued from April to April?—I think I should have to examine that.

65. The figure of increase is 301, is it not?—219 in this Paper.

Sir Isidore Salmon.] The one I have just had handed to me shows that your Department has increased by 301.

Chairman.

66. What year have you got there?—1st April, 1937.

Chairman.] We have got 1936 here.

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Sir EVELYN MURRAY, K.C.B.

[Continued.]

Sir *Isidore Salmon*.

67. It is 1937 I am dealing with just for the moment?—I think I should have to examine this. This does not accord with the figures I have here.

68. No, it does not?—I do not know what the explanation of the discrepancy is off-hand.

69. Perhaps you will look into it; no doubt there is a reason for it?—Yes.

70. I raise the point because you said that in the current year (that was in 1937 when you were examined in April last) you thought about 70 odd would be the increase, and it makes it a little difficult to follow?—I will send a note to the Committee, if the Chairman will allow me.

Chairman.] Certainly.

Sir *Robert Smith*.

71. With regard to that explanatory note on page 4, you say the saving is mainly due to temporary vacancies. It practically applies to sub-heads A and B. What do you mean exactly by "temporary vacancies in the authorised establishment"? Are these posts which have not been filled?—Posts which have not been filled, either temporarily or permanently.

72. Does it not seem a very large number to come to a saving of £55,000 in the case of sub-head B? Cannot you get nearer than that?—On an expenditure of £4,400,000 odd, it is not very large.

73. I admit it is not, but it is not very close estimating, really, is it? It seems to me that there is a tremendous lot you have made up there in both those cases through not filling staff vacancies?—The honourable Member would not suggest we should fill the vacancies unless they are required. It is merely a matter of estimating. I should not regard an error of £30,000 on £4,500,000 as abnormal or excessive. I should be very surprised if we could normally get it closer.

74. I do not know. Your staff has gone up, too, of course; it is not as if you had been cutting it down and therefore did not need to fill vacancies, but your staff has risen. That is why I should have thought that one would have been able to come nearer it with a rising staff?—I do not think that on

an estimate that has to be framed in January of one year for a period that begins three months later and ends 15 months later, we can expect to get nearer than an error of under 1 per cent.

75. I admit it is not very large. Was the increase in the travelling and subsistence allowances due to the fact that you did not have so many people and, therefore, they travelled more?—No. It is an item which is always varying, and it is impossible to estimate with any close accuracy.

76. I thought perhaps you had been able to keep a smaller staff and move them about more, rather than increase your staff. I wondered if that was one of the reasons?—I should think it was probably due to increased trade.

Mr. *Lathan*.

77. Under sub-head A of the Vote on page 4, it says, in respect of the saving of £13,685 13s. 2d.—"The saving is mainly due to temporary vacancies in the authorised establishment." Does that mean that there were positions that remained unfilled for some period of time?—Yes, in some cases it may not have been necessary to fill them; in others, we may have had to wait for the product of the new examination.

78. It was a very good thing, apparently, if £13,000 has been saved?—It is on a Vote of £700,000.

Mr. *Culverwell*.

79. Under sub-head G, can you tell me whether the construction included there is for additional boats, or is it to replace existing boats that have fallen out?—The replacing of old boats.

Chairman.] Are there any questions on pages 6 and 7?

Sir *Edmund Brocklebank*.

80. What does "residential privileges" mean, on page 7? Various sums of money are apparently given for residential privileges. Does that mean that something is given for their rent?—It is usually when a cleaner lives on the premises. (Sir *Gilbert Upcott*.) It is another expression for quarters, I think.

Chairman.] May I take it that the Account is approved? (Agreed.)

(*Sir Evelyn Murray withdrew.*)

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Sir GERALD CANNY, K.B.E., C.B.

[Continued.]

VOTE 2.

INLAND REVENUE.

Sir GERALD CANNY, K.B.E., C.B., called in and examined.

Chairman.

81. Vote 2, page v, Inland Revenue, paragraph 8. I notice in the first sub-paragraph of paragraph 8 that the reduction in the aggregate balance is not so much as in previous years. Are you satisfied with the rate of collection?—(Sir *Gerald Canny*.) Yes, Sir, I think I am really. There has been a good deal of drop from about 1929 onwards. If you remember, the balance then was £113,000,000; it fell to £66,000,000 in 1933, to £53,700,000 in 1934, last year to £44,600,000, and this year to £41,000,000. I am satisfied that the matter is progressing as fast as it can do. Next year, as far as one can estimate at the moment, it will be just about the same figure of £41,000,000, possibly £41,500,000, but that will be, I think, on a higher charge. I hope that we shall be able to get it down in future, and we shall try to, but I am doubtful whether we shall be able to get any very substantial drop below this. We shall certainly do our best to get it down, and I am satisfied for the moment that it is going on satisfactorily.

82. As to the second point, Sir Gerald, what is the total raised during the year of these balance accounts that are centrally collected?—Are you on the second paragraph?

83. Yes?—The total raised in the year? (Sir *Gilbert Upcott*.) On those accounts it is £69,600,000, as stated in my Report.

84. Those figures altogether amount to about £283,000,000?—(Sir *Gerald Canny*.) Yes.

85. If you add the £214,000,000 and £69,000,000, that gives you about £283,000,000; that is not all the income-tax that is raised, is it, Sir Gerald?—Yes, Sir, just about. This, I think, covers all the accounts that there are. That is the full amount of the assessed duty and tax collected by deduction through Schedule C and the paying agents.

86. That is to say, what is here accounted for in the first sub-paragraph is what is collected locally?—Yes.

87. And the second sub-paragraph covers all the rest, does it?—Yes, Sir.

The total raised on the first sub-paragraph for the current year was £253,000,000.

88. Yes?—And for the current year, under the second sub-paragraph, it was £69,652,000, making £322,000,000 altogether of assessments raised for the current year.

89. That is the assessments, is it not?—Yes, that is the assessments.

90. And you say there is nothing more?—No, Sir. (Sir *Gilbert Upcott*.) If you take the financial year, which is not the same as the years mentioned in this paragraph, in 1936-37 the gross receipts for the property tax and income-tax were £309,000,000.

91. I had a figure of something over £300,000,000 in my mind; but those two figures are not comparable, are they?—(Sir *Gerald Canny*.) No, they go for different periods. The collection year and what goes into the Exchequer runs to the 31st March. These accounts in the first paragraph run to October, 1936, and in the second paragraph they run to varying dates, some October, some December and some April, so you cannot really get an exact comparison.

92. Have you any further statement to make on the statement that we have on page vi, Sir Gerald?—No, Sir, I do not think I have. The second paragraph, "Tax of other classes," does contain two new items, the Schedules C and D on foreign dividends, and the Schedule E on public offices, which have not appeared before, and they are now complete, as I have said before; but, apart from that, I do not think I have anything to say.

Chairman.] I think we had better have questions on that paragraph itself, first.

Sir *Isidore Salmon*.

93. I would like to understand a little more about tax outstanding. With regard to this total at the bottom of page vi, £6,975,000, does that mean that there is a possibility of this sum being collected?—Yes, Sir, of that balance we expect ultimately to collect somewhere about £5,400,000, on the best estimate we can make. Of that figure of practically £7,000,000 outstanding, there is

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[Continued.]

£3,000,000 which is due from the Railway Companies, who are only required to pay quarterly, so that that accounts for a good deal of that figure and, as I say, we estimate to collect ultimately just over £5,000,000, or nearly £5,500,000.

Chairman.

94. Does the same optimistic answer apply to the first lot of figures?—Perhaps not quite so optimistic. I expect that we shall collect ultimately only about £15,000,000 of that £41,000,000.

Sir Isidore Salmon.

95. What makes you so pessimistic in that case?—The figures in the first paragraph are figures of collections made locally, and they cover the main trades and businesses and employments throughout the country generally. It is necessary, at times, to make assessments either in estimate, because we have not got the accounts in, or else to make them in the amounts returned while there are still various items outstanding as to whether certain items should be included as profits, or certain items taken out as deductions. The accounts are before us, but the Inspector, when the time came to make the assessment, had not had time to settle the accounts with the taxpayer.

96. In other words, an office may assess an individual at an arbitrary figure, without having any regard to what is the exact liability of the party in question vis-à-vis the State?—The local Commissioners make the assessment. If the taxpayers make no return then, of course, it is always open to make an estimated assessment. If they make a return with some accounts, regard is normally paid to that, unless one has reason to suppose that they are incorrect.

97. Would it be possible to tell us this: of the £41,000,000, how much is what I may call arbitrary assessment?—Do you mean "estimated assessment" in the absence of returns?

98. Yes?—I am afraid I could not answer that off-hand.

Sir Isidore Salmon.] Would not that really be a much better picture than to see £41,000,000 under two heads?

Chairman.] Let us be frank. We asked for this, you know, Sir Isidore.

Sir Isidore Salmon.

99. I agree, but when we asked for it, we asked for it because we wanted elucidation; I do not think the witness has elucidated very much, because he admits he cannot answer a question put to him. He can ascertain it?—I can give you the broad reasons why the £41,000,000 falls to be reduced, and we only expect to get £15,000,000, but I am sorry I have not got the figures available to say how much out of the £41,000,000 is what you call an estimated assessment which is probably made only in the cases where no returns have been made. Where returns have been made, the assessment is often made in the maximum figure shown by those returns, because there are various items which are still not settled as between the Inspector and the taxpayers' accountants.

100. What one feels is that in dealing with the taxpayers, obviously they should pay their right quota, but sometimes, through ignorance, they pay more, and if they knew more about it, they would not pay such a high figure, but because the Department puts the higher figure on, they pay it.

Chairman.] Do they?

Sir Isidore Salmon.

101. I am asking the witness?—May I protest against that, because what we do is to put a figure on in order to get the case on its legs. Then the taxpayer, seeing the figure, takes some action which he has refrained from doing previously, goes to appeal, and produces the figures. That is all we can do if the taxpayer does not make returns, because if we made no assessments we should not get very far.

102. I follow. When do you hope to be able to square this figure, without bringing it forward every year, if you can write it off?—There will always be a balance coming forward from previous years. (*Sir Gilbert Upcott.*) You will see, if you look at the earlier part of the table, what happened to the earlier assessments. They are gradually disposed of in the way shown in those three columns. There are some assessments still outstanding from War years; the eventual liquidation of the assessments sometimes takes a very long time.

Mr. Lathan.

103. Does the placing of a figure (I think that was the term you used) or the

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[Continued.]

estimating of a figure for the assessment explain the extraordinarily high figure of £7,891,000 cleared by discharge in the 1935 accounts?—(Sir *Gerald Canny*.) The discharge for what I call the last year is always likely to be heavier than that for the earlier years. You gradually dispose of the earlier years. Of the current year, you have a large discharge straight away in that year, and when that year becomes what I call the preceding year, there will still be a heavy discharge, but it will gradually get less and less.

104. I understand that, but if you will excuse my saying so, you have not answered my question; this discharge, in respect of the 1935 account, seems to me to be extraordinarily heavy. Is it accounted for by leniency on the part of the officers dealing with the matter?—No.

105. Or is it, on the other hand, due to your having, in the first instance, for reasons which are very likely quite good, assessed the persons or firms concerned at a hypothetical figure which is deliberately fixed high in order to get the cases on their legs?—Some of it is due to the fact that the assessments are made at a higher figure than turns out to be the ultimate liability. I think the £7,000,000 would be what I call a normal figure. On the 1936 figure, which starts with an assessment for the current year of £253,000,000, we have discharged this year £28,000,000 odd, so that there is always in the current year and in the year before a fairly substantial sum to be discharged, due, of course, as you say, to the fact that appeals are being made, and estimated assessments are made in a large number of cases.

106. I appreciate that, and I am obliged for the information, but I notice also, you bring forward in respect of 1936 a balance of £19,000,000?—Yes.

107. The 1936 figure should contain still a considerable number of those that ultimately will be discharged?—Yes, it will.

108. Still, you see, despite that weighting-up of the figure, the amount carried forward at the end of 1936 is only £19,000,000?—That is in respect of 1936 assessments only. The total amount carried forward at the end of 1936 is £41,000,000.

109. In 1935, it was £21,000,000?—In the years prior to 1936 it was, say, £20,000,000. That £21,959,000 represents all the years prior to 1936.

Chairman.

110. I rather gathered you said you expect this £41,000,000 to be reduced to £15,000,000. Did you say that?—I expect that ultimately we shall collect £15,000,000 out of the £41,000,000.

111. How do you expect to collect so large a proportion out of the £41,000,000? It is out of relation to the other figures, is it not?—Out of relation to the taxes of other classes, do you mean?

112. No; out of relation to what you have collected in previous years. You have collected a quarter, say, in 1935, roughly one-fifth in 1934?—I do not anticipate that we shall get the whole of that £15,000,000 in the next year; that will be spread over a series of years, but ultimately, out of that £41,000,000, we expect to get £15,000,000.

113. I am sorry; I missed the word "ultimately"?—(Sir *Gilbert Upcott*.) As these tables are repeated in my reports from year to year, they will show the fate of the assessments in any given year. It will be only from the subsequent tables that the Committee will be able to trace their ultimate fate.

Mr. Culverwell.

114. It is not that you are losing money; it is that you are not collecting as much as you thought you would?—(Sir *Gerald Canny*.) That is a better way to express it. (Sir *Gilbert Upcott*.) The column "discharge" represents tax not legally due. The column "Remission" represents cases where the taxpayer is actually let off.

Chairman.

115. Paragraph 9, "Surtax Balance Account." Are you satisfied that this balance is being reduced sufficiently?—(Sir *Gerald Canny*.) Yes, this one is coming down gradually like the others. In 1931, the balance was £24,600,000, £19,200,000 in 1934, £16,400,000 in 1935, £14,100,000 in 1936, £13,800,000 in 1937, and I hope that we shall be able to get that down more next year.

Mr. Lathan.

116. The assessment in respect of super- and sur-tax, I take it, for 1937, was £58,100,000. How does that figure compare with the previous year?—(Sir *Gilbert Upcott*.) It was £54,000,000 in the previous year.

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[Continued.]

117. Sir Gerald confirms that figure?—It was given in my report last year. (Sir *Gerald Canny*.) £54,200,000.

118. Is the Department satisfied that this figure of £58,000,000 accurately represents the income that has been earned during the year and should have been available for taxation?—Do you mean, does that figure cover all the liability for Surtax for that year?

119. Yes?—I could not quite say that, because we do not always manage to assess in the year all the income that is liable to Surtax for that year. Some of the assessments are late and are bound to be carried over; some of the assessments are always late.

120. Is the Department conscious of the fact that steps are being taken to evade the payment of this tax in certain directions, deliberately?—We are well aware of what I may call schemes of avoidance. You will remember that various provisions were included in the Finance Act of 1936 to check schemes of that character.

Chairman.

121. And last year, too?—And last year, too.

Mr. Lathan.

122. Being conscious, as I suppose you are, that the matter is receiving attention, because there have been indications in the public Press of very serious losses arising?—I can assure you that the Department keeps a very close eye on the schemes that are entered into for the purpose of, shall I say, reducing tax liability.

Chairman.

123. Paragraph 10, I think, is mainly statistical. In paragraph 11, if you will turn to page viii, it says: "In Class II, securities of a nominal value of £78,533 were accepted during the year, securities of a nominal value of £358,197, related to an original tax debt of £2,759,390." What is the large case that is referred to here?—That was a case of an engineering company in the North which made large profits during the war, and most of these profits, before they were paid out in taxation, were either spent in extending their premises or were put into various investments. Shortly after the war, the company was bought by another company who removed all the investments

and substituted debentures in their own company for them; at any rate, those investments vanished. There were very large assessments outstanding on this company. In 1927, we came to a composition with them as to the outstanding liabilities, took a small amount of cash, which was all that was available, and we took 24,783 5 per cent. Cumulative Preference Shares of £10 each in settlement. That was in 1927. Since then, there have been various attempts to dispose of those shares or get rid of them, and ultimately they were sold for £50,000, after consulting the Treasury and other people. That was considered the best offer we could get for them. That is really the case that is referred to there.

Sir Isidore Salmon.

124. In what year were they sold?—1936, I think; I think they must have been.

Mr. Pethick-Lawrence.

125. Had you had any dividends on them in between?—No, the company was not doing very well then.

Chairman.

126. Was there any prospect of the company reviving?—Not unless it got rid of its outstanding preference shares, and this offer came from an outside source that was prepared to take over the company and reconstruct it and try and work it.

127. There was nothing beyond this £100,000 that was available?—That is so. We did report the case to the Treasury, who were very helpful in advising us what was the best offer we could get.

128. Are there any questions on paragraph 11? Paragraph 12: "Fraud and Evasion": The Comptroller and Auditor General speaks of settlements for £3,734,000?—Yes.

129. Does that word "settlement" mean that the tax was given up?—No, that was the settled liability. That was the figure which was the agreed liability, and which we hope to collect.

130. Are you satisfied, Sir Gerald, that fraud is not increasing unduly?—No, I do not think it is increasing. I am hoping that it will decrease, if anything.

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[Continued.]

Mr. Lathan.

131. Arising again out of the question of evasion and fraud, have the Department any reason for suspecting that in these schemes of evasion individuals and firms are receiving assistance from lawyers, and is there any reasonable way of indicating to such people the undesirability of their making their services available?—The schemes to which you refer, of course, are different from what is in this paragraph. This is fraud and evasion; the schemes to which you refer are schemes of legal evasion. They are perfectly within the law, and I imagine that the taxpayer who is entering into those schemes will take advice from the suitable authorities, either in the law or accountancy world, as to whether his scheme is water-tight within the law. I am afraid the question of impressing on those people whether they should or should not do it would not be welcomed from the Inland Revenue Department.

132. I only asked the question by referring to what is described (although I think, myself, it would be stretching the use of the English language) as legal evasion; but I mean cases in which the evasion is probably on the other side of the barrier in respect of pure legality. Is it not possible, having regard to what you know has happened in respect of such evasions and skilful arrangements, and so on, to indicate to, say, the Law Society, some view in respect of the practices of some members of the profession?—I do not think that the Law Society are under any illusions on the subject. I think they probably know as well as anybody, because articles appear from time to time showing how the existing law can be got round.

133. That would provoke the suggestion, anyhow, that the Law Society is condoning rather than condemning?—(Sir Gilbert Upcott.) Might I draw a distinction? This paragraph which I have here relates to illegal evasion, not to legal evasion. I should not like any suggestion to go out that I am referring to legal evasion in this paragraph.

134. No?—(Sir Gerald Canny.) I may, perhaps, say it has often been stated in the Courts of this country that the taxpayer is perfectly entitled to take any steps he can, within the law, to reduce his liability.

135. I do not think any question could arise for a moment about that, but there

is more than a suspicion in certain quarters that the law is being utilised for the purpose of evasion that, strictly speaking, at least, is not legal?—That is illegal. We look at all these schemes as they come along, and we try to contest them; sometimes we succeed, sometimes we fail.

136. There have not been disclosed, in your opinion, circumstances that would warrant action of the kind I have suggested?—No, I do not think so.

Sir Edmund Brocklebank.] Mr. Lathan is really referring to the educational trust and those kinds of things of a year or two ago.

Mr. Lathan.] I am not referring to that.

Sir Edmund Brocklebank.

137. Or things on a par with them. Do you make any returns of the particular type of cases you get, or the amounts you have received?—No, we have not got any particular statistics about that.

Chairman.

138. Turn, please, to page 8, Vote 2, Inland Revenue. At the bottom of the page, Sir Gerald, there is a note under "A" referring to re-organised collections. Could I ask if this re-organisation is now complete?—Yes, it is now complete.

139. Under sub-head B there is an excess upon the provision for travelling expenses; why is there an excess?—It is always rather difficult to estimate in advance exactly what your travelling and subsistence allowances will be, but there has been an excess in the collection branch of the Accountant-General's office, due mainly to the fact that during the final year of re-organisation the opportunity was taken to review the personnel and re-allocate certain officers to more suitable centres. In the audit branch of the Accountant-General's Office there were certain unforeseen movements of auditors, due to promotion and other things, which necessitated their travelling. Those are the main items that account for that excess of £4,000.

140. On page 9, Sir Gerald, with regard to AA, why were these services not required?—Those were services that we anticipated that our Valuation Office would have to undertake for the Ministry of Transport in connection with the restriction of ribbon development, and for the Ministry of Health, on some

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[Continued.]

additional work in connection with slum areas. In order to do that, we had to engage extra staff, and when we came to engage the extra staff we found that we were unable to get them, with the result that we had to consider the matter further with those two Departments; the work was curtailed very considerably, and a certain amount of it will be done by the Valuation Department, but not all that we had anticipated, so that we have not really been able, because of inability to get the staff, to carry out all the work we had anticipated.

141. Were you not able to get the staff because you were not offering an adequate wage?—Mainly that, but I think it was also because there was a lack of the necessary personnel. We have now got an adequate staff, not as many as we contemplated originally, and we are utilising them in other directions, and trying to release our more experienced staff for that work.

Mr. *Lathan*.

142. They were technical officers you required?—Yes, valuers.

143. Such as are now finding a demand for their services in connection with building schemes, and so on?—Yes, and road schemes, and that sort of thing.

Chairman.

144. At the bottom of page 10, there is the last item: "Receipt from Ministry of Health on account of rates on tithe rentcharges." This is a new receipt; what is it?—This is a payment on account, made by the Ministry of Health to us on behalf of the Rating Authorities in respect of a repayment of rates on tithe rentcharges. The Inland Revenue paid the rates on tithe rentcharges. When the Tithe Act of 1936 passed in, I think it was, October of that year, the tithe rentcharge was extinguished, and the tithe redemption annuity of £91 11s. 2d., I think it was, was substituted in place of the £105 tithe rentcharge issuing out of agricultural land. It was also provided in that Act

that for the half-year from 1st April to 30th September, 1936, for the purpose of the charge to rates, the £105 would similarly be reduced to £91 11s. 2d. The Department had, in the meantime, however, paid rates for that half-year on the basis of £105, and were entitled therefore to claim a repayment of rates. The Act said that the Inland Revenue was not to claim a repayment of rates by adjusting the values, but should receive back one-eighth of the sum they had paid in rates for that half-year. In addition to that, the Rating Authorities were to be compensated year by year for the loss of rates owing to the extinction of tithe rentcharge, out of the tithe redemption annuity fund. The Ministry of Health were to hand that compensation over to the Rating Authorities, and then the Rating Authorities would have repaid us. In order to shorten the proceedings, the Ministry of Health made the payment direct to us. The payment we had to receive was £40,104, and this payment of £35,000 is a payment on account of that; it all arose out of the Tithe Act, 1936.

Chairman.] I have no further questions on this Vote.

Sir *Isidore Salmon*.

145. On sub-head Q: "Superannuation and other Non-Effective Charges," I notice that you do not seem to be able to estimate the figure that you require under this head. Are there any special difficulties in estimating it 15 months in advance?—That, I think, arises from the fact that some of these collectors commute their pensions, and we never know quite who are going to commute, or what those amounts will be. I think that is what makes it difficult. We have made an arrangement for the estimates under this Subhead to be framed by the Government Actuary in future upon statistics with which we shall furnish him, so we hope we shall get a bit closer in future.

Chairman.] May I take it that this Account is approved? (*Agreed*.)

(*The witnesses withdrew*.)

(*Adjourned till Tuesday next at 2.30 p.m.*)

TUESDAY, 8TH FEBRUARY, 1938.

Members Present:

Mr. MORGAN JONES in the Chair.

Mr. Benson.
Sir Edmund Brocklebank.
Mr. Culverwell.
Mr. Lathan.
Mr. Mabane.
Mr. Peat.

Mr. Pethick-Lawrence.
Sir Assheton Pownall.
Mr. Wilfrid Roberts.
Sir Isidore Salmon.
Sir Robert Smith.

Chairman.] The Members of the Committee will recall that we have had debates in the House of Commons during the progress of the Finance Bill several years in succession now on the question of the Exchange Equalisation Fund, and you will no doubt know that finally the Chancellor of the Exchequer last year undertook to place before this Committee confidentially a fuller statement of the Fund than had previously been vouchsafed to us. I speak from memory, but I think the Chancellor said that they would propose to put that statement before the Committee before the end of January. Of course, the Committee actually does not start its work before the beginning of February. However, that is not a material point. I have seen Sir Richard Hopkins, representing the Treasury, about this matter this morning, and they are very, I will not say concerned, but anxious to meet the wishes of the Committee, while of course, having regard to the importance of the figures that they propose to put before us. He came to discuss with me this morning mainly the procedure that he proposed to adopt, subject to our approval here. We know that there must, from time to time, be documents of a highly confidential character put before the Cabinet, and I understand that the Cabinet procedure is, in the case of those very secret and highly confidential documents, that they are circulated to the Members of the Cabinet in the room and, after the discussion, the documents are all collected and the result is that they do not remain in anybody's hands at all; that is to safeguard their privacy and their secrecy. Sir Richard therefore suggested that possibly we might be prepared to consider the same sort of procedure here as is followed in the Cabinet room, and I ventured to say

that, from my point of view, I saw no objection to following that procedure. It is for you to decide whether you feel that that is acceptable to you.

Sir Edmund Brocklebank.] In addition, of course I do not know what the Cabinet system is, but I understand the custom is that even the Members of the Cabinet do not take notes of those particular documents.

Chairman.] I think that is so. Having got as far as there, the question then was as to what should be done with the documents. Sir Richard said that he would quite willingly come down to meet the Committee whenever they felt that they would like him to attend to discuss the papers, and he would go through the items in the statement and make an explanatory statement in relation to the items as you felt disposed to ask him to do. I therefore suggested to him that it might be convenient to you if you would hear him. He cannot come to-day week, but I suggested it might be convenient that we could hear him on Thursday week, 17th February. Sir Richard will bring the documents with him, they will be handed out to the Members of the Committee by him, and then they will be collected and they will be returned to the custody of the Treasury. That is the idea, is it not, Mr. Kingdom?

Mr. Kingdom.] Yes. We can keep one copy in the safe if the Committee decide that we shall do so.

Chairman.] The Committee knows what we have usually done in regard to evidence. We usually have a note taken down of the evidence and that evidence will be treated in the same way as other evidence which we have had taken in regard to other private documents that we have had presented to us for years and years.

Sir Robert Smith.] Would it be possible at that meeting to allow the first

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[Continued.]

ten minutes so that we might look through the documents before any statement was made about them? We shall have no opportunity of looking through anything or grasping what the general outline of them is; before the statement was made by the Treasury it would be a great advantage if we had five minutes or so to read them over after we have received them.

Chairman.] It would, but I do not see how it could be worked very well.

Sir Robert Smith.] It was simply that at the first five minutes of our meeting we should not have the statement, but should have the five minutes to get some

idea of the whole general thing. I only make the suggestion.

Chairman.] Naturally, when documents like that are handed out to people, they proceed to study them at once, and suppose I say we shall have five minutes for that purpose?

Sir Isidore Salmon.] Shall we have any help from the Comptroller and Auditor General?

Chairman.] He will be here, but I think he will want you to keep clearly in mind that questions arising from the statement itself should be addressed to Sir Richard Hopkins and not to him. Is that agreed? (*Agreed.*)

Sir GILBERT UPCOTT, K.C.B., Mr. W. R. FRASER and Mr. H. BRITAIN called in and examined.

REVENUE DEPARTMENTS APPROPRIATION ACCOUNTS, 1936.

VOTE 3.

POST OFFICE.

Sir THOMAS GARDINER, K.C.B., K.B.E., and Mr. G. ISMAY called in and examined.

Chairman.

146. Post Office Accounts. Shall we turn, please, to page viii? Paragraph 13, Sir Thomas, refers to a new scheme; could you tell us something about the progress of this new scheme of re-organisation?—(*Sir Thomas Gardiner.*) Yes. So far as London is concerned, it has been established for about 15 months. There are two regions in London; one is the Postal Region; that does not differ very materially from the old London Postal Service, it may just be said to be progressing on normal lines. In the case of the London Telecommunications Region, which is the combination of the telephone service, telegraph service and engineering service of London, there have been very considerable modifications of organisation to be made, and those modifications are still progressing, so that there is not very much that I can say or that can be learned from what has happened there so far. We are still in the process, really, of getting it on its feet. In the provinces, on the other hand, as you will recall, we have had two regions going now for a very considerable time. We started one in Scotland and one in the North-Eastern District of England. They rapidly established themselves in favour from the point of view of the efficiency of the results they gave; in fact, our view all along was

that, given we could get the men competent to run them effectively, it was certain that they would give an improved service from the point of view of the public. But we had two problems to face. First of all, there was the danger that diversity of practice and treatment as between the Regions and the public, or as between the Regions and the staff, might arise; that was one of our great anxieties, that we should ensure that similar places got similar treatment, and that members of the staff in one Region were treated on the same lines as members of the staff in the other Regions. That led to our formulating a series of general instructions for the guidance of these Regions, and I am happy to say that the risks and dangers that were feared in that direction have not appeared. I think that that danger or difficulty is really surmounted. The point, however, on which I think we have hitherto had the greatest hesitation about saying anything was the question of financial control. The Bridgeman Committee made it clear that they regarded it as essential to the system of organisation they proposed that an adequate method of financial control should be introduced at the same time as the system was introduced. I think Sir Henry Bunbury said, on the last occasion, that that had been the last of the various bits of machinery to get

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into motion and that we had not yet really had a chance of estimating fully its effect. That machinery has now been in motion for about a year and I have myself been in intermittent touch with it throughout that period, and I have every expectation that we shall be able to say that the machinery of financial control that we have got is going to have the results that are desired. The matter is, at the moment, under examination by the Reorganisation Committee, which is directing this reorganisation, and what I have said must therefore be taken, to some extent, as a personal opinion, but I have been rather considerably involved with reorganisation, and I feel fairly confident that the Committee will give a favourable answer to the question that has been put to them about this system of control. We had to get in each Region something in a rough way comparable with the Commercial Account for the whole of the Post Office. We have to see how each Region is getting on as a commercial concern, whether it is doing better each year than it had done the previous year, and so on. I think you will appreciate that, owing to the difficulties of segregating revenue and expenditure on a regional basis, we cannot get the same exact results as we can get in the case of the Commercial Account for the Post Office as a whole, but we hope to get something which will show us tendencies and trends and which, taken with our various performance statistics and other records will give us a pretty fair picture of what is going on. Further, as the Post Office has a budget, we had to set up something similar in the Regions so that the budgets taken together may give finally the Post Office budget, and we may be able, by watching the progress of these budgets, to see that we do not, as a result of what happens in the Regions in the course of the year, overstep our authorities in the matter of finance. We had also to ensure that the financial machinery which we had in mind, while giving these results, would not quench the energy and enthusiasm of the people working the Regions. There is always that little danger, I think, in those matters. I hope that we shall find that those three desiderata have all been attained under what we have done. I think, therefore, the present position is that, subject to confirmation by the expert Committee that is now considering

the matter, I shall shortly be in a position to advise the Postmaster-General that the difficulties of the position have been met and the way will then be clear for us to progress further with regionalisation.

147. In the next sub-paragraph you use a phrase: "the instruments of financial measurement and control." Could you define a little more clearly what you mean by that phrase, Sir Thomas?—Mr. Ismay is on the Reorganisation Committee, so perhaps, as he has been more recently in touch with the matter, you would like him to explain it in detail.

148. Yes, Mr. Ismay?—(Mr. Ismay.) The main instruments on which we are relying for this experiment are the Budget to which the Director General has referred, in which the Regions give the whole of their estimates in considerable detail on very much the same lines as the Parliamentary estimate, with explanations of their increases and of any projects which they have in view. Those are, of course, examined at Headquarters, and discussion takes place on detail. From that is built up the Post Office estimate, and an allotment is made to the Region to meet its expenditure for the year. We receive on top of that a monthly Budget Account from them showing their progress, and if, at any time, as is inevitable in certain cases, they are exceeding their ration, that has to be explained and tested generally. In addition we have what is called, for want of a better name at the moment, a Control Account. That is something which approximates to the Commercial Account, that is, it brings in a good many of the factors, such as interest on capital borrowings, which figure in the Commercial Accounts, but which do not in all cases figure directly in the Vote Account—pension liability, and so on. It cannot be a complete commercial basis, as the Director General has said, because it is impossible to allocate Regionally money collected in one place in respect of services performed in another. That is too formidable a problem at present, at any rate; but we do get out of that subsidiary statement trends of Regional expenditure and trends of Regional revenue; trends which we have not had in any complete form before this. Then on the engineering side each Region will frame its Engineering Section of the Budget. That is examined by a Special Committee at the

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Post Office in conjunction with the general Engineering Budget for the rest of the country which is not regionalised, and free discussion takes place on that in order to fix what the programme of capital development shall be. On top of that, of course, we have the most voluminous statistics of engineering performance, and so on; we have always had those, and they carry on and give us a basis for examination of the performance in districts and in Regions. There are also various performance statistics on the Postal side which we are trying to develop further, but they will be regionally brought out and regionally considered, and will also be in the possession of Headquarters as a guide to the Regional performance generally. I think that sets out, as briefly as I can, the different measures we are taking.

149. Would you say these instruments are generally effective and useful?—I think they are quite effective: we have not finished; we are not near perfection yet. We shall develop on various lines, but I think they throw up a tremendous amount of knowledge of local development which the Post Office has not had under a centralised system, and will give us very effective local control in that way.

150. Turn over the page; you will see at the top of the page a reference to the Postmaster General having given authority, outside the existing Regions, for the development of Telephone Area organisation. Could you tell us a little more about this area organisation?—(Sir Thomas Gardiner.) The Region is a form of superior control, whereas the Telephone Area is concerned with immediate control of work. The Area scheme, I think, was implicit in the recommendations of the Bridgeman Committee, but was not explicit in what they said. It consists in this: in connection with the Telephone Service you have the man who sells you the telephone, then you have the man who provides the lines, you have another man who looks after the operating and traffic side of the service, and, finally, the man who sends you the bill. Areaisation, to use that expression, consisted in putting the control of all these people under one man, whereas previously they had been under two separate men whose lines of authority did not finally converge until they reached myself. The object of this plan is really to introduce a common

control on the telephone side as near to the subscriber as possible. That was the first phase of it. The second phase of it was, I think, that, owing to the very rapid expansion of the telephone service, we found that the areas of telephone management which we previously had were on the large side and we had, to give the service a greater elasticity, to increase the number of such areas. It is roughly true to say that under the new scheme we propose to set up practically twice as many areas as originally we had district managers' areas. The advantage of that is that it brings the Telephone Manager nearer to the people for whose service he is responsible, and we have found in the present emergency (as you know, we are being very heavily pressed on the telephone side now) that this method of organisation has worked very effectively as compared with the old arrangement. The two systems of area organisation are still existing in parallel, to a large extent. The new system fits in better with the Regional organisation than with the control organisation previously existing, but it is compatible with either. The fact that we are proceeding with areaisation does not commit us to proceed with regionalisation, although it doubtless does commit us to some modification of our existing system if we decide not to proceed with regionalisation. At the moment, and for this year, our principal task is going to be the development of areaisation. We have already got about sixteen Areas out of about forty-seven going. We reckon this year to get about twenty-five more of them started. There is another advantage about that, namely, if we proceed with regionalisation we shall have this job done before we start setting up the new regions. In the first two regions, we set the two systems—Areas and Regions—going together, and it was a very severe strain on everyone to keep the whole thing in step. We hope, as the result of what we are doing now as regards the areas, to smooth the way for the regions if and when further regions have to be created.

Chairman.] Are there any questions on paragraph 13?

Mr. Wilfrid Roberts.

151. Mr. Ismay, do I understand that the developments in the engineering work of the Post Office are under the control of the Region; if so, to what extent are

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decisions taken as to developments by the Regions themselves?—(Mr. Ismay.) The regional organisation draws up a project of the whole of its telephone expenditure for the year both on capital and maintenance, but at the present stage particularly there is, of course, very substantial discussion before that is drawn up with the Engineer-in-Chief at Headquarters as to the general lines particularly of trunk development. Does that answer your question; I am not quite sure whether I have appreciated your point entirely?

152. Might I put it this way: Does the initiative come from the Region in proposing developments?—Initiative in local development would certainly come from them very largely, but the main initiative at the moment, at any rate on trunk development, would come from the Engineer-in-Chief's side.

Sir Robert Smith.

153. I would like to ask one question with regard to these Regions. Does it mean a large increase in staff?—(Sir Thomas Gardiner.) In the Regions?

154. I mean as compared with the old days; is the total staff of the Post Office increased thereby? I suppose it must be, as you will have Heads of Regions and you have Regional devolution and you must have Heads to take the places; does it mean a large increase in the staff?—Proportionately to the whole of the Post Office staff the increase will be a minute fraction, but it will mean a pretty considerable increase in the controlling or directing staff inasmuch as each one of these Regions has to be provided with people of specialised ability and knowledge competent to deal with their particular subjects.

155. Consequently, I suppose, it will mean an increase of salary too?—Yes.

156. Because they are more highly paid people?—Yes, that is so. The tendency of regionalisation has been, or will be, to create a number of new posts and better paid posts than have hitherto been available to provincial men.

157. Is not that a very serious burden; are the advantages going to be so great that you consider it is really worth spending this, because I gather from what you say that you are going to set up further Regions?—That is the proposal; I mean, that is what we are considering and I anticipate that we shall do so.

158. If you do not set up further Regions, surely is not the natural thing to drop the Regions you have, unless you are going to spread it over the whole country and divide the whole country up into Regions?—Unless it is decided to proceed with Regions we shall have to abandon the regional experiment, so far as these two Regions are concerned. I think that is without question.

159. It is experimental?—It is entirely experimental.

160. It is intended to go on if it is shown to be a success. Could you give us any idea of the extra cost to the Post Office by dealing with the question regionally instead of centrally?—You mean what additional cost will be thrown on the Post Office through the setting up of the Regions; that is really, I suppose, what it comes to?

161. Yes?—I cannot give you a definite figure, but I will give you the best shot I can based on the experience we have had. Our present estimate is that this system of regionalisation will cost us about £150,000 a year.*

Chairman.

162. Extra?—Yes, entirely extra.

Mr. Benson.

163. Does that take into consideration the increased traffic as a result of better service?—No, that is the actual cost in people's salaries; we hope it will be offset by increased efficiency.

164. You can give us no figures at all?—No one could. Time only can show whether we shall recover what we spend on developing the regional system. Our hope and expectation is that we shall, and the cost is so small related to our total expenditure that that is a very reasonable hope and expectation.

Sir Robert Smith.

165. You have been working the Regions for a certain length of time. Have you not found any result as to whether there is a greater volume of business or that things are more satisfactory?—That things are more satisfactory, certainly we have. It is admitted on all hands that the regional system has given admirable results from a working point of view.

166. From the point of view of the department or of the customer?—Of

* Note by Witness :—This figure represents the cost of regionalisation excluding the setting-up of Telephone Areas.

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both, but I was thinking in particular of the customer. The object of the scheme is to enable the customer to get satisfaction earlier, and from that particular point of view we think we have accomplished a great deal already, but, on the other hand, what I cannot say is whether, as a result of that greater satisfaction to the customer, additional traffic or business has come our way, and whether that is so will, I am afraid, always be rather a mystery.

167. Naturally, of course, the Head of the Post Office, the Postmaster-General, is the co-ordinating department; the Headquarter staff is the co-ordinating department for all these Regions, I suppose?—That is so.

168. Will you be able to save anything in that way?—Yes, I think I ought to have said when I gave you the figure of £140,000 I have allowed for such savings as we hope to make at Headquarters. We have made the best estimate we could, and it may be that those figures will prove to be a little wide of the mark, but it is all we can say on the information we have at present at our disposal. The difficulty at the moment is that we are working both systems, and it is very difficult to see quite clearly what will happen when we have only one system at work.

Chairman.

169. I thought you used the figure £150,000; now you say £140,000?—I ought to have said £140,000 originally; that is the closest estimate at my disposal, but I am afraid I could not pretend to be right within £10,000 one way or the other.

Sir Robert Smith.

170. You say that these Regions, by devolution of authority, are to have certain powers of dealing with things. To put a quite concrete case, would it be possible for a Region to decide to go back to the old form of telephone rather than the automatic? Is that an engineering department question which would come entirely under your Headquarters?—That would be a matter for decision at Headquarters and would be quite out of the power of the Regional authorities to decide.

171. That is quite an extreme case. In what way will it be different? Is it rather with regard to the management of the concern than in things of the nature of what I said?—As regards all matters of policy and all matters that

affect the country as a whole the decision, of course, will still have to come from Headquarters.

172. I will put a nearer case, and you will probably be able to help me. You have a Scottish Region, and that sort of thing; I do not know whether you count the North of Ireland a Region?—The North of Ireland is very anxious to be counted a Region, and we have undertaken that it shall not be put under any other Region. It will have a regional organisation of modified character.

173. There is a case there. I was going to say that all your telegraph addresses have to come under Belfast, and it has to be included in all, no matter what the address may be in the country. Was that done from Headquarters, or was that an idea from Northern Ireland? That is a Regional action; it does not happen in other parts?—It must be at the moment an idea of Headquarters, because Northern Ireland is not a Region at present. It is anxiously clamouring to be.

Sir Isidore Salmon.

174. I understood either you or Mr. Ismay to say that you are going to have a closer control over detail. You are introducing a Regional system; you are going to have a Regional Budget; that Budget is going then to be sent on to Headquarters to be perused and gone into. Are you not introducing by this system duplication of work that you never had before?—I did not quite catch what Mr. Ismay said as regards the matter, but the method of control will, I think, be such that that will not happen. The Regional Director has his Budget ready. Our people, some half a dozen from Headquarters who are dealing with these matters, will visit him and in the course of a day or day and a half go through his Budget with him. They will be in a position to say straight away whether they can or cannot agree to what he has put forward and, if need be, to tell him: "We cannot go as far as that and you cannot go as far as that." By adopting that method we have found that the Regional Budget of a Regional Director can be disposed of quite quickly. They do not go into the detail of the thing. They take the larger schemes and they look at the totals and say whether they can be approved. I think if Mr. Ismay referred to details he probably had more

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in mind that the machinery which is now being introduced will enable the Regional Director himself to have a better grip than could his predecessor (the Surveyor or Superintending Engineer) of the operations of the department. (Mr. *Ismay*.) That is what I intended. I am afraid I used the references to Headquarters and us rather loosely. When I said "us" as regards a greater control over local conditions I meant the Regions—the organisation as a whole—not Headquarters.

175. May I put it in another way to clear the air. You are going to introduce, or have introduced, in certain Regions, a detailed system for the Regional Director to take a view of the whole of his area in detail. Are you going to duplicate that information to Headquarters?—He will send that Budget to Headquarters with explanations. Beyond the general survey of the whole thing we shall not probe into detail. That will be left to him.

176. You, the Central Headquarters, will be supplied from Regional Headquarters with much more detail in the future than you have had in the past?—No. May I put in this way, that we shall be provided with detail assembled regionally, which has always had to be provided for the purpose of building up our detailed estimates, but we must get to the Parliamentary estimate in that detail.

177. Quite, but what I rather wanted to understand was this, that there will not be duplication of work. Is that what I understand?—There will not be duplication, except such as is inevitable in certain cases in working down to a Regional organisation and having to produce a national estimate for Parliament and a national Appropriation Account. A certain amount of duplication on that head from the accounting point of view is inevitable; it would be avoided if we were not under a Parliamentary system; that is the only way I can put it.

178. What I am sure the Committee would be interested to understand is this, that as regards the work which is necessary for managing the Regional Area (details of engineering expenditure, all the details which you said you were going elaborately to get out) are they going to send those elaborate details for that to be perused at Headquarters?—They will send certain summaries of the course of their expenditure in broad blocks.

179. Not in details?—Not in details.

180. A certain proportion of the information that you will get at Headquarters will be entirely new to what you have had previously?—Yes.

181. In the old days it all originated from Headquarters?—It was on a national basis, a block figure for the whole of the country in the old days.

182. So you will have a bigger hold in detail over how the money is spent?—Yes.

183. Not only you, but the Regional Director?—The combination of the two; we shall have sufficient for a general control, but the organisation as a whole ought to have a better control.

184. Just one other and last point. I did understand that Sir Henry Bumbury on the last occasion made a great point, in discussing reorganisation, that there would be in itself a saving in the number of people employed. When shall we see any reflection of that, Sir Thomas?—(Sir *Thomas Gardiner*.) That is a difficult question to answer, and I do not suppose anyone will ever be in a position to say yea or nay as regards it, because the world is not remaining static while we are introducing regionalisation. Post Office business is rapidly expanding. What I think Sir Henry must have meant was that as a result of this more efficient system of management we shall conduct our affairs more economically.

185. What rather struck me was that in looking at the staffs employed in the Government Departments I see the Post Office has increased its staff by 8,600?—Yes.

186. I did not know whether it was because or in spite of the new organisation?—One must remember that the new organisation exists only in two parts of the country out of the seven or eight Regions which are projected. I do not think the increase is due to either of the alternatives to which you refer: it is due to the rapid expansion in our business.

187. A natural expansion?—A natural expansion; we have had a very very heavy expansion, particularly in the year with which we are dealing.

188. I appreciate your difficulty in giving an answer to a question which you have not got properly worked out yet?—Yes.

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Chairman.

189. Paragraph 14, "Contracts placed without competition". It has been quite clear that the Committee on previous occasions have been paying some attention to this point, and I have no doubt they would be interested to know where we stand in relation to it. In the last sentence we are told that "the manufacturers are now considering how far they can meet the Department's requirements" in respect to facilities for the examination of contractors' costs, and so on?—Yes. We also, of course, have been greatly concerned about this matter and, as you gathered from Sir Gilbert Upcott's report, we approached the contractors about the question and started discussing it with them in the autumn. The points of view were distinctly different, particularly at the outset, but I should like to say that the contractors have shown a real appreciation of our difficulty in this particular matter, and have shown a willingness to co-operate with us. As a result of a number of meetings that we have now had with them, we have been able to get down to making a detailed examination of the situation with a view to seeing whether it is possible to arrive at a machinery which is satisfactory from our point of view and reasonable from their point of view. That is the stage at which the thing is at this moment. We are actually engaged in those discussions with them. We hope that the discussions will lead to a successful issue. That remains to be seen. We cannot say necessarily that they will, but, at any rate, the opening bars have not been too discordant.

190. When do we reach the finale, Sir Thomas?—I think everyone will appreciate that this is a very difficult matter.

191. Yes?—And that possibly a slow approach to it and a careful approach is the best one. Each meeting which we have had with them so far has led to a better understanding of the other's position.

192. I would like to ask a question or two in relation to these negotiations, if I may. Will these negotiations apply to the bulk supply agreements?—Yes, they are particularly related to the bulk supply agreements. Expenditure under the bulk supply agreements has come to be a very large part of our expenditure on telephone equipment. In fact,

I think this expenditure is now about eleven millions out of a total of sixteen millions, so it is really in relation to these agreements and in relation to the manufacturers who deal with the work and plant provided under them that this question is most important and relevant.

193. I was going to ask a question upon those figures that you gave me. Let me see if I can understand. Did you suggest that the Post Office contracts amount to about £15,000,000?—For telephone plant and equipment about £16,000,000.

194. And the bulk supply account for about £11,000,000 out of £15,000,000 or £16,000,000?—Yes. (Sir Gilbert Upcott.) Telephone. (Sir Thomas Gardiner.) Telephone plant.

195. Could you tell me what the total Post Office contracts are?—I am afraid I could not myself answer that. (Mr. Ismay.) I am afraid we have not got that. (Sir Thomas Gardiner.) Perhaps we could put it in.

196. It is rather important that we should get that. I would like to know what the total Post Office contracts amount to and what is the relation of the bulk agreements—what proportion of the total these bulk agreements constitute?—We are talking now about bulk agreements as opposed to other forms of contract? (Sir Gilbert Upcott.) It is really the proportion that non-competitive contracts bear to total supplies. There might be a non-competitive contract which was not a bulk agreement. (Sir Thomas Gardiner.) Yes.

197. Could you let us have that?—Yes, we will put in figures.*

Mr. Lathan.

198. Do I gather that the observations made of an optimistic character relate to the possibility of agreement being reached between you and the manufacturers in regard to goods supplied under conditions where there is no competition?—That is so.

199. You rather suggested that there was a possibility of some acerbity cropping into the relationships. You said that, at any rate, the opening notes had not been too discordant, or something of that sort. Is there any suggestion of that?—We are faced with this position, that the contractors quote a price to us, and we would like that price to be less. We are now proposing an instrument

* See Appendix 3.

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which we conceive, at any rate, may result in those prices being reduced, and it is therefore not unnatural that the contractors should not welcome the proposition in quite the same way as we would.

200. Would I be justified in interpreting that to mean that the contractors are apparently viewing with some apprehension the conditions under which competition in respect of prices may ensue rather than the absence of competition such as they have previously enjoyed?—I think, so far as this particular subject of the bulk agreements is concerned, that competition is almost out of the question, and that what the Post Office has to do and what the Post Office is anxious to do, is to satisfy itself that it is paying a reasonable price for what the contractor is supplying.

201. The Committee about which Sir Henry Bunbury gave us information last time (I am sorry I have not been able to refer to the records) is, you believe, I hope, serving a useful function in respect of prices, as to whether or not they are reasonable?—That Committee which is under the Chairmanship of the Assistant Postmaster-General, took up this subject from two points of view, one, from the point of view whether there was any alternative to the bulk agreement system, having regard to the merits and demerits of the bulk agreement system and, secondly, admitting that you have a bulk agreement system, had we done everything we could to see that the prices we were paying were reasonable prices? What has since been done and our discussions with the contractors all really arose from the activities of that Committee.

202. Have the Committee discovered in the course of their discussions or examinations, any circumstances which justify the view which, as you are doubtless aware, is held very definitely in another connection, that prices are subject to the domination of a ring?—It is perhaps rather harsh to call it a ring; it is an association, as it were. On the one side we have an Association of Manufacturers and on the other side we have ourselves. The whole object of our researches and endeavours is to establish that they are giving us a reasonable deal. I do not want to suggest for a moment that they are not, because, so far as our information goes, they are, but naturally we feel, and I think the Committee felt,

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that we should use our best endeavours to get as much information in that particular as we could, so that we might be able to assure you that we, ourselves, were wholly satisfied that what we were being charged was reasonable.

203. I do not wish either to make any charge or suggestion, except that I should be justified in referring to circumstances that were revealed to the Committee when last the subject was under consideration, and which were certainly of a disturbing character. May I ask this question: Is the Committee able, in any way, to test the fairness or otherwise of the prices which are charged, by any system of costing?—The position there, of course, varies from one thing to another, but taking the things that come under the Exchange Equipment Agreement, which is the biggest, we have there a system of technical costing. Our men go into factories and examine the work and conclude what the cost of the thing should be. On that aspect of the matter we are pretty satisfied. The point on which we want them to satisfy us now is as regards their overhead charges, and that is the matter about which we are at grips with them at this very time. We feel that if we could feel satisfied as regards that, we should be getting somewhere near where the Committee would like us to be, and we are bending all our endeavours to arrive at a mutually satisfactory solution so far as that is concerned.

Mr. Benson.

204. You say in paragraph 14 that the facilities that you have for examination are not comparable with those of the Defence Departments?—(Sir Gilbert Upcott.) I say that.

205. I beg your pardon; the Comptroller and Auditor General says that. Could you explain the difference?—(Sir Thomas Gardiner.) When it is said that they are not comparable, I believe that is so, so far as the armament firms are concerned, but as far as these particular firms are concerned my information is that hitherto they have been no more forthcoming to other people than they have been to us. As regards what information is available to the Defence Departments, I think possibly Mr. Ismay might be better able to deal with that than I am; he has had a rather considerable experience of that. (Mr. Ismay.) As I understand it, in general the Defence Departments have, in regard to

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their armaments expenditure, arrangements under which they are generally accorded access to the firms' books with a view to satisfying themselves that the prices are reasonable. (Sir *Gilbert Upcott*.) Where the contracts are on a non-competitive basis. (Mr. *Ismay*.) In all those cases where the contract has not been on a basis of tender; but, as Sir Thomas has said, and to the best of my information, that does not apply to the particular firms concerned with Post Office contracts. (Sir *Gilbert Upcott*.) I was not saying that these particular firms give facilities to Defence Departments which they do not give to the Post Office; that was not my suggestion. My suggestion was that in regard to non-competitive contracts the Defence Departments have nowadays got fuller access to the contractors' books than the Post Office have to their contractors' books. (Mr. *Ismay*.) We clearly understood the paragraph to have that meaning.

206. Why do not you ask to have the same facilities as the Defence Departments have?—(Sir *Thomas Gardiner*.) I will not say exactly the same, but whatever access is best suited to our purpose is what we are seeking to obtain.

Mr. *Benson*.] How far does the existence of Woolwich Arsenal and various nationally-owned armament-producing factories enable them to check production costs in a way that you cannot, not having any similar factory?

Chairman.] This is not a Woolwich Arsenal witness.

Mr. *Benson*.

207. I know, but the point is, that here the Defence Departments have a very effective method of checking costs, in that they can check costs against what it costs them to produce, and I want to know how far a similar scheme would facilitate costings in the Post Office?—In the Post Office we have factories also. These factories do not, however, manufacture many of the things that are sold to us by the telephone plant manufacturers. On the other hand, they are able to and do manufacture certain of them in order that we may have information to check up manufacturers' costs. I think I ought to make it clear that that only applies to smaller things; it does

not apply to the large scale telephone equipment. There we have not anything exactly comparable.

208. Is there any particular reason why you should not have?—It would be a very big undertaking indeed. The plant required would be very large, and if one were to endeavour to do as you suggest—one might conceivably be driven to do something of that kind—it would mean setting up an organisation about as big as that of one of these telephone manufacturers', one of these Big Five.

209. You are referring mainly to the Automatic Exchanges?—I am talking mainly about telephone equipment and Exchanges in particular and the "Big Five," as they call them, the five big firms who undertake this sort of work.

210. Are these five big firms international concerns?—They sell on the Continent.

211. To what extent is their business mainly owing to you yourselves, and to what extent do they sell on the Continent?—Some of these firms have other activities besides the telephone manufacturing side of the business, and in their case, no doubt, it is not a very large part of their business, but others of them are telephone manufacturing firms almost entirely, I think, and in their case, I should imagine that our business is distinctly the greater part of their business.

212. So that the greater part of some four or five firms is dependent on the Post Office?—Of certain of those firms; one or two of them are very big firms.

213. So really the amalgamation of the total manufacturing needs of the Post Office under one concern is not ruled out by the fact that you would have a limited market; on the contrary, you would have one concern with a bigger market than five firms have at the moment?—Yes, I think that is so.

214. Has it not been seriously contemplated as a possible means of economy?—I do not know myself that it would necessarily be a means of economy, but it certainly has not hitherto been suggested that we should set up an organisation which would be equal to those four or five firms combined. I think that would be a tremendous undertaking. The State would, I think, want to consider very carefully and very long before undertaking manufacture of that order.

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[Continued.]

215. Surely, if you thought audibly in the presence of these firms, they might be more amenable to disclosure of the facts you want?—If I gave you the idea that they were not amenable I am rather unfair to them. What I said was that, approaching the subject from two rather different points of view, there has developed a feeling of co-operation in regard to this matter which will, I hope, lead to a satisfactory conclusion. I do not think that these firms are blind to the various possibilities of the matter at all, but I do think that if we could get a satisfactory solution of the matter in the way which we have in mind, it would be a more satisfactory solution than any other.

216. I wanted to make it clear that the size of the market would be sufficiently large in general theory to enable the Government to make its own plant efficiently and economically?—I think, if the Government was willing as a matter of policy to do so, that that is certainly a possibility. (Sir *Gilbert Upcott*.) Perhaps I ought to say I do not think one ought to lay too much stress upon the importance of Woolwich Arsenal as a check upon Defence contractors. Woolwich Arsenal does not make everything; it does not make aeroplanes or armour-plate, for instance.

Sir Robert Smith.

217. With regard to the point you have been dealing with of those five firms, are not they the owners, in certain cases, of certain patents for which you would have to pay?—(Sir *Thomas Gardiner*.) Yes.

218. That would put you in an awkward position?—Yes, we would be in an awkward position in various respects, and a great deal of the success that we have had in handling the telephone situation, in so far as we have been successful, has been through the fact of the manufacturers combining together and placing at the disposal of one another and of our people their patents and research work. In that way, they have done a great deal to help on telephone development in this country.

Mr. Lathan.

219. May I revert just for a moment to the questions I have just put to Sir Thomas: last year I gathered from replies given by Sir Henry Bunbury to questions which I put in relation to the

supply of telephone cords, that an agreement was in existence which compelled the Post Office to purchase 90 per cent. of its requirements from ring firms. I am using the words that Sir Henry himself used in replying to me. May I ask whether those conditions still exist or whether any variation has been brought about?—No, that contract is still running; it does not run out till the end of this year, as a matter of fact. I think, however, that the particular case that was then referred to, the case of the telephone cords, perhaps conveyed a not altogether fair impression of the position *vis à vis* these contractors. The situation was that in the previous year, that is the year 1933-34, our demands for telephone cords had fallen to £28,000 per annum, whereas the year before that it had been £64,000. In the year which we were talking of, it had risen to £140,000 and subsequently it rose to an even higher figure. The price comparison that was established was established on a demand equivalent to £28,000, as compared with a demand in the next year of £140,000, and a demand in the previous year of £64,000. In the year 1933-34 the contractors were willing to do the work at any price, practically. They wanted to keep their machines turning. Our demand had fallen off very considerably; when it subsequently revived they naturally looked to getting a substantially better price than what was really a very cut price. Subsequently to the discussion here—

Chairman.

220. I am afraid we shall have to shorten our questions and answers if you do not mind, or we shall not get through our business this afternoon. I am not reflecting on you. If you are asked you must answer?—We established a comparison with the year 1929 which we regarded as a normal year, and which was, from our point of view, a year of normal demand for telephone cords and which, I think, was the last year of normal trade before the depression set in. Making then the comparison with the price paid in the year 1934-35, we found it to be practically the same as the amount paid in that year, namely, 1929. I think the comparison previously made was, perhaps, a rather unfair one from the manufacturers' point of view, and that the comparison I have now suggested is a really more reasonable one.

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[Continued.]

Mr. Lathan.

221. The question which arose was not a question whether the price was fair or otherwise. The question which was disturbing to the Committee as a whole was that the Post Office apparently was in the grip of a ring and that its freedom to purchase was determined by it?—That might be said, I suppose, of the bulk agreements generally. Our position is that we are endeavouring to establish a means of satisfying ourselves that those associations do not charge us more than it is reasonable that they should charge us.

Sir Robert Smith.

222. Do you have any prior claim on the output of these factories if you require it, supposing there is pressure. Would you get priority over a foreign order?—We order plant in advance so far as possible and one of the advantages of the agreement is, that we have a guarantee that they will provide the plant when we require it. In addition, as a result of the position we are in in relation to them, we find that in all emergencies and difficulties they are ready to come to our rescue as customers to whom they are indebted, as we are to them.

223. Further, as regards their output which becomes a little bit out of date, if you were running a factory of your own for producing everything, you would probably not have the same market knowledge and close touch with other markets that they have in order to dispose of their older apparatus which they have produced?—They have alternative users and possibilities.

224. Which you would not have?—That is quite true.

Sir Isidore Salmon.

225. In view of what Sir Thomas says, that they are negotiating, I do not think that there is much point in labouring the matter at this juncture?—It is really at that stage.

Chairman.

226. Paragraph 15: "Wireless Broadcasting"; there is a reference to arrears of £408,000 paid to the B.B.C.; could you tell us how those arrears came to £408,000?—I do not know exactly why they are described as arrears, but the Committee that dealt with Broadcasting made certain recommendations to the

Government as regards the revenue of the B.B.C., and said that for the period with which they were dealing, and at the end of which they reported, the finance of the B.B.C. should be on a certain basis retrospectively over that period. They said a new system of payment should be introduced which had the effect of giving the B.B.C. more than they would otherwise have got; it was in some measure post-dated.

227. On page x, what is meant by referring to the year 1936 as a transitional year?—The year 1936 was the year to which this particular system applied.

228. To which you have just referred?—Which was laid down by the Committee, yes.

229. In 1937, is this now a fixed arrangement?—Yes, from that date; I think it was from the 1st April, 1937. (Sir Gilbert Upcott.) 1st January, 1937. (Sir Thomas Gardiner.) On the 1st January, 1937, we got on to the permanent arrangement.

230. Does the £2,870,000 which is referred to cover television and foreign broadcasting?—In so far as it was for what had been decided up to that time, it did, but so far as the future is concerned, I think the position is that it was decided that the B.B.C. should get 75 per cent. of the available revenue after paying the Post Office charge. The B.B.C. suggested that that percentage should be made available to them for sound broadcasting only; the Government did not at that time accept that view, but said, "If you find that this 75 per cent. is not adequate for sound broadcasting and these other things, television, and so on, we will be prepared to consider any claim you may make on us." The position now is that the B.B.C. have made such a claim. They have gone to the Government and said that they think that the 75 per cent. should be set aside for sound broadcasting, and that for the additional expense for television and for foreign language broadcasting some further allowance should be made to them calculated on their actual expenditure. I believe it is the case that the Government have accepted that view in principle with certain minor reservations.

231. For this current year, 1937-38?—Yes, and for the immediate future, I think, also, but the first stage will be to deal with the current year, and the

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[Continued.]

Postmaster General will be putting a supplementary estimate before the House in this connection.

Chairman.

232. We will take paragraph 16 as well, since they are related subjects. The Comptroller and Auditor General refers to a new type of cable. Could you tell us what this new type of cable is?—Yes, this co-axial cable, as we call it, is remarkable in that you can conduct on what you see there at the same moment 800 separate telephone conversations. (*Sample was handed in.*) It is a very expensive type of development, of course, but it is very effective, and we contemplate adopting it as the backbone trunk telephone system of the country. I ought perhaps to say that in order to make it effective you have to have very expensive terminal equipment, which costs a great deal more than the cable itself costs. It is not an economical system except when the number of channels required is of the order of 200; it is no good for 10 and 15 channel systems and requirements of that kind.

233. Is there any progress made in settling the rental charge to the B.B.C.?—We have not really got to that stage yet. It is not clear whether the B.B.C. will or will not wish to avail themselves of this particular cable.

234. Does not that raise the obvious question: Are you going to provide this cable, lay it down and ask the B.B.C., whether they will be good enough to become a customer?—We propose to lay down a four-tube cable at the outset. If we laid it down for two tubes it would give us 400 telephone lines or channels. That capacity we must have straight away; within a space of about five or six years those channels would be exhausted and we should then have to lay down another two-tube cable. We had to ask ourselves whether it was better to lay a four-tube cable straight away, which we could do at a cost of £204,000, or lay a two-tube one now at a cost of £143,000, and another two-tube one at a cost of £143,000 in five or six years' time. We concluded it was a good financial proposition from our point of view to lay a four-tube cable forthwith.

235. Whether the B.B.C. came in or not?—Whether the B.B.C. came in or not. If they do it enables us to meet them.

Sir Assheton Pownall.

236. Is it £204,000 for one mile?—No, for the whole span from London to Birmingham.

237. This will do television if required?—Yes, and we greatly hope that it will be required for television at those times of the day when it is not required for telephone purposes.

238. If it is a success between London and Birmingham, presumably you will extend it elsewhere?—Yes, as a matter of fact we are already extending it to Manchester. We anticipate it will become the backbone of the trunk telephone system of the country, but we do not expect to develop it very much laterally.

239. Have you any idea what is the life of this co-axial cable?—It is anticipated, I understand, that it will have a life of about 60 years.

Mr. Wilfrid Roberts.

240. If the B.B.C. uses them for television purposes, how exactly will that work out? Where will the television programme be distributed from when it has been carried to Birmingham?—What will happen is that the programme will be distributed from Alexandra Palace, as now, carried over this co-axial cable to Birmingham, and transmitted from the Birmingham Station in exactly the same way as it is at present transmitted from Alexandra Palace Station for London. The difficulty about the television station is that it has a range of only 25 miles or so. This cable system will enable you to transmit in Birmingham what you are transmitting in London.

241. That could be developed elsewhere?—Yes; it is being developed at the present time.

Mr. Benson.

242. Was this developed by your own engineers?—It is an idea that is being developed in the United States at the present time, by ourselves and in Germany, I think. The Post Office Research Station at Dollis Hill has played a very considerable part in the development of it.

Sir Robert Smith.

243. Is it entirely land, or can it be used for submarine cable?—Entirely land.

244. Can the same thing be developed for submarine cable?—I am afraid we have not started to think about that yet.

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[Continued.]

Mr. Mabane.

245. Do I understand that this is the first cable on which it has been possible to transmit television frequencies?—Yes; when I say it is possible, we have not yet finally established that it is possible.

246. You think it is?—We think it is.

247. Does that bring nearer the moment when it will be possible on ordinary telephone conversations to see the person speaking at the other end?—It brings it nearer, but it is still a long way off, I think.

248. Without this cable it could not be done, but with this cable it comes within the range of thought?—It comes within the range of thought.

Sir Isidore Salmon.

249. Sir Thomas, could you tell us briefly the difference in the cost per running mile of this cable as against the normal cable?—Yes, this comes out at £8·7 per circuit mile as against £21·4 for the ordinary cable.

Mr. Benson.

250. This is cheaper per mile?—Yes.

251. Is that due primarily to the much less quantity of copper?—Yes, and the fact that you can carry on so many conversations simultaneously.

Sir Isidore Salmon.

252. When you add on the very costly terminal points you were referring to, how much more is that going to add per mile against the normal?—The figure I gave was the total figure for a fully equipped 800 channel cable—everything—all the cost.

253. May I ask you to put it in two figures. Can you make a comparison between similar cables under the ordinary system and under the new system; what is the difference in the cost?—The cost is to some extent dependent on the number of channels you are using.

254. Assuming you used the full number?—Supposing you have the full number, viz., 800 channels in operation, the cost per channel is £8·7 in the case of this method and is £21·4 in the case of the normal method.

255. That is so far as cable is concerned?—No, that is the whole cost.

256. The running cost?—I am putting the whole capital cost together.

Chairman.

257. Page xi, paragraph 18. This paragraph of the Comptroller and Auditor General refers to modification of a previous practice. I should like to know what that modification is. Would you also, when you are required, tell us what you mean by a ledger unit, Sir Thomas?—Perhaps I might roughly explain, and I can explain only roughly, what the system is, because I have only a general knowledge of it myself. Each day the Savings Bank balances its affairs for that day. At the end of the year, previously, it used to balance again, make a complete balance of the whole thing for the whole year, and it did it in ledger sections; that merely means they took a group of offices and did it by groups, the offices A to D or something of that kind. The whole of the ledger sections put together give you the total amount of ledger work; there is nothing more in it than that.

258. It is grouping a series of offices?—Yes. The further check, of course, is the deposit book which the depositor sends up once a year and which is examined and compared with the actual ledger. That further and final check, of course, remains, and so does the first check. What has happened is that as regards the second check it is proposed for the future that it should be applied as to only one-quarter of the ledgers per annum, getting over the whole thing in four years, with, in addition, a spot check of the three-fourths that are not particularly examined. The intention of the arrangement is to reduce the amount of work that has to be devoted to ledger checking. We feel that it can be done without any serious danger or indeed without anything but the most minute danger. (Sir Gilbert Upcott.) My information was that the check will be one-third, including certain surprise checks in addition to the regular check. (Sir Thomas Gardiner.) The one-fourth complete check plus the one-twelfth spot check gives one-third, I think.

259. What is the reason for the new system?—Entirely to reduce labour. Our feeling is that the other systems of checks are so complete that it is not necessary to go over so much ground in the annual balancing.

260. Are you satisfied that this new system is safe?—I am, Sir, yes.

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[Continued.]

261. Have you anything to say, Mr. Ismay?—(Mr. *Ismay*.) I would like to add just one observation, that the origin of this idea arose really out of the fact that we had not the staff available to carry out the complete balance for 1936, and the first step was practically one forced upon us, to abandon that balance; that is the overall balance, of course; the accounts had been balanced in themselves. It was out of that that the examination of whether it was really worth while carrying on this most elaborate annual balance arose, and that was reviewed in detail by a Committee to satisfy themselves that the risks which would fall on us were really negligible, and very negligible in comparison with the staff saving involved.

262. Have you anything to say about this, Mr. Comptroller and Auditor General?—(Sir *Gilbert Upcott*.) My Department at present has no audit experience of the new system, but, subject to that, I think there is no ground for supposing that the checks are not adequate. The other checks, of course, remain in operation. I should say, lest there should be a misunderstanding, that later on in the account the Committee will find a rather large Savings Bank fraud, but I should like to say in advance that that was nothing whatever to do with this system. That was a local fraud.

263. It is not set down as a Savings Bank fraud, is it?—Yes, it appears on page 26.

264. Does it say there that that is a Savings Bank fraud?—Yes.

Mr. *Lathan*.

265. Does the different audit that you referred to relate to individual accounts in the bank or the checking of the accounts of the local office?—(Sir *Thomas Gardiner*.) The reference here is entirely to checking at Headquarters. I do not know whether I have got the question quite rightly.

Mr. *Lathan*.] Yes.

Sir *Robert Smith*.

266. There is nothing I can find showing what were the deposits in the Savings Bank or anything of that description. Does it show anywhere?—(Mr. *Ismay*.) I think they are included in the elaborate table at the end of the commercial account. There are, of course, separate White Papers issued

by the Treasury, but they are not available until later in the year. (Mr. *Fraser*.) They are produced by the National Debt Commissioners.

Mr. *Pethick-Lawrence*.

267. Could you put into a monetary figure the saving in cost by reducing this checking?—(Sir *Thomas Gardiner*.) It is estimated that it will save £7,000 per annum.

268. Could you tell us (I do not know whether they are frauds or defalcations or inaccuracies in the past) what is the magnitude of those you have found out in previous years by the fuller check?—By this particular system as opposed to that part of the system that still remains or will still remain?

269. In the course of this annual check, have you in previous years discovered any failures; could you put in a figure of the amount of failures, if any, that you have discovered in previous years by the second check?—(Mr. *Ismay*.) I would like to put it this way, that almost the only fraud that could be discovered by this additional check done each year would be an internal fraud carried out in the Savings Bank, and I think I am right in saying that we have been almost entirely free of internal frauds for a generation, but it is against that possibility that this surprise test has been put on top of the regular four years' rota.

Mr. *Pethick-Lawrence*.] It is a very satisfactory statement that we have been able to elicit.

Sir *Robert Smith*.] On page 26; did this never occur before?

Chairman.] Before this new system?

Sir *Robert Smith*.

270. This £8,000?—That would not have been detected in any form by the overall balancing system at the Post Office.

271. In the old days?—That is a matter of the local management and the suppression, in fact, of Savings Bank books and documents which never reached headquarters.

Mr. *Peat*.

272. What does Mr. Ismay mean by "internal fraud"? Is that a matter of fraud by the staff itself?—By our own staff having access to the ledger cards and putting in an entry and then, by a form of collusion, managing to withdraw the amount, but that is very difficult to do in view of the arrangement

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[Continued.]

of the work of the bank itself; it would require very considerable collusion to do it.

273. I suppose one can say it is an audit. Is the modification of the audit due to mechanical accounting which has been introduced, or is that not a factor?—Actually, this over-all check in the main elicits failures of mechanical and manual accounting and, to some extent, we shall defer the adjustment of those failures. The machine which throws out an automatic balance and which should lock if that disagrees with the balance which has been tapped on it from the book, does not always do so, so a certain number of errors arise out of that, which are detected and traced from the overall check. These are small matters of adjustments; they are not money which we pay out but accounting adjustments which will be corrected at a later stage, particularly when the Savings Bank books come in, when a detailed check against the ledger is made.

274. In taking one-fourth of your ledgers and making a full check of one-quarter each year, I presume you do not take the ledgers in order; you take your one-fourth at random?—We very much desired to make it completely at random, but we are dealing with 10,000,000 accounts, and because of the arrangement of the different ledger units of the Savings Bank it was found impossible to make it absolutely at random. It is random by unit sections, random by branches, so to speak, and, on top of that, the test check is imposed to rectify any observations that a particular individual might have gained from it.

Chairman.] Pages 13 and 14 are the summary, so we pass on to page 15, "Detailed Account of Expenditure compared with Grant," sub-head A Salaries. I have no questions on page 15, sub-head A, nor on sub-heads B or C.

Sir Isidore Salmon.

275. The point I would like to ask is this: How is it that, in arranging your estimates in most cases, I will not say in all, you have to go for supplementary estimates; year in and year out you seem to be doing this?—(*Sir Thomas Gardiner.*) I do not know that that has happened until recently, when, of course, our business has gone forward by leaps and bounds. Take this particular year that we are now dealing with. We looked

forward to a good year, instead of which we got really a bumper year, the best year I have known in my experience of the Post Office.

276. In percentage increase?—Yes. On the postal side I regard 2 per cent. as a good increase; 3 per cent. I regard as progressive, and that is what we worked on. What we got actually was 4.7 per cent. It was an excellent year from the point of view of our business. It largely, or partly, arose from the fact that the country made such a great stride forward at that time.

Chairman.] Sub-heads B, C, D and E.

Sir Isidore Salmon.] I do not want to trouble you to go into all the details, but where can we find in these accounts anything on the building of Post Offices? Shall we have to look at the Appendix, or is there anything on this account where we could ask a question about new Post Offices?

Chairman.

277. That is Office of Works?—(*Sir Gilbert Upcott.*) Revenue buildings.†

Sir Isidore Salmon.

278. Would that have to be dealt with by the Office of Works and not the Post Office?—Yes.

Chairman.

279. Page 17, sub-head E. On sub-head E, *Sir Thomas*, there is a reference at E.4 to a new North Atlantic contract, insufficient provision?—(*Sir Thomas Gardiner.*) Yes.

280. What is this North Atlantic contract?—A Cunard-White Star contract which was laid before the House. The reference to the insufficient provision relates to the fact that certain arrears due to be paid under that contract, which it was expected would be paid in the previous year, fell into this particular year. It is merely an accounting point.

281. On No. 5 we usually have an account put in, do we not?—E.5.

282. Did not we have one last year, *Mr. Ismay*?—(*Mr. Ismay.*) Yes.

(*Same was handed in.*)*

283. We will not discuss it to-day, we will take it on Thursday. Could you

† *Note by Sir Gilbert Upcott:*—This answer is applicable only to expenditure on minor works and on works carried out on certain leased premises. Expenditure on sites and major works is included in the Post Office Loan Expenditure Account.

* See Appendix 14.

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tell us what progress has been made with the Air Mail service?—(Sir *Thomas Gardiner*.) This particular year saw the development of the "all-up" service to the Continent which, in the course of the year just passed, has been practically completed. It marked the preparation for the Imperial Air Mail scheme which, early this year, the financial year we are now in, was brought into operation and is working to South Africa and is shortly to be extended to India. Taking the year, 1935, we carried to and from this country by air 507 tons in 1935, 733 tons in 1936, and in 1937 1,167 tons. I said to and from; I should have said away from this country, in one direction only. There has been a very rapid expansion indeed of air mail user largely arising from the development of the "all-up" system, that is to say, we send by air any letter that will be accelerated by being sent that way rather than by rail or road or sea.

284. Are you continuing to charge extra rates?—No, there is no surcharge in the case of the "all-up" system. As regards the Imperial Air Mail scheme, the rate of charge is the same as the rate of charge for letters conveyed by surface transport, except for a lower unit of weight. The surcharge system disappears altogether with the introduction of the Imperial scheme, so far as those parts of the Empire served by this service are concerned.

285. When you have returned to the ordinary rates, so to speak, will there be any substantial effect on Post Office finances?—The effect of the Imperial scheme is that we are going to provide to India, say, a service four days a week, getting there in half the time it takes to get there at present. Similarly with Australia and South Africa. To get that result the Post Office, as explained in the White Paper, is for the time being accepting a loss on this service of £200,000 per annum, which it hopes will rapidly be restored to it by the development of the traffic.

Mr. *Culverwell*.

286. On the point of Air Services, I understand you send your mail to Switzerland by air?—Yes.

287. Does that cost more?—Yes, it does.

288. What arrangements have you got for paying the difference?—We make our arrangements with the various companies on the best terms we can. It

is so much per pound or ton that we pay them.

289. It is not a fixed contract per year; it is on the amount you send?—Yes, it is normally on how much we send, but there are varying arrangements according to the varying circumstances.

290. E.4, "Savings on the introduction of the Dover-Dunkirk Ferry Service". How do you effect the savings? Was it by means of a contract with the Ferry Company?—(Mr. *Ismay*.) There was a saving of £2,500 in connection with the Harwich-Hook of Holland service really due to a revision of our bag circulation arrangements when that service was introduced; it resulted in a reduction of the number of bags carried and, in addition, some mail was diverted to the Scandinavian Air Mail.

291. "And on the North Atlantic services due to infrequency of suitable sailings"; what does that mean?—(Sir *Thomas Gardiner*.) We have a contract service every Wednesday, by which we send everything we have. At the end of the week there is no contract service, but we send the mails, if at all possible, by British ships. How we define "at all possible" is that we send them by British ships if they will not be delayed more than three days in arrival, by being sent by that ship rather than a foreign ship. The ships which the Cunard-White Star Company used on the Saturday were so much slower than the other ships that we had to give considerably more than we expected of this traffic to the "Bremen" and "Europa", and some of the French ships. The result was that the British firm got £28,000 less than we anticipated that they would get. The actual money paid to the foreign ships is paid on a different basis and directly out of revenue, therefore it does not come into this.

292. I made enquiries about this some time ago, and I understood the mail was sent by the first available ship, regardless of what nationality it was. Now you tell me it is delayed for three days?—No.

293. Or it may be?—I said it might be. I think what was said was that in mid-week it always goes by the contract ship, which is the quickest ship available, except very rarely. At the end of the week the traffic is dealt with on the lines I have described, but in actual fact

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we find it is only on the rare occasions that the ship used is other than the fastest ship available.

294. Can you tell me if that practice is followed by other countries? Do they send their mail by the quickest route, regardless of the nationality of the ship?—No, they do not. (Sir Gilbert Upcott.) I believe that the United States sends its mail always by American vessels unless you otherwise specially mark it.

295. That is why I asked the question. Our policy is definitely not to favour our shipping if it militates against the mail?—(Sir Thomas Gardiner.) We felt that always to send the mail by our own ships would result in such a service that the Post Office could not defend it. We had cases of people sending letters off and arriving in the States before the letters which they sent off some considerable time before they sailed had reached the people to whom they were addressed. The change we made when we entered into the new White Star contract had, I think, a very excellent effect on the service from this country to the States.

296. Even now there are considerable delays if there happen to be two or three fast ships sailing together?—The Post Office's instinct is always to use the quickest ship it can get hold of, in the national interest some preference is given to British ships—I think rightly given.

Sir Edmund Brocklebank.

297. On the all-up system, do you change from one aeroplane to that of another Company altogether? Would you send mails for Java, to Amsterdam, and then by K.L.M., which would be very much quicker than anything you are doing?—The letter going to Java has to pay a very considerable surcharge made up of our fee, plus anything the K.L.M. charge. If people specially ask for a letter to be sent by that route, it is sent by that route, but at a very heavy charge.

298. But quicker?—Yes, but when the Imperial Air Mail scheme comes into operation I do not think we have anything to fear from the K.L.M. It is a passing phase.

299. In sub-head E.5. why is it "Less Supplementary" in this particular instance? I can understand "Supplementary", but why is it "Less"?—(Mr. Ismay.) We were aware at the

time of framing the estimates that there was going to be a saving on that head, and it is the normal practice, in order not to swell supplementaries, that these savings should be taken account of and generally shown.

Chairman.

300. Is there anything more on page 17? On page 18, what is the total expenditure now on publicity?—(Sir Thomas Gardiner.) There are two totals that have been quoted, the total that appears under this head and under another similar head relating to the Savings Bank and another total including all the expenditure in this relation. The total under this head was £77,000, which was practically the same as last year. The overall total which I think last year was about £193,000, or something like that, is this year £200,000.

301. You mean the year of account?—Yes. (Sir Gilbert Upcott.) That includes the Stationery Office; that is a figure I gave last year. (Sir Thomas Gardiner.) Yes.

302. How does the account for the Post Office Magazine now stand?—The position is practically the same as it was last year, except that the costs are going up. I think the cost was about £1,000 more in this year than it was in the previous year, and the deficit on it at the moment is about £4,000.

303. It is a larger deficit, is it not?—By £1,000, I think.

Chairman.] I have no questions on page 18.

Mr. Culverwell.

304. With regard to the film production, do you find that those displays you give of Post Office films are worth while?—Our belief is that they are the best form of publicity activity that we have got. It is not easy to judge the value of these things, but, as far as we can estimate it, they are very successful.

305. When you say "Publicity value," do you mean educating the public in the different branches of your organisation?—There are two aims, one the endeavour to convince the public that the Post Office is a well-run efficient service, and the other to induce the public habits that are useful to the Post Office, particularly the habit of early posting.

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[Continued.]

Mr. Benson.

306. F.I. "Increase in conveyancing work, £1,000." Do you not have your own salaried conveyancing lawyers?—Yes, we have, but, in connection with the campaign for the rapid introduction of Automatic Exchanges, we got out a standard type of exchange suitable for small exchanges up to about 800 lines or thereabouts. We were putting these up very rapidly throughout the country. They are very small jobs; we have only to get a plot of ground and, in order to expedite the whole business, our Solicitor got local solicitors to deal with the conveyancing work involved.

Mr. Wilfrid Roberts.

307. If the £70,000 grant is for the whole publicity, what does the film publicity actually account for?—Film production and distribution, £18,000.

308. Only £18,000?—Yes.*

Sir Robert Smith.

309. You said you wanted to induce habits in the public which would be useful to the Post Office, so this question seems to come under publicity. In Northern Ireland, if one wants to send a telegram, I understand that the proper telegraphic address is Belfast, no matter how far the place may be from Belfast?—On a telegram you have to put Belfast?

310. Yes.—That is a complete myth.

311. Your own people tell me so. When I wanted to send to Killinchy, County Down, 20 miles from Belfast, they said, "Killinchy, Belfast." I said, "No, it is 20 miles from Belfast"?—I should be sorry to set myself up as an authority against a counter-clerk in a matter of this kind, but I think on this occasion the counter-clerk was wrong.

312. I think if you make enquiries—?—I certainly will.

313. I spoke to the Postmaster about it, and I wondered why in one district one wanted to have this inconvenience for the public?—It is a mistake on the counter-clerk's part.

314. I wanted to bring it up; perhaps you will enquire into it?—Yes.

Sir Isidore Salmon.

315. Page 18, "Uniforms"; I notice the large quantity of extra uniforms. Is that because of more staff or higher

* *Note by Witness*:—Including the cost of display this figure would become £32,000. Of this total only £15,600 is chargeable against the £70,000 provided on Subhead F5.

cost of the uniforms?—I think it is due to three different things. It is more staff partly, also we have improved the uniform of the Postman and the Boy Messenger, and, in addition, there has been a rise in the actual cost of the uniforms.

316. "Motor vehicles"; I notice the amount of money you are spending is very much higher; is that because you are wanting more for the business for development?—Yes, I think that increase almost entirely arises from the user of the quarter-ton motor for the acceleration of the first delivery in the outlying parts of towns. It has been a great difficulty with us to get that delivery finished quickly, and we have discovered that by the use of motors we can get satisfactory results.

317. Your machines are not wearing out any quicker?—No, rather the other way round; we have extended the life from 6 to 6½ years.

Chairman.

318. Pages 19 and 20. On page 20 there are two rather large defalcations at the top of the page, and those are referred to again on page 26, I gather. They are the same ones?—(Sir Gilbert Upcott): The first one. (Sir Thomas Gardiner): The first one, not the second.

319. Could you say something about that?—May I ask Mr. Ismay to deal with the first of these, he is well acquainted with the case.

320. Yes.—(Mr. Ismay): This is a very involved story.

Mr. Lathan.

321. Which is this?—£623 in combination with £4,748 on page 26.

322. Do you say it is included in the £4,000?—The charge is split up between two heads; the total amount involved is £5,372, partly Savings Bank business and partly general business. The position on this was that a check on the accounts in October, 1935, disclosed a certain deficiency. Various excuses for that were offered. The amount was made good and, after consideration, the sub-Postmistress was retained. There was nothing at that stage to show that there was anything wrong, save just at the moment of check a certain amount of money was short in that till, although it may have been in the general till of the office on the greengrocery side, or whatever it was, so no suspicion

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arose of anything at that stage. In February, 1936, only a few months later, a second check was made, and that disclosed a further cash deficiency. The Postmistress was suspended at once, and authority was, in fact, given for her dismissal, but in the meantime investigations were proceeding and a certain amount of information was laid and this disclosed a big series of frauds which had extended over a very large number of years. They are, in fact, very complicated, but they fall into four main groups. You may remember that, just after the War period, and during the War, Treasury Bonds were issued by the Post Office in the form of bond books. Those were recalled as the issues were closed, but in fact, in those days the question of checking up that every book had been returned was a terrific business, and it was not completely done, and certain of these books remained in the hands, apparently, of this sub-Postmistress. She proceeded to sell to her clients alleged Treasury Bonds by issuing these few books she had got. Four people were involved, and this went on over the period 1927 to 1932, I think. There was no entry whatever in any Post Office account at that stage. She had the complete confidence of all the villagers; in fact, after her trial in Court, she seemed still to have been a local heroine, judging from the reports. She conducted a little business of her own with those bond books, and she regularly paid these people interest and solemnly entered it up in the bond books, which is not at all the Post Office procedure, and we knew nothing at all about it. I think there was one person to whom she did not pay any interest, but why that person did not grumble is still, I think, a mystery. The next series fell nearly all into 1935 onwards, practically at the time it was discovered. There, certain ordinary Savings Bank books were issued and they were never accounted for in any way to the Post Office, no cash entry made in the accounts, the cash was suppressed, nothing entered at any point whatever in the accounting system. The opening of the account obviously was not notified to the central authority in any form. Then a variant on that was the failure to report certain Savings Bank deposits on genuine books, and apparently a certain amount of forgery there in withdrawing on genuine books, by forging the

depositor's name. The fourth type involved 12 persons. It does not enter into this loss but I ought to mention it. The sub-Postmistress had been accepting money from members of the public for investment; there was no official document whatever; she gave them little slips of paper in the form of receipts where she gave any receipts. It is still a matter of some difficulty to determine what the clients of the Postmistress thought they were investing in. There is no mention whatever of the Post Office on most of the documents she handed out. I think there is only a casual reference to the Post Office on one piece of paper. She secured by this means money, for which we have not accepted liability, of some £5,000, of which she herself repaid £200, I think.

Sir Isidore Salmon.

323. She has repaid it?—She has repaid to people who clamoured. She repaid some £200 and she paid them interest regularly apparently. In all she found about £1,500 in interest payments to these people. The whole thing is very intricate, and I want if possible to confine it to a broad sketch. The relevant thing from our point of view, of course, was: Could we have found anything of this out? That has been investigated in great detail, naturally. We are up against this point, that however perfect the accounting system may be, if people do not in fact disclose anything of their transactions and if the people who have conducted those transactions with your servant do not make any fuss about it and do not do all the things which one normally expects ordinary people to do; if they accept bond books which were quite obviously out of date and altered in manuscript here and there; and if the people are apparently persuaded by the Sub-Postmistress, when they are withdrawing Savings Certificate money, to put it into one of her pools, the accounting system, of course, just will not pick that up. We felt, on a very complete analysis of the whole position, that there was a certain amount of culpability on the part of the Post Office, and I think the only two things are these: First of all there was the failure to recover those Treasury Bond books. As I have explained, that was shortly after the War. Actually, to this office five books of one series and five books of a later series were issued. There were no purchases. The

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problem of getting all those back was really to find out how many had been issued to every office in the country, to find out by check how many had been issued to the public, and to make sure that you had the rest. I am not really surprised that that broke down. The other aspect of it was: Could any inspection have discovered these books? The answer to that is that they were removed to her private apartments, and it was really only when we were on the track of fraud and she was asked to allow access to her private apartments that these books were discovered. The other point is the question of the check in February, 1936: Whether the officer there had failed to observe anything that he ought to have observed. There is one clear point there. Ten Savings Bank books had been issued and no transactions brought to account. I think it was probably rather ingenious of her to take ten, because the Cash Book record, which was probably none too clear, as many of these are not, suddenly switches from 782 on one page to 792 on another page, and the man missed it. It was the officer's job to see that the books remaining in the place ran from a particular number and were in sequence, and that the books issued had been accounted for. That man was reprimanded, and I am very sorry to say he committed suicide soon afterwards. Apart from that, we think the only other possible failure on the part of the Post Office was in the case of one signature on a Savings Certificate encashment where we think that a certain suspicion might have arisen. Of course, that again is a very difficult problem to assess in retrospect, because the signatures of Post Office clients change almost beyond recognition at times, but at the same time that was a case of a man—now retired—who had failed to follow it up, perhaps, with the vigour that we should have thought necessary. I think that really concludes the whole of this sad story in retrospect.

Chairman.

324. Can you tell us in what part of these Islands these innocent people live?—This was Port Gordon Sub-Office, Buckie.

325. Where was that?—In the North of Scotland. Within my experience most frauds of this type are in Scotland.

Sir Isidore Salmon.

326. Were there many staff employed in this Post Office or was the Sub-Postmistress alone?—I do not know, but I should imagine she was alone, with one occasional assistant probably.

Chairman.

327. We cannot do very much more, can we? What happened to the lady? She was prosecuted?—She was aged sixty-two. She had held the office for forty-one years. She received twelve months' imprisonment. Her Counsel made a very eloquent plea.

Mr. Culverwell.

328. Did she pay the money back?—We held back a small amount of pay that was due to her—£12.

Chairman.

329. We cannot do very much more with that, I think?—I think one can honestly say that the system was not at fault.

330. On page 20 one sees quite a number of deficiencies due to burglary. Analysing that list, with two exceptions they are all in London?—(Sir Thomas Gardiner.) Yes.

331. Is there any reason why they should have taken place in these small Post Offices in London rather than elsewhere?—Whilst the ones that appear on page 20 are nearly all in London I may observe that while we had forty in London over a period of some four or five years there were one hundred in the Provinces during the same period. There is, however, certainly a concentration of effort on London, if I may put it so, and I think it may arise from prevalence of the lock-up shop system. Outside London it is rather unusual to find a Sub-Postmaster who leaves his office at night. The Sub-Post Office is usually in his house, if he has not got a good safe he usually takes the valuables upstairs with him when he goes to bed. We do what we can to see that Sub-Postmasters provide satisfactory security, and a man, before being allowed to sleep away from his office, has to satisfy us as regards what arrangements he has made for the safety of the Post Office stock. Generally we ask him to give the standard of security that would be found in other shops in the same neighbourhood. That is roughly our test. I imagine that shops in London generally

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suffer more in the matter of burglary than shops in other parts of the country.

Mr. *Lathan*.] Some of these are a good long way out of London but are apparently included in London.

Chairman.] One of them is in Harrow.

Mr. *Lathan*.] There is one in Ilford, which is a good way from London; there is another at Brentford, one at Hull, and one at Northampton.

Chairman.

332. I excluded Northampton and Hull. We cannot do any more with it, I suppose. Pass on to the next page, please. On page 21 there is an item in regard to compensation for personal injury arising from accidents in which postal vehicles were involved. Do you regard that as a big item in relation to the total work you do?—We do not think it is a big item compared with the total work we do, but we are disappointed that the amount paid in compensation is as big as it is; it has jumped by perhaps £4,000 since last year. It is a thing for which I have been unable to find an explanation and of which we are endeavouring to find an explanation at this very moment.

Chairman.] Are there any questions on page 22?

Sir *Isidore Salmon*.

333. On page 22 it does occur to me that the figures of spending under the headings of Engineering Establishment and Engineering Materials, both in sub-heads I and K, have gone up a very large amount. Is that on account of expansion?—I think I might put it like this: We budgetted for a net increase of 190,000 stations. What we did get was 247,000, which is far the greatest increase we have ever had.

334. Is your stock of engineering materials higher to-day that it has ever been?—Yes, much higher.

335. Is that because you anticipate difficulties in getting engineering materials?—It is to cope with the very much increased demand that we are getting.

Chairman.] I may have to return to page 22 later. Are there any questions on page 23?

Mr. *Lathan*.

336. I suppose the comment which Sir Thomas has made with regard to the expanding activities of the Post Office

would explain the heavy expenditure above the estimate revealed in the Account on page 23, sub-head L. In nearly every case there is a considerable excess there?—Yes, that is the position. The demand far exceeded any expectation we had.

Chairman.

337. Might I return for a minute to page 22, the last Note. Could you explain that last item, the £10,000 on account of abnormal circumstances; it was an extra-contractual payment?—Yes. The contractor referred to is one whom we have been developing as an independent source of supply in relation to a product which is governed by ring conditions. He made a tender to us which gave us a price that we felt to be very satisfactory and which, as it proved ultimately, was too satisfactory, inasmuch as the man was actually making a loss on the contract. He threw open his books to us, and we have examined them on four or five separate occasions to discover exactly where he stood, and it was concluded that the additional payment referred to here was a reasonable and proper one to make having regard to his actual expenditure.

Mr. *Peat*.

338. May I ask whether the ultimate price to this contractor kept him still below the prices of the contractors who were, as you say, in a ring?—Yes.

339. It kept him below that?—Yes.

340. Considerably? — Substantially, yes.

Chairman.

341. Are there any questions on pages 24 or 25? Page 26 has been taken with page 20. On page 27, with reference to Note T.1, how did this claim in regard to the Peninsular and Oriental Eastern Mail Service arise?—This is a very complicated story. We made a contract with the Peninsular and Orient Company, and under the International Postal Agreements we were entitled to charge all other countries that use the contract ships a rate fixed by International Agreement, which rate is a high rate. We did and have charged foreign countries on that basis. Then the point arose, what should we charge our own Colonies and Dominions, and, as is not unusual on these occasions, we contemplated something more lenient so

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far as they were concerned. We had in mind to arrange that what remained to be paid after the foreign countries had made their contribution should be distributed amongst the various remaining countries using the service on the basis of the appropriate Postal Union charges, but reduced so as not to be more in total than the amount that remained to be paid. On that understanding India was charged with a certain amount. For reasons which I need not go into now, the other parts of the Empire were ultimately charged at the full Postal Union rate, with the result that the amount that this country had to pay was less than was anticipated when India's contribution was fixed. The Indian Government, some years afterwards, became aware of this fact, and thought that we had used them rather badly. Our own view, on looking at the matter again, was that the documents which had passed between us might have been interpreted in the light in which India supposed them to have been interpreted. We felt also that had India put that particular point of view to us at the time the matter was originally under consideration, we should have felt that it was a not unreasonable point of view. We therefore concluded that there was a case for doing something to meet India, and for future years we agreed to give them all they asked for. There remained the period in between, about ten years, in respect of which they felt we had charged them £70,000 which they should not have been charged, and it was finally agreed to split the difference with a result that we refunded over £35,000.

342. Are there any questions on that point? On Note T.5, there is a claim in abeyance, is there not?—Yes.

343. What is the position?—The position there is that for many years we have been at variance with Local Authorities about the damage alleged by us to have been done to our cables by their trams, etc. The legal position is very difficult. It is not easy to prove that it was due to that cause. Some years ago we came to the conclusion that we might, by adopting certain devices and with the help of the local authorities avoid this damage, and we concluded that the better plan would be for us to develop those devices in co-operation with the Local Authorities, and prevent the damage happening rather

than try to extract money as compensation for damage. It was therefore decided to settle outstanding claims on a basis which would be mutually acceptable. This was done, and we are engaged now in further researches with a view to establishing a system under which damage will not arise or will arise to a much less extent than hitherto.

344. Are there any questions on pages 28 or 29? May I take it that this Account is approved? (*Agreed.*) Page 30, Appendix No. 1. This Account, I believe, was asked for by the Committee on a previous occasion?—That is so.

345. It appears, therefore, for the first time. There seems to be a remarkable correspondence between the totals of estimate and expenditure. Is that luck or good management?—You will remember that we had Supplementary Estimates in a number of these cases. It is not as good as it looks, because Supplementary Estimates were put in much later, in the Spring, so that we had a lot of information at our disposal before these final totals were arrived at.

346. In regard to the first four items, on what principle and method do you divide the expenditure as between Vote and capital?—That is a mystery which I should like Mr. Ismay to explain if he would. (*Mr. Ismay*): I think I can explain it in this form, that we charge to capital only the real added value of any plant or material we put into the job, after allowing for all recoveries and so on. In certain cases, because of the elaborate nature of the work, instead of exact assessments on any job, ratios of recoveries are adopted; but the principle is that we shall charge no more to capital than is justified by the new plant value put into the work.

347. Are there any questions on pages 30 and 31? On page 31, there seems to be an excess of £145,000 on the last item, Sites and Buildings. Can you explain how this arose?—(*Sir Thomas Gardiner*): We were faced with a rather serious emergency at Bristol. The traffic went up there at a great pace. It increased by about 140 per cent. in three years, and it was essential that we should move and move quickly. There was a site next door to us available which we wanted to get as quickly as we could, and we did in fact purchase at a cost of £200,000. It was what we call an emergency purchase, arising

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from the sudden increase in the telephone traffic and the need for taking immediate action in relation to it.

348. Was there an Inland Revenue Valuation in respect of the property?—Yes.

Chairman.] Are there any questions? May I take it that this Account is approved? (*Agreed.*) On page 32,

Appendix II, are there any questions? May I take it that this Account is approved? (*Agreed.*) Page 33: Post Office Loan Expenditure. Are there any questions? May I take it that this Account is approved? (*Agreed.*)

I am afraid we shall have to adjourn now, and take the Post Office Fund Account on Thursday.

(*The witnesses withdrew.*)

(*Adjourned till Thursday at 2.30 p.m.*)

THURSDAY, 10TH FEBRUARY, 1938.

Members present:

Mr. MORGAN JONES in the Chair.

Sir Irving Albery.
Mr. Benson.
Sir Edmund Brocklebank.
Mr. Culverwell.
Mr. Mabane.
Mr. Peat.

Mr. Pethick-Lawrence.
Sir Eugene Ramsden.
Mr. Wilfrid Roberts.
Sir Isidore Salmon.
Sir Robert Smith.

Sir GILBERT UPCOTT, K.C.B., Mr. W. R. FRASER and Mr. H. BRITAIN, called in and examined.

STATEMENT OF EXCESSES, 1936.
CIVIL APPROPRIATION ACCOUNTS, 1936.

CLASS VI.

VOTE 2.

MERCANTILE MARINE SERVICES.

Sir WILLIAM BROWN, K.C.M.G., C.B., C.B.E., called in and examined.

Chairman.

349. We take the Statement of Excesses, 1936, beginning with the Mercantile Marine Services. Turn please to the first paragraph of the Treasury Statement on the Excess Vote. We will take also with that page xviii in the Civil Appropriation Accounts, paragraph 36 of the Comptroller and Auditor General's Report. I want to look for a minute, Sir William, in connection with this, at page 255. In 1937, as I gather, you anticipated a saving on this subhead in respect of the Mercantile Marine, did you not?—(*Sir William Brown.*) Yes, Sir.

350. I find on page 255, sub-head E, that you, in fact, spent what you originally expected?—Just about what we expected.

351. You did not get the saving you expected in February, did you?—We did not get the saving we anticipated when the supplementary estimate was framed.

352. Can you tell us why?—The expenditure in this connection is incurred abroad by Consuls and Shipping Masters in different parts of the world. The accounts do not come in and cannot be completed until six months after the end of the financial year in which they

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were incurred. In the early part of the year which we are considering, when the Supplementary Estimate was prepared, the figures were running at the rate shown here of just over £7,000 a quarter. Then we thought that we should save, therefore, on our original estimate. In fact, when we got the complete returns and examined them we found that a good deal more had been spent in the last quarter than in the previous quarters. The reasons, as far as we have ascertained (we have made enquiries of Consuls and Shipping Masters abroad) were, first, the increased number of seamen engaged, which would, in itself, lead to an increased number, in due proportion, of seamen repatriated; secondly, an increase in the proportion, owing to the fact that the extra engagements involve taking to sea a number of men who, in duller times, were not at sea and who were mostly the older and less fit men. Thirdly, as explained here, the conditions in certain trades, notably the Mediterranean, where there was a good deal of disturbance, and a certain number of seamen showed more reluctance to proceed on voyages than they had shown previously.

353. So they were left in various ports?—They were left in various ports and became a charge.

354. I understand that you will be able to recoup yourselves for expenditure on that head?—We reclaim from the shipowners, where the man has been left and expenses have been incurred.

Sir *Isidore Salmon*.

355. I should like to be clear on one point. Is there any overlapping with regard to Class VI, Vote 2, and Class II, Vote 2? Under this head you are dealing as you said, with British seamen?—Yes.

356. But when you look at Class II, Vote 2, you will see that under Consular Services there is a similar sort of expenditure on British subjects. Do you draw a line of distinction between seamen and British subjects?—Yes. There is a very clear line of distinction drawn between seamen and British subjects, because the seamen can very often be repatriated as a seaman and under seamen's conditions; he may be able to work his passage home at times; but the distressed British subject is a charge on the Consular vote, and he is different

from the seaman in this sense, that he gets his passage paid for him at the ordinary fare. If we tried to repatriate seamen under that arrangement it would be very expensive.

357. Does the Consul deal with the funds in both cases?—Yes, in both cases, but he accounts to us for the expenditure on British seamen.

Chairman.] Are there any further questions on the Statement of Excesses? Turn, please, to page 255. Page 255 is summary. Pages 256, 257 and 258.

Sir *Isidore Salmon*.

358. On page 258, last year your predecessor stated with regard to light-houses in the Red Sea that certain countries had not paid their contributions and he hoped something might be done in that connection. Has anything arisen?—I am afraid the position has not changed. Needless to say, we have not forgotten it, and will take any chance that arises of trying to revise that arrangement and see that the residue is not left on our vote.

359. As a matter of fact, are you letting it sleep?—No.

360. Are you taking action?—There have been, in fact, some informal discussions with the French Government, for instance, since the last time the Committee examined this vote.

361. On the recovery of sums expended under sub-head E.1, on page 259, in the relief and repatriation of British seamen, I notice under that head you have really got more money than you anticipated?—Yes; it is always rather an uncertain sum, in the same way as we cannot estimate accurately in advance what the actual expenditure will be.

362. As against the £1,000 you have overspent, roughly, under that head we were discussing on the excess votes, you seem to have realised £1,000 more than you anticipated?—That is so; but when we took the supplementary estimate, we had to put in what we expected would be the expenditure, and we are not allowed to take into account the excess receipts and apply them as appropriations in aid. (Sir *Gilbert Upcott*): Those will be applied, when Parliament authorises it, to meet the excess. They cannot be applied until Parliamentary authority is obtained.

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[Continued.]

Mr. Culverwell.

363. What is the relationship between the Board of Trade and Lloyd's Register of Shipping, or any other societies?—(Sir William Brown.) There are two British classification societies, Lloyd's Register and the British Corporation Register of Shipping. They were established by the interests concerned, underwriters, shipowners and shippers, to make sure that the underwriter, in particular, knew what risk he was taking when a ship was underwritten, and they are set up really to serve the purposes of the trade itself. There is, in addition, the general statutory responsibility of the Board of Trade to ensure safety of life at sea. It is specific and detailed in respect of passenger ships, for which the Legislature thought it necessary to make special provision. It is more general in respect of cargo vessels, where our real residual power is the power of certain officers to detain ships and to stop them from going to sea if they suspect them of being unseaworthy. There is one definite point of close co-operation. The classification societies are our agents in load line surveys and the assignment of load lines to ships. That, in itself, ensures the working together of the officers of the societies and the officers of the Board of Trade. We have, from time to time, considered whether that is the most economical arrangement and whether there was any possibility of duplication or overlapping that could be saved; but, over and above the consideration that the Board of Trade and the Government must retain a general responsibility for ensuring safety of life, there is the fact that, when we went into it in some detail with the shipowners, shipbuilders and others, to ascertain where overlapping might take place, they were all convinced that the present arrangements were most satisfactory. There was a certain amount of duplication, but they preferred that, the shipowners and shipbuilders said, because it gives them two independent opinions on any question, the Board of Trade Surveyors' and the Classification Society's Surveyors'.

364. What class of work do the Board of Trade Surveyors undertake?—First of all, for passenger ships, where the work is detailed in the statute and in the orders under it, passenger ships have to be constructed under the supervision

of Board of Trade Surveyors, and surveyed by Board of Trade Surveyors every year, and there are detailed requirements in regard to bulkheads and such provisions, which are concerned with safety. It is really based on safety. The classification societies lay down regulations in relation to the strength of bulkheads, too, and all things like that, and they have a general survey once a year and special detailed surveys every four years; but in general the classification surveys mostly deal with cargo boats. Our survey is mostly concerned with passenger boats, although we deal with cargo boats, too.

365. If you have faith in the integrity and efficiency of the Lloyd's Register of Shipping surveyors, could not you get them to undertake the work that your surveyors at present do?—As I say, we explored that question and found that the wish of the shipping community was that that should not happen. We have a good deal of trust in the classification societies. They assign load lines as our agents; but even there it is necessary for us to keep some check so as to be able to assure Parliament that there is some statutory authority controlling it. We should need some staff. We have a much smaller staff than the classification societies, only some 200 odd Surveyors altogether, and they have certain functions that would not appertain to the classification societies, such as the question of accommodation on ships, which has nothing to do with the classification societies, the question of crew's quarters, and other questions which the classification societies do not touch, such as life-saving appliances, the examination of officers and engineers to give them their certificates, and the examination of men to see whether they are efficient lifeboatmen. There is a considerable amount of the work that does not overlap in any way.

366. On what basis do you pay Lloyd's for the work they do?—On the load line?

367. Yes?—It is a lump sum, I think. There is a scale laid down for each ship or a lump sum; I am sorry I cannot remember.*

368. Do you ever check them?—Yes, from time to time.

Note by Witness :—Lloyd's Register are paid by shipowners according to a scale of fees prescribed by the Board of Trade.

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[Continued.]

369. You have never had any cause to complain?—None that I can remember.

370. Supposing you were to pay Lloyd's surveyors extra for the special duties that your surveyors at present perform, could not you cut down the number of your surveyors or abolish them altogether?—I think it would raise one question, which would perhaps be policy, as it is outside the administrative question, namely, whether the Legislature would entrust to people not under the direct control of the State the power to detain ships on the ground that they were not seaworthy, and power to require certain things on that rather arbitrary ground.

371. They would advise the Board of Trade?—Yes, but it is our surveyors who will carry it out. The actual detention would have to be done by them; the surveyors, who are given special authority, at present have the detaining power, and only they.

372. You are quite satisfied that you could not request Lloyd's or any other organisation of that sort to undertake some of the extra duties that your surveyors perform?—It was with that possibility in mind that we had these discussions some years ago with representative shipowners, shipbuilders and others; informal discussions which lasted for some time, at the end of which all those consulted said they preferred the present arrangement to continue. We had hoped that there might be some saving to be obtained.

373. As you said, Sir William, that was the view of the shipowners, who wanted a double check?—But also of the shipbuilders and the societies.

374. The societies are hardly competent to express an opinion on that point, are they?—Except that they may have been tempted by the prospect of getting more work and more pay for it.

375. Supposing the Board of Trade, for instance, builds a light-vessel or any kind of vessel, do your surveyors supervise the construction?—Yes.

376. Or do you employ Lloyd's?—No, normally our surveyors supervise or advise on the plans when the lighthouse authorities, for instance, build a light-vessel; they get advice from us.

377. Why do not you employ Lloyd's for the purpose; if Lloyd's are competent to supervise the construction of all other vessels of the Mercantile Marine, why cannot they supervise your

light-vessels?—In one sense it is not quite applicable, because one object of Lloyd's classification is to give a class to the vessel to ascertain what rate of premium shall be paid to the underwriter. The Government vessels are not subject to insurance in that way, and Lloyd's, in a sense, have not the same interest or incentive to look after it as our surveyors.

378. Surely Lloyd's surveyors are there to see that the ships are built to a certain standard of durability, and so on?—Yes.

Mr. *Culverwell.*] Your light-vessel may be in the same class. It may be of a different type or standard, but they could easily supervise the construction and see that your requirements are carried out.

Chairman.] I am not sure that some of your questions do not trench a little closely on policy.

Mr. *Culverwell.*] I do not wish to do that.

Sir *Robert Smith.*

379. Correct me if it is on policy, but I want to understand this point. With regard to passenger vessels, you take special care with surveys?—Yes.

380. This may be policy: Why do you not take the same care with regard to cargo vessels and other vessels, seeing that there are British men employed on these vessels and if they are not in proper condition the lives of the men may be lost?—As I understand it, we have the general responsibility, of course, for cargo vessels too, and our surveyors specified for that purpose have power to detain a ship and order things to be repaired, but, as I understand it, the original intention of the Merchant Shipping Acts was that the Government should take a special responsibility for passenger vessels. I suspect, though I cannot say, that the shippers, or those interested in sending cargo to sea, would take care that it went, as it were, in a watertight box and that the engines were efficient to carry it there; but a passenger cannot look after himself in the same way as an owner of cargo can look after himself.

381. Surely that is an extraordinary thing? The owner of cargo pays just as a passenger pays. It is exactly the same thing, whether machinery or anything else is being sent. Why should the Government take upon themselves the

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[Continued.]

responsibility with regard to the passengers but leave it alone in the other case?—That is, in fact, Sir, the position enjoined on us by the Merchant Shipping Acts. I am trying to guess rather what was in the mind of the Legislature when that distinction was drawn.

382. I wanted to ask further: Have you any power as to the form of certificate, and what is required to comply with the certificate of these classification societies? You say there are only two?—Two British societies.

383. Do you lay down the terms of their certificate at all, and have you any power over the people classifying under them?—None.

384. You do not know the terms? The one society, Lloyd's, for instance, may have a totally different one from the British Corporation—a totally different thing?—They have not, in fact, and, of course, we do know what they do lay down. If that came to our notice, we should be obliged no doubt to take it up with them, and say: "We think one society or the other is relaxing the conditions and making them too easy," but the real check there, as I suggest, is that the underwriters will charge a different premium.

385. The Underwriters do charge a different premium?—Yes, according to the class in which the vessels are placed by the different societies.

386. You are quite certain?—Yes.

387. Because I have heard of cases where there was not any difference at all, whether the ship was classified or not, as far as Underwriters were concerned?—I have never come across such a case.

388. And the Board of Trade have never heard of it?—Not to the best of my knowledge.

389. If you hear of a case in which a ship is supposed to be built up to a certain classification, and it turns out not to be up to that classification, does the Board of Trade take any action at all?—Our Surveyor on the spot knows what ships are being built and, although he has not the same detailed regulations laid down for these cargo vessels, he is entitled to inspect the ship at any time, and has an absolute power of enforcing what he

requires, by saying: "If this is not done, I shall recommend that this vessel be detained from going to sea as not being seaworthy."

390. Whether passenger, cargo or otherwise?—Yes.

391. If you do happen to know of a case in which a ship has not been constructed to Lloyd's classification and has been allowed to go to sea, do you take any action with regard to Lloyd's?—No; none.

392. I thought there was a responsibility on the Board of Trade to look after the safety and welfare of those engaged in shipping; I thought it rested with you?—The action we should take would be in regard to the particular vessel, if we had any reason to suspect that, owing to not complying with proper requirements, she was in any way unsafe.

393. If it happens to be public knowledge that a vessel is not up to the requirements, do you, as a Department, take any action to see that the vessel should not go to sea?—Every Surveyor normally knows what is going on in his neighbourhood and, in fact, of course, he is in close touch normally in the course of his occupation with the Classification Societies Surveyors and knows what they are doing, too; if he had any reason to suspect that any ship might be unseaworthy, he would, on his own initiative, insist on visiting that ship.

Sir *Isidore Salmon*.

394. Is there any place abroad, Sir William, where you delegate your powers to the Classification Society's Surveyor, or does he act as your agent as well as the agent of the shipowners?—We ourselves have no agents abroad. Certain Colonial Governments have Marine Experts, who, on occasions, act for us, but normally we have no officers of our own in ports abroad.

395. Therefore, they do act for you in some cases abroad?—In some cases abroad.

396. And you are quite confident that they can do that satisfactorily?—I think we can have every confidence, but we should always have a check when a ship comes here. If she had not been seen by a Board of Trade Surveyor, and

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[Continued.]

if it were reported that she had been aground, or anything like that, the next time she came into port here the Board of Trade Surveyor would visit her at once.

Sir Robert Smith.

397. The public ought to know that if a ship is classified by Lloyd's, that has no bearing on whether the Board of Trade passes it or not?—Except the general check. You cannot tell which ship has been seen by a Board of Trade Surveyor on a particular date. We have some 200 Surveyors who are visiting ships every day, and a ship may have been inspected by a Board of Trade Surveyor at any time.

398. I imagined that the general public rather thought that Lloyd's classification (I do not suppose many knew of the British Corporation) had a certain value and was more or less guaranteed by the Government. That is not so?—No; it has no Government guarantee.

399. It is merely a voluntary agreement between Lloyd's and people who own vessels?—Saving one respect—the loadline.

400. I know about the loadline, but I am talking of construction?—Yes.

Mr. Culverwell.

401. Supposing a passenger steamer is being built, is Lloyd's Surveyor at work surveying it, and your Surveyor at the same time?—Very often you will find them going round together, and they themselves very often, as a matter of practice, prefer to go round together, and sometimes discuss a particular point together.

402. As you say, Mr. Chairman, I suppose it is a matter of policy, but it seems to be odd that there should be such a distinction between cargo and passenger ships, and I should have thought, if it were necessary for a Government Surveyor to duplicate Lloyd's survey of a passenger ship, logically you might do the same with a cargo ship?—The interests concerned in a cargo ship are of those sending cargo on her, as well as of the owner, and they are in a better position to

assure themselves of the condition of the ship by classification or otherwise than an ordinary passenger is able to assure himself that a passenger ship is perfectly safe.

403. I do not accept that argument. Would it not be possible, where the Board of Trade is constructing vessels, such as light-vessels which I mentioned?—In fact, it would be Trinity House or the other Lighthouse Authorities who would be constructing those ships.

404. Would it not be possible for an Admiralty Surveyor to do that work?—I should have, if I might, to consult Trinity House as to whether they could.

405. Is there close co-operation between the Admiralty and the Board of Trade in that matter? The Admiralty have their own staff?—Yes, but again they have rather different qualifications and training, and are trained to look at a different kind of vessel entirely.

Sir Robert Smith.

406. I do not take the Admiralty, because it is a Department by itself, but supposing any of the other State Departments desire to build a vessel, is that built under the Survey by your Department, or by whom?—Yes, I think by the Marine Department Surveyor.

407. The Marine Department does it for all other vessels?—Yes.

408. Lloyd's do not?—Lloyd's do not.

409. Lloyd's have people abroad, if it is done abroad?—I do not remember any instances of Government ships being built on Government order abroad; there may be some.

Sir Robert Smith.] Were there not certain vessels for other Departments which were built abroad; that is why I was asking.

Chairman.] I do not know that they were built abroad.

Sir Robert Smith.] I thought some were built in China.

Chairman.] I do not recall it. Are there any questions on pages 259 and 260? May I take it that this Account is approved? (Agreed.)

(Sir William Brown withdrew.)

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[Continued.]

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CLASS VII.

VOTE 15.

WORKS AND BUILDINGS IN IRELAND.

Sir PATRICK DUFF, K.C.B., K.C.V.O., and Mr. A. G. BARNETT, C.B.E., called in and examined.

Chairman.

410. Page xxvii of the Comptroller and Auditor General's Report, paragraph 54. We also take the Statement of Excesses, the White Paper. Class VII, Vote 15: "Works and Buildings in Ireland". Could you tell us why these items that are referred to were not foreseen?—(Sir Patrick Duff.) Might I make a statement to try and clear this somewhat tangled history?

411 Yes?—In a few sentences, first of all, the administration of this Vote in Northern and Southern Ireland is this: In Northern Ireland the Office of Works maintains the buildings required for Imperial Services and certain Reserved Services. For this purpose the Ministry of Finance in Belfast, which has a complete Works Department of its own, acts as our agents. Annual estimates for all these Services are prepared here in Whitehall in the ordinary way, and we pay an agency fee to the Ministry of Finance in Belfast to carry out all the administrative work on the works that have to be done. We have, small and large, about 280 buildings scattered about in Northern Ireland. In Southern Ireland, in the same way, there are a certain number of Imperial Services, and the one which absorbs the bulk of the money is Leopardstown Park Hospital. That is a large property of about 180 acres; there are 80 beds in it for patients; the beds are almost continuously full. The Ministry of Pensions think that the hospital will go on for an indefinite period and, as a matter of fact, in the Estimates for the year ahead of us I have a sum for putting up a permanent block to take the place of some wooden hutments there.* For those services in

* *Note by Witness* :—The Ministry of Pensions subsequently agreed that this work need not be carried out during the ensuing year. Provision accordingly will not be made in Estimates for 1938.

Southern Ireland the Office of Works in Dublin acts as our agents.

As regards the causes for these Excesses, perhaps I might expand a little the headings explaining where the Excess has happened, and then I will try to explain why, when we did exceed our grants, we did not take the ordinary step straight away of putting ourselves right by getting a Supplementary Estimate. After the Estimates for 1936 were closed, we had an urgent requisition to establish a Grouped Collection Office for the Inland Revenue Office at Londonderry, and the same thing again at Portadown. We had no provision for these works; they came in after the Estimates were closed.

412. Could you tell us precisely when the request came in?—When the requisitions came in?

413. Yes?—March; but the Estimates in fact were closed by then. We saw that, if we were going to do this work, there was no provision for it, and therefore, unless savings should mature on the Vote elsewhere, we were bound to have a Supplementary Estimate for them. We put that to the Treasury; it was agreed that the works were urgent and desirable and that therefore we should go for a Supplementary if there were no savings to meet the money spent on them. We actually spent, in the year under review, about £2,000 on these two items: Londonderry and Portadown. I would like to take next in sequence the Leopardstown Park Hospital, because that shows the story a bit clearer, if I may take it in that order.

Sir Irving Albery.

414. May we ask where Leopardstown is?—It is somewhere quite close to Dublin.

Sir Edmund Brocklebank.] Is there not a racecourse there?—It is on the edge of a racecourse, which added to our difficulties. In the winter of 1936-7, that is, getting on towards the end of the

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[Continued.]

financial year, there was a terrific storm at Leopardstown. Numbers of trees were blown down. They carried with them parts of the wall which separates our property from the racecourse, carried away overhead cables, roofs from out-buildings, and so forth. There was a certain amount of heavy damage done to works of maintenance which were already in progress on the ordinary yearly programme. The Dublin Office of Works, who had had certain other items of special maintenance through the year, for which there was no provision, reported that they saw themselves at the end of the financial year, as a result of the storm and other commitments, at least £1,000 short. In fact, it transpired that they had underestimated their commitments resulting from the storm and otherwise, and were more like £1,700 short. I, at any rate, was faced in January with a deficit at Leopardstown of what was then stated to be £1,000, so I looked at the other part of the Vote, that is, the Northern Ireland part of the Vote, and I asked them what savings they foresaw having in hand at the end of the financial year. They rejoined that they had had savings on certain items of their work. There had been delay in the erection of Customs Boundary Huts; there had been savings in rent, and less work put in on coastguard stations than had been anticipated, and, in sum, they said they anticipated a saving of upwards of £2,000. I therefore asked the Treasury whether, seeing that I would have £2,000 at the end of the financial year in hand to be thrown up on the Northern Ireland part of the Vote, it would not be a reasonable thing to apply that to meet the deficit on Leopardstown, and that was agreed; so that at the end of January I felt myself to be on an even keel again. To my dismay, these savings in Northern Ireland, on which I had been relying, did not, in fact, mature. The reason was that the Finance Ministry in Belfast were assailed with very heavy and unexpected requisitions for furniture which they had not a chance of knowing about earlier on.

Chairman.

415. Why not?—They were unexpected demands.

416. For furniture?—Yes; buildings that possibly had not been expected to be completed came in with a rush and

demanding to be furnished, when they had anticipated that they would not fall into that financial year. These claims were met without having due regard to the assurance which had previously been made to me that there should be an underspending on that Vote of about £2,000. They did not overspend their grant. They just failed to underspend it by the amount that they assured me they would underspend it, earlier in the year.

I am afraid it looks as if I am trying to put the blame of this excess on to my agents, and in candour I am bound to say that, if I had not had the assurance that the money would be available at the end of March, I should straight away have put myself right and gone for a Supplementary to get it. In fairness to my agents, who, it is perhaps relevant to mention in passing, have carried out this work for us with general acceptability and without any of these untoward events for about 16 years or so, I think I ought to mention that they were afflicted with an epidemic of sickness which appears to have put their office very much out of commission for the time being. When I was making representations to them—rather heated and agitated representations as to where this money was that I understood was going to be in hand—I had some letters, which are so calculated to arouse sympathy that perhaps I might read two extracts from them. On 15th March, 1937: "The Officer in charge of the Branch which deals with these Accounts has been on sick leave for the past couple of months and two of the Officers next in seniority are completely new to the work". Then again, a week later: "We have been working here under considerable difficulties, and no system can possibly stand the amount of changes and sick-leave that we have recently been afflicted with".

I am very sensible of the seriousness of the irregularity which this miscalculation of mine has led me into. I have made representations to my agents, and the records which they will keep in future for the purpose of watching the progress of their expenditure and for furnishing accurate liability statements, I think I can now say with assurance, will obviate such errors as this in the future. I have tried to show the history of this somewhat involved case as briefly and clearly as I can, but the sum of it

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[Continued.]

is this, that I must plead guilty. But I would plead that the storm at Leopardstown, which in fact was the material cause of our financial upset, was an accident, and that the epidemic of sickness in the rather small Department within the Finance Department at Belfast, in the incidence of the time that it happened, was a bit unlucky for me; in fact, that both these events and their consequences might be regarded perhaps as in the nature of acts of God, with the proviso, of course, that they were acts of God that do not recur on any future occasion!

417. Is it your point, Sir Patrick, that, if this claim for furniture for Northern Ireland had not been forthcoming, you would not have required anything at all?—Yes. The Northern Ireland Finance Ministry said: "We shall have in hand at the end of March upwards of £2,000". In fact, when it came to the end of March, they had not got £2,000 in hand, because they had passed requisitions for furniture, forgetting that they had pledged me £2,000.

Mr. Mabane.

418. Did they know what you wanted your £2,000 for?—Yes; they did.

Chairman.

419. Could not they have postponed this request for furniture for another month or two?—I think it was simply an oversight; they had promised to underspend so much on their Vote, and they did not keep to that.

420. They had pledged themselves to a lesser expenditure to their Parliament in Ulster?—No, to me. They are my agents for all the buildings and supplies to these buildings in Northern Ireland. (Sir Gilbert Upcott.) The furniture was required for Post Offices in Northern Ireland.

421. Perhaps that could not have been postponed?—(Sir Patrick Duff). Perhaps it is relevant, Sir, to add that this money does, in fact, come out of the share of Reserved taxation, when that is calculated up as between the Northern Ireland Government and ourselves.

422. If you look at the paragraph written by the Comptroller and Auditor General, he gives certain reasons for the extra call, so to speak, but look at the Treasury Note. They give an extra reason which does not appear in the Comptroller and Auditor General's

Note at all. I do not quite understand how that additional reason came in in that way?—Londonderry and Portadown. I merely mentioned that as part of my case, because it showed one reason for overspending the grants at all. That overspending was, in fact, cancelled out by other savings, and, on the top of those savings, I was told there would be about £2,000.

423. Are there going to be more patients in this Leopardstown Hospital?—There cannot be more, because there are only 80 beds.

424. Is it full?—Yes, almost continuously full. There were 4 beds, I think, empty a fortnight ago, the last time I asked.

425. The extra wing they are building is absolutely essential?—That, I am advised by the Ministry of Pensions, is a necessity for their services. It replaces old wooden hutments.

Sir Irving Albery.

426. Is it part of your case, Sir Patrick, that the Officer who promised you to reserve the £2,000 was afterwards sick, and the person who replaced him did not do it?—That is, as I read from the extract of their letter, a part of the case that the Ministry of Finance made for not standing by the assurance I had previously had that there should be these savings.

Sir Robert Smith.

427. I wanted to ask a question. Is it a fact that, as far as Ireland is concerned, you work it as one country?—No; Northern Ireland and Southern Ireland are in one Vote, but, as regards Northern Ireland, our agents are the Belfast Ministry of Finance. As regards Southern Ireland, our agents are the Office of Works in Dublin.

428. But you said that, as far as cash was concerned, you were going to use cash which was coming from Northern Ireland for the use of Southern Ireland?—(Sir Gilbert Upcott.) It is all one Vote; the Vote is for Works and Buildings in Ireland.

429. They are all one Vote—Yes.

430. We have more power over Northern Ireland, have we not? We pay certain money to Northern Ireland, and that sort of thing, much more than we do to Southern Ireland, and we tax the Northern Ireland people, too; you are able to recoup yourself much better from Northern Ireland than from

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[Continued.]

Southern Ireland, are you not?—(Sir *Patrick Duff*.) In Southern Ireland the services we are doing are not for the Southern Ireland Government; they are Imperial Services for our Ministry of Pensions.

431. Is the Office of Works in Dublin a Free State Service?—It is a Free State Service.

432. You are using the Free State Government, are you not?—Yes.

433. Is that a wise thing, to have as your agents in Dublin a Department over which you have no power, and let them act for you? Does it not seem rather strange?—We have them as our agents, as we might appoint an architect in a foreign capital to be our agent abroad.

434. But you would not be likely to appoint a foreign Office of Works to be your agent or your architect, would you?—In South Africa (I think that is a case in point) our agents are the South African Government. (Sir *Gilbert Upcott*.) The Union Government of South Africa is our agent for the payment of pensions, for example. It is quite common for a Dominion Govern-

ment to do things of that sort for us. (Mr. *Fraser*.) The Southern Ireland Government has not fallen down over this at all; it is Northern Ireland.

435. The Southern Ireland Government has defaulted on its payments?—Not in this instance; there is no question of that.

Sir *Robert Smith*.] We know in other instances Southern Ireland have refused to meet their payments; is not that so?

Chairman.

436. Never mind whether it is or not; that has nothing to do with our discussion?—(Sir *Gilbert Upcott*.) The Government of Eire paid the money out of its own pocket.

Sir *Robert Smith*.] The Government of Southern Ireland has refused payments to this country which we said were due.

Chairman.] We will not go on with that subject; it is too thorny altogether. We will go to page 424, Class VII, Vote 15: Works and Buildings in Ireland. Are there any questions on pages 425, 426 and 427? May I take it that this Account is approved?

(Agreed.)

(Sir *Patrick Duff* and Mr. *Barnett* withdrew.)

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CLASS VIII.

VOTE 4.

SUPERANNUATION AND RETIRED ALLOWANCES.

Mr. J. MAHOOD, C.B.E., I.S.O. called in and examined.

Chairman. Page xxviii of the Comptroller and Auditor General's Report, paragraph 56, Class VIII, Vote 4: "Superannuation and Retired Allowances." We will take also the Statement of Excesses. I have no questions on this Excess Vote note. Are there any questions on that note?

Sir *Isidore Salmon*.

437. Is it not possible to be a little nearer in your estimate as to the moneys that you require under this head?—(Mr. *Mahood*): On additional allowances?

438. Yes?—I am afraid it is not. Of course, we take the advice of the Government Actuary, and, as far as I

was aware, and as far as he was aware, there were no abnormal retirements anticipated in this year. Consequently, the Estimate that was put in was more or less a normal Estimate.

Chairman.

439. Are there any questions on the White Paper itself? Now turn to paragraph 56. As I see it, there are fewer new Awards than were expected, but there are more lump sums than were expected, I take it: Is that so?—The new awards are reflected in sub-heads A and B, that is, the Pensions sub-heads.

440. We take with that page 445?—And also in sub-head C, because with a

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[Continued.]

good many of the Awards in sub-heads A and B there is an Award under sub-head C, that is, an additional allowance. The additional allowance is additional to the pension.

441. What we call a lump sum?—A lump sum.

442. And there were more lump sums than expected?—More lump sums. There were 484 Awards of lump sums in this year as against 370 in the previous year.

443. I am not complaining; I am just making the observation; that is all: I think this is not the first time that this trouble has arisen; we have had it in previous years. Is there anything that could be done to secure greater control over this? It is a big sum of money, £264,759, for additional allowances, and I should have thought you would be able to know a little more closely how much extra was wanted?—There is only one way, as far as I know, of ascertaining, and that is to go to every Department before the original Estimate is framed, and ask them for definite information as to the Officers who are going to retire in a period of 18 months ahead. I think it would be very difficult for any Department to say so far ahead who is or who is not retiring.

444. Why 18 months ahead; I do not quite follow?—We would have to get the information from the Departments in October for the purpose of preparing the Estimate.

445. For the next year?—Yes.

446. I see?—Whatever information they gave us would concern some additional allowances paid 18 months later.

447. If you fix it in October, 1934, let us say, that would be in respect of the year 1935-6, would it not?—Yes.

448. Suppose we come now to Christmas, 1935: Would it not be possible for you then, round about Christmas, 1935, to know how many people were going to retire before the end of the current financial year?—Do you mean for the purpose of considering a Supplementary Estimate?

449. Yes?—We actually did that this year. We had to do that because we knew almost for certain that we would require a Supplementary, and we wanted to know what the extent of it would be; but in this particular year there was no certainty, when we considered the question of a Supplementary, that a Supplementary would be needed.

450. You would know normally, even 18 months ahead, how many people would be retiring on account of reaching the retiring age, for instance, would you not?—Yes.

451. Your difficulty is in providing for people who drop out, some through death, or suddenly are transferred or leave the Service, or something of that sort?—Yes; the retirements on medical grounds before the age of 60; the retirements at the age of 60, that is, at the option of the retiring Officer or of his Department; and there is a fairly large group of retirements after the age of 60 up to the age of 65, or even later. That is the group that is difficult to estimate. I think Departments would be rather chary of saying, 18 months ahead, who is going and who is not.

Chairman.] I see your difficulty, but I still cannot see that you could not get closer than having to spend £260,000 more.

Mr. Mabane.] That is not the surplus; it is £264,000 as against £225,000; that is all.

Chairman.] I beg your pardon.

Mr. Mabane.

452. It struck me that it was a one per cent. error in fact, and it struck me that that was not too bad?—We tried that some years ago, for the purpose of a Supplementary, and went to the Departments and had information from them. They were only estimating for three months, the last quarter of the year, and they were £10,000 out in their estimates. It is very difficult to obtain precise information from Departments.

Sir Isidore Salmon.

453. Does not your experience teach you a great deal as to what is likely to happen?—Yes, but even so I should very much prefer to have what I call a substantial margin on this particular sub-head, sub-head C, but I understand that margins are abhorrent, and the attempt is to keep it down as low as possible.

Chairman.

454. Mr. Mahood is quite right there; if he did provide, shall we say, £20,000 on the chance of its not being necessary, he might run the risk of criticism for having taken too much?—(Sir Gilbert Upcott.) In 1934 the Vote took a Supplementary of £20,000, and did not require any of it.

Mr. Pethick-Lawrence.

455. You said just now that in this particular year, that is, since the year of account we are dealing with, you have had to make the investigation because you felt it likely that there would have to be a Supplementary Estimate, and the only doubt in your mind was how much. What I want to put to you is this: Ought you not in every case, round about Christmas or January of each year, to take a sounding to see whether your Vote is enough? I can quite appreciate that you cannot find out 18 months before, but, with the Chairman, it seems to me you might be able to find out three months before; but from your answer I gather that you do not make investigations unless you already feel pretty certain that there will have to be a Supplementary Estimate. I am putting to you: Is not that a mistaken policy? Ought you not, in all cases, in view of the uncertainty of your position, to make this investigation in January, or whatever the time may be?—No. I think that in a case where the saving or the estimated saving on the Vote as a whole is anything in the neighbourhood of £20,000, that is a safe margin, but with anything below that I agree that there must be a considerable risk of an excess if some investigation is not made. An investigation in this Vote means writing to anything from 70 to 80 Departments, not to a few Departments, but to 70 or 80. There is a considerable amount of work attached to that. My point is that, if we had a margin for this Vote, we should be excused all that amount of work, which is a considerable amount.

Mr. Pethick-Lawrence.] Is it such a very large job: it is only: "Dear Sir, can you tell me whether there is any reason for thinking your Estimate will be exceeded? Yours faithfully" and you can have those duplicated off and filled in. I should not have thought that represented such an immense amount of work. If it is going to cost you hundreds of pounds, it is not worth while, but it is not.

Sir Eugene Ramsden.] Is it not going to mean a large amount of work for the Departments concerned?

Mr. Pethick-Lawrence.

456. We are here to stop Excess Votes, if we can. They are extra-constitutional, and I do not see why, if there is the smallest reason to expect that the amount voted will not be adequate, this investigation should not

be pursued. Admittedly it has to be pursued in certain cases; and admittedly, I think, from what the witness has said, quite clearly it would not be necessary to pursue it where there was quite clearly going to be an ample margin; but what I gather is that in the intermediate cases this enquiry is not made. I am suggesting that in the intermediate cases, where there is a doubt, in all those cases in future, to avoid these excesses, that enquiry should be made?—One learns from experience. We actually have made the enquiry in the current year, but, as I pointed out, when the enquiry was made some 7 or 8 years ago, it was very disappointing. The Estimates of the Departments, as I say, were £10,000 out.

Chairman.

457. Have the answers you have had this year helped you at all?—Yes; the answers clearly indicated that a Supplementary was necessary.

458. That is the proof, is it not?—But the answers may not be right. We must wait and see whether the answers given by the Departments are approximately correct.

Mr. Pethick-Lawrence.

459. If you make your investigation in January, or whenever it is, and the information proves incorrect, you, at any rate, are completely absolved from any criticism?—Yes; I understand.

460. But if you do not make your investigation at a date later than when you formed the original estimate, and the result does not coincide with what you anticipated, then some criticism must rest with you for having to come for an Excess. I am suggesting to you that you could guard yourself against that criticism in some of these doubtful cases by making a similar investigation?—Yes.

Sir Robert Smith.

461. With regard to that investigation, after nine months of the year have run, do you enquire and see whether your money is lasting you or not? It must show quite clearly over a period of years whether it is working out as regards the proportion of the nine months that have passed, without applying to anybody at all as to what they think will be the result for the final three months. Do you take that every year in framing your Estimates?—Yes; we take into consideration what has been the expenditure on this particular item in the past, in the particular quarter of the past years, that is the March

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[Continued.]

quarter. I take it that is your point?

462. No; what I mean is that in December or January you should take the last nine months; you have a certain amount of money still to expend, and you should see the proportion which that bears to your total Vote?—Yes.

463. You do that every year?—Yes; that is the only way we can do it.

464. In spite of that, you still get this extraordinary difference?—Yes.

465. Do you not in one year find that you have used a much larger proportion than in others?—No; I think not.*

466. I should have thought there would have been changes. The very fact that there is a large excess this year shows there must be enormous changes. It surely cannot all have come into the last three months?—(Sir Gilbert Upcott.) In this year, as I state in my paragraph, the March payments were abnormal.

Mr. Pethick-Lawrence.

467. Does this represent a considerable number of individuals, or does it represent large sums for quite a few individuals? Could you give us roughly how many individuals were involved?—(Mr. Mahood.) I have already mentioned that the total number of awards of additional allowances in the year was 484, and I should add that the average amount of each award was £550. Of course, they vary. Some of the amounts are a few hundreds, and some are a few thousands.

Chairman.] Can we pass on now? Turn, please, to page 445, Class VIII, Vote 4: "Superannuation and Retired Allowances". Are there any questions on pages 445 and 446?

Sir Isidore Salmon.

468. In your Department, do you have anything else to do other than the Superannuation and Retired Allowances, or is your Department entirely responsible for that and nothing else?—That is one of the Pension Votes. There is the Royal Irish Constabulary Pension

* Note by Witness: This answer relates to the expenditure on the Vote as a whole and not solely to sub-head C.

VOTE 3.

ROYAL IRISH CONSTABULARY PENSIONS, ETC.

Chairman.] Page 443, Royal Irish Constabulary Pensions, etc., Class VIII, Vote 3. Are there any questions?

Sir Isidore Salmon.

476. This is a dying Vote, is it not?

(Mr. Mahood withdrew.)

Vote also. Those are the two Votes for which I am Accounting Officer, but, of course, we render Accounts to the various Departments on the Pensions Side, Army, Navy, Civil, and so on. We render monthly Accounts to them. We pay pensions to retired Army Officers, and so on, and we render Accounts monthly.

Chairman.

469. Will you turn, please, to page 447. There is a big sum there; it is the last item on the Details of Receipts: Estimated in respect of the sum paid from the Unemployment Fund, £494,000; actually realised, £635,000 odd. Could you explain that large receipt and why it was so much larger?—I think I shall have to ask the Treasury representative to explain that, because my Vote is simply a channel of conveyance of the money to the Exchequer.

470. You have no responsibility for it at all?—None. (Mr. Fraser.) I think the explanation was that the percentage charge was increased from 12½ to 15 per cent. There was a general revision of the arrangement of charging for pension liability between Departments.

471. It is not an increase in staff to any considerable extent?—No.

472. An extra charge?—Yes.

Sir Isidore Salmon.

473. Presumably it will be a justification for an increase in staff; it is a forerunner?—No; it has nothing to do with the number of staff. We went with the Government Actuary into what was the value of pension rights, and we got a new formula. I think that is the explanation, but I would like to confirm that.

Chairman.

474. If it is only an increase in the percentage, it is a substantial increase in the percentage, is it not?—It also depends on the salary bill; but how much was due to the salary bill and how much was due to an increased percentage, I could not say.

475. Could you let me have a note on that; I am rather intrigued by that?—Yes, I will let you have a note.

Chairman.] May I take it that this Account is approved? (Agreed.)

—(Mr. Mahood.) A dying Vote; it is falling off at the rate of approximately £40,000 a year.

Chairman.] May I take it that this Account is approved? (Agreed.)

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[Continued.]

POST OFFICE COMMERCIAL ACCOUNTS, 1936.

Sir THOMAS GARDINER, K.C.B., K.B.E. and Mr. G. ISMAY called in and examined.

Chairman.

477. Post Office Commercial Accounts. Turn, please, to page 41, the Comptroller and Auditor General's Report. Paragraph 1 is explanatory; paragraph 2 is statistical. Turn to paragraph 3. I think this matter has been described to the Committee before, and so I do not propose to go into the description again, but this is the first year for full effect to be given to the proposal. Sir Thomas, could you tell me whether the change that is dealt with in this paragraph is financially advantageous to the Telegraph System, or is it not?—(Sir Thomas Gardiner.) You mean, makes the Account to appear more satisfactory than it otherwise would have appeared?

478. Yes?—I think it has that effect, yes. (Sir Gilbert Upcott.) It is actually financially advantageous to it. (Sir Thomas Gardiner.) Also, yes.

479. Are you satisfied that the Telegraph Account is being charged with a fair rental for the wires that are used?—I have looked at the various systems that have been adopted. There are many different ways that have to be adopted in assessing the charge for those wires and, as far as I can judge of the matter, they are fair and proper in each instance.

480. I want to ask you one other question: Can you assure the Committee, Sir Thomas, that the transfer of the wires from the Telegraph to the Telephone Service has been carried out for practical reasons, and not for the purpose of improving the appearance of the Telegraph Account?—It certainly has had to be done for practical reasons, because, of course, the wires have more and more come to be used for telephone purposes, I think at the time of transfer there were probably about 12½ million miles of telephone wire, and only about a quarter of a million miles of telegraph wire. The same wires are used for both purposes, and therefore, with the development of the system under which they could both be used for the same purpose, it seems to me that this thing almost inevitably must happen.

481. So that the main reason was a practical consideration?—Entirely, yes.

482. Paragraph 4: "Interest on Capital Liability". I gather that you,

Mr. Comptroller and Auditor General, take the view that there is some point of principle that is raised in this matter. Would you be good enough to develop the point of principle to which you refer in paragraph 4?—(Sir Gilbert Upcott.) The principle involved is one which I think the Committee ought to have the opportunity of considering, particularly as it was a principle commended to the Committee 10 years ago by the then Accounting Officer of the Post Office. The principle has hitherto been this: The Telephone Account has been credited with interest on the balance standing to the credit of its Depreciation Account. The Telegraph Account has not. The reason given for that practice was this, that the telephone undertaking has earned the money which has gone into the Exchequer, and the Exchequer is liable to provide what is required for renewals when it is required, and naturally the telephone undertaking is entitled in the meanwhile to interest on that money. The view hitherto taken was, as regards the telegraph undertaking, that, as it had not earned that money, it was not entitled to interest on the balance of its depreciation account, because that balance represented, not money which it had earned, but money which the Exchequer was prepared to find for it when the time came. In the present year of account, this system has been altered, and the telegraph undertaking is being credited with interest on the balance of its depreciation account. The Post Office have given four reasons for that change, and I should like just to say a word or two about them, because they do not seem to me really to address themselves to the principle which I have described. The first reason is that the Post Office business as a whole makes all necessary depreciation provision for its services. That argument, I think, ignores the fact that, by the statute, the Telegraph (Money) Act of 1920, the telegraph and telephone undertakings, each of them, are obliged to present separate and distinct accounts of the results of their working, and the telegraph undertaking is not entitled, when it shows its commercial out-turn, to call upon any other branch of the Post Office business to

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make good its deficiency. Of course, the Exchequer does run the telegraph service; there is no doubt about that; but for the purposes of commercial out-turn, the Act requires the commercial accounts of the telegraph undertaking to be shown separately. The second argument is that there has been a lack of consistency, as interest is brought into the accounts on the provision for depreciation on buildings and contributions in respect of pension liability. I cannot see that there has been any lack of consistency, because those accounts, I think, are simply methods of calculating the proper charge to be made for the services which the Exchequer renders to the telegraph undertaking in providing buildings when they are required and paying pensions as they fall due, and it is, of course, right that the interest element should be brought into account in computing the proper charge. If the telegraph undertaking is unable to pay the proper charge, that result is reflected in its deficiency, and shows it to be what it is, namely, a subsidised undertaking. The third reason given is that a certain section of the telegraph service, namely, the International Telegraph Account, does earn interest and is duly credited with it. That again, I think, is open to the same answer as I mentioned to the first argument, namely, that while the sectional accounts in this volume, like the General Account, are given for the information of Parliament, the statutory obligation is to show what are the results of the telegraph account as a whole. The fourth argument is that, as the telegraph service as a whole has now benefited so largely from the substitution of interest on the depreciated value of plant, following the transfers of plant to the Telephone Account, there is no reason against making this change, too. I agree that the Telegraph Account has, quite naturally, benefited very substantially from the transfer of wires which has just been mentioned; but to bring in this other change at the same time seems to me to be nothing but the argument of the lady, that the baby was a very small one. As I said, I think the question, though not very large as to amount, is one of principle, which the Committee ought to consider, because the change is a departure from the principle previously explained to the Committee and hitherto

applied. It improves the appearance of the Telegraph Account by reducing its disclosed loss, and to that extent, of course, it obscures the comparison between this and preceding years.

483. Mr. Fraser or Mr. Brittain, would either of you care to say a word upon this matter?—(Mr. *Brittain*.) When the Post Office put up this proposal, of course, we were aware of the rule enunciated in the 1928 Memorandum, but we rather agreed with the Post Office that, since then, a considerable change had taken place by the very large transfers of capital from the Telegraph Account to the Telephone Account; and the arguments that, in fact, the bulk of the depreciation reserve now remaining on the Telegraph Account had arisen from the International Telegraph business, and that that business was showing a profit, seemed to us fairly strong reasons for bringing the Telegraph Account into line with the rest as regards interest. I think all we can say is that we accepted those arguments, after discussion with the Post Office at the time.

484. You did have a discussion with the Post Office at the time?—Yes, and thought the change was a reasonable one. I should also add our assurance to Sir Thomas's, that this was studied quite objectively, and there was no question of its effect on the Telegraph Account deficit. There was no ulterior motive in reducing that deficit by £100,000, as it turned out.

485. I should have asked you to make your observations second, Sir Thomas; I apologise?—(Sir *Thomas Gardiner*.) I should like to say one word about this Telegraph Account question. We do not feel that we have anything to hide as regards the Telegraph Account; in fact, we are proud of what we have accomplished in relation to it. I should like also to remind the Committee that we specifically drew attention to this thing, and therefore I think it must be clear to everybody that there was no desire to throw dust in anyone's eyes in making this change. As we look at the Telegraph Account at the moment, we have succeeded in obtaining a very large increase in traffic; there is no increase in the loss on the Account, except in so far as it may be thought proper to wipe out this £100,000; allowing for that there is an additional £100,000 loss; but, even taking it on that basis, we feel it is a remark-

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able thing, and to the country's interest, that we should be able to carry 40 per cent. of additional traffic without any additional loss, or at a loss of an extra £100,000 a year. I want to assure the Committee very definitely that we do not feel that we have anything to hide, and we certainly did not wish to hide anything in suggesting this. As regards the principles of accounting involved, I do not feel myself very competent to say much. I accept the view that Sir Gilbert Upcott has given you an absolutely fair statement of our case, and I do not think that I can do anything to strengthen the arguments that we have already used. Generally, my view about this, when it did come before me, was that it was a common-sense arrangement, an arrangement that we were gradually coming to with the continuous transfer of capital from Telegraph to Telephone Account. I think the amount left in Telegraph Capital Account must be quite a small sum now compared with what it was 4 or 5 years ago, and that there is really no reason why this action should be further delayed, provided always that it is plainly stated that it is being done as was, in fact, explained. It seemed to me a proper, practicable, and common sense sort of thing to do. On what I may call the theory or principle of the thing, I think I would rather leave Mr. Ismay to expound our case than to attempt to do so myself.

486. Mr. Ismay, would you like to say a word?—(Mr. Ismay.) I may say at once, Sir, that I do not think we paid complete attention to the case which the Comptroller and Auditor General has based largely on the existence of separate statutory Accounts. I do not know that I should myself entirely agree that the whole of the case ought to be built up on that. It seems to me that there is a very thin line of division between saying that, because it is a separate statutory Account, interest shall not be allowed on the Depreciation Fund, while that process is in fact going on and has gone on for several years by the transfers to the Telephone Account, which have given a relief to the Telegraph Account in the period; and I cannot myself see any real dividing line between the two. However, I wanted just to stress that we have not, I am afraid, paid very great attention to the possible objection on that ground, that it is a

separate Account. I think our general feeling is that, although they happen to be governed by separate Statutes—

487. Let me quite understand what you mean by this observation, Mr. Ismay. Do you mean that, though you knew there was this statutory obligation, you chose to overlook it?—No; I was going to add one word on that. I am afraid, from our point of view, we have got to the position of looking upon these Commercial Accounts as being in all respects statutory. I am not quite sure what the statutory position is. I know the old Telegraph Account and the Telephone Account were governed by separate Statutes, but I was under the impression that the rest of them were brought in as statutory Accounts by the Exchequer and Audit Departments Act, 1921. However, the practical position, as we saw it, was that this process of transferring plant had been going on and had given substantial relief to the Telegraph Account over a period of years, accompanied by great economies in working as between the two services. We were then left, after this further transfer which was to take place on the 1st April, 1936, with £950,000 in the Depreciation Account on the Telegraph Account. Of that, the subsidiary International Telegraph Account showed that £750,000 was related to the depreciation on the International Service, a service which pays its way when taken separately, and provides its own depreciation money. So that we really looked at the possible area of argument as being related to the remaining £200,000 depreciation, on which the interest factor, of course, would be of the order of £7,000 a year only, and that seemed to us to be the only really debatable ground. Having regard to the other anomalies, our feeling is certainly that, whatever the machinery adopted for the accommodation account may be said to be, the effect is still that the Telegraph Account has for years got a certain relief which it would not have had if the buildings had been dealt with in a different way: so that our view was, having regard to all these anomalies and to the fact that for years we have treated the depreciation in the subsidiary International Telegraph Account on quite a different basis from that in the main Account (an anomaly which I cannot myself explain), that the right course was to cover the whole amount and not

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try to differentiate this remaining £200,000, involving only a saving to the Telegraph Account of something of the order of £7,000 a year. I do not know whether that is a very satisfactory explanation, but it is the practical aspect from which we looked at it. Perhaps I am in a better position than anybody else, as a representative of the financial side of the Post Office, to say that there was no other motive in doing it.

488. Have you finished, Mr. Ismay?—Yes. I do not think I have anything else I can add.

Sir Isidore Salmon.

489. The first point I would like to ask Sir Thomas is this: Does he feel fairly certain that the telegraph wires that have been handed over to the telephone angle of the business have as great a life in them as it was originally anticipated they would have, or does he think that science will shortly bring forward a better scheme for telegraphing, so that those wires were a very good riddance to the telegraph section, and they can be used by the telephone side? I do not know whether I have made my point clear?—(Sir Thomas Gardiner.) It is rather a conundrum.

Chairman.

490. I do not know how Sir Thomas can answer that question.—I think I should need at least 12 months seriously to consider what the reply to it is.

Sir Isidore Salmon.

491. When you are presenting Telegraph Accounts for the future, it might be a good thing to put an asterisk at the bottom: "Subsidised by £170,000 odd." That would be the right position. It may be the right thing to do (I am not criticising) but over a period of years you trust, as we all trust when we want to arrange things, that the public have short memories, and consequently that they will only look at what they see on the surface?—I thought I had disabused your mind of that, because we do not come here apologising for what the Telegraph Service has done or is doing. We think we have accomplished much.

492. I am not criticising, but, although you have achieved an excellent result by the reduction of prices, of

which I am all in favour and wanted years ago, I would like to remind you of this, that the income of the telegraph section has gone up by 4·81 per cent. on page 6, and expenditure has gone up only by 0·42 per cent.?—Yes.

493. The reason that that has only gone up 0·42 per cent. is because you have had a subsidy, I submit, of £170,000 odd?—Is it £170,000 or £100,000?

494. I do not want to exaggerate the figures; I will tell you how I arrived at those figures. I am reading it under two heads: "The relief of interest to the Telegraph Service" says the Comptroller and Auditor General, "is £123,000". That is shown on page 42?—Yes.

495. And "the consequent additional interest charge on the increased capital liability of the Telephone Service is some £56,000 only, being based on the depreciated value of the plant transferred". I submit that £56,000 is also relief; I may be wrong under that head?—(Mr. Ismay.) That is a deduction from the £123,000. The net relief to the Telegraph Account on that head is £67,000.

496. So the relief is not £123,000?—The net amount in respect of the transfer between the two services in that year is £67,000. Then there is the further relief, referred to in paragraph 4 on page 42 of the Comptroller and Auditor General's Report, of £35,000, making a total of just over £100,000 relief to the Telegraph Account.

497. So when you are making the comparison, and Sir Thomas is modestly saying how well the Telegraph Section has done (and I entirely agree with him that it has done wonderfully well) and that the increased expenditure shows 0·42 per cent., it is 0·42 per cent. plus the £100,000, is it not?—(Sir Thomas Gardiner.) That is quite right.

498. What is that worth; you are better at figures than I am?—Naturally this point occurred to me, and I had the figure taken out. If we had not had the relief of the £100,000, the expenditure would have been increased by 2·6 per cent. as opposed to an expansion of income of 4·8 per cent.

499. So that that is the figure. I do not want it to be assumed, and believe me I have not got it at the back of my

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head, that what you have done with the system is not a very good thing for the public, because I think it is an excellent idea for the public. The only point I would like to ask you just a simple question about is this: What is happening to the vast quantity of plant that you did have for telegraphic purposes and that you were improving a couple of years ago by a more modernised system? How have you depreciated that plant; have you written it off, or what account does it come under?—That is to say, the internal plant that is not now in use?

500. Yes?—(Mr. Ismay.) I am afraid I do not know the exact position of that.

501. How would it be shown on the Accounts?—I assume the position was taken into account in the re-assessment of the lives of plant, which you remember was made last year, and was fully examined in the depreciation provision that was then decided upon, but I cannot speak as to the figures.

502. I think, Mr. Chairman, it would be desirable if we could have some accurate information on that, because I think it is relevant to the point?—(Sir Thomas Gardiner.) It is vital. Although I cannot speak with knowledge, I assume that that was allowed for.

503. There is nothing on this to show it?—No, but this was not the stage at which it happened. (Mr. Ismay.) I am afraid I cannot give any figures, but I will put in a note on the position.*

Sir Irving Albery.

504. I want to ask Sir Thomas with reference to the statement on page 7 under "Telegraph Plant", where it says: "The distinction between 'Telegraph' and 'Telephone' lines has thus become largely artificial and in practice inconvenient to maintain". I cannot put my eye on it at the moment, but I rather think that there is a further statement here somewhere about the payments which have to be credited to the Telegraph Service from the Telephone Service, and *contra* payments to the Telephone Service from the Telegraph Service?—(Sir Thomas Gardiner.) Yes.

505. Having all that in mind, I want to ask Sir Thomas, if he were not

obliged by Statute (and I understand he is obliged by Statute) to keep separate Telegraph and Telephone Accounts, would he not consider it more practical, from an accounting point of view, if these two Accounts were merged into one and this differentiation was finally finished with?—Yes.

506. Having in view the big increase that has taken place in the Telephone Service and also the joint user of so many of the facilities?—I think if that question were put to us, our answer would be definitely that we do think that that should be done and ought to be done as soon as convenient. On the other hand, I think what has happened to-day illustrates why we feel some slight diffidence about suggesting anything of that kind ourselves. We have, on the one hand, a very flourishing service, and, on the other hand, a service which is not flourishing financially, although it may have its good points. We ourselves, therefore, would hesitate to put forward the suggestion that we should merge the two sets of accounts, although we feel that, for practical purposes and for the purposes of such accounts as these, that would be the right and proper thing.

507. I would ask you this, that, if it were contemplated by this Committee to put forward such a suggestion, that would, on the whole, be welcomed by you?—It would be welcome to us. (Mr. Fraser.) I think I should like to reserve the Treasury's position.

508. I would like to hear the Treasury and I should also like to hear Sir Gilbert. May I hear the Treasury on that?—I am not in a position to express an opinion on it at the moment. I should like to reserve the Treasury's position.

509. Has Sir Gilbert any observations?—(Sir Gilbert Upcott.) I would prefer to make my observations at the end.

Chairman.

510. We will ask the Comptroller and Auditor General afterwards what observations he has to make. Are there any further questions; if not, I will ask Sir Gilbert what observations he has to make?—I would like to answer what Mr. Ismay said, and I will answer Sir Irving too at the same time. What I heard from the Post Office witnesses, I am afraid, confirms in my mind the opinion that they have not addressed

* See Appendix 5.

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[Continued.]

themselves, in making this change, to the principle involved. I am afraid I heard with some amazement Mr. Ismay's statement that he had not addressed himself to the statutory obligation, because, on the face of this account which he presents to Parliament, he prints: "Presented pursuant to Acts 10 and 11 Geo. 5, chapter 37, section 2," and section 2 of that Act says: "There shall be laid before both Houses of Parliament on or before the thirtieth day of November in every year, if Parliament is then sitting, or if Parliament is not then sitting, within one week after the then next meeting of Parliament . . . Statements of account in a form approved by the Treasury, showing as regards the telegraph and telephone services respectively the income and expenditure during the previous financial year". As their statutory auditor, I am afraid I am bound to have regard, in auditing the Post Office accounts, to that statutory direction that there must be a single account for the telegraph undertaking. The Post Office may, in pursuance of Treasury directions, present a general account for the general operations of the Post Office, and they may, for the information of Parliament, also present accounts for different sections of their undertaking. I think their argument on that subject is two-edged, because it is all very well to say that the international telegraph account makes a profit, but when you begin to dissect accounts you find some make profits and some do not. For instance, some sections of the telephone service make profits, others make a loss; therefore I suggest you must stick to one principle, and, in particular, you must carry out your statutory directions. As regards what Sir Irving suggested, if Parliament were to think fit to amalgamate those accounts, then my position as auditor would, of course, be altered; but in the past Parliament has been rather specifically scrupulous to require (having regard to the previous history of the telegraph undertaking and to the amount of public money sunk in it) that those specific accounts and profits or losses should be shown, as distinct from the telephone undertaking.

Sir Irving Albery.

511. May I interrupt for one minute? Is there any material difference between

a loss on the telegraph account and a profit on the telephone account, as compared with the possibility in one account of a loss on one section and a profit on another section, which you mentioned just now?—They are different undertakings, they employ different staff, the management is different. The staff of the telegraph undertaking is partly its own and partly postal staff. Its plant is largely telephone plant, and you can argue that it should be part of the postal undertaking or that it should be part of the telephone undertaking or that it should be a separate undertaking. Heretofore, Parliament has decided that, for the purpose of the commercial accounts, it should be regarded as a separate undertaking. It is not for me to decide whether that should be altered or not, but, as the things stand, I have to audit with reference to the statutory obligation. As regards the principle which I have raised, and to which I do not think the Post Office, if I may venture to say so, have really addressed themselves, I should just like, in order not unduly to obtrude my own opinion, to state what Sir Henry Bunbury said to the Committee ten years ago. He said: "In the case of postal and telephone services where the department is making a profit these Accounts assume that the accumulating depreciation fund earns interest on its accumulations, and that interest is brought into the account. In the case of the telegraph service the department is working at a loss and that assumption, therefore, that there is an accumulating depreciation fund earning interest, is not made, correctly." That seems to me to be a simple and workable distinction. If the Committee think the Post Office have produced arguments in favour of its abandonment, well and good, but that is a matter for the Committee to consider and one which they will no doubt consider when they have had an opportunity of perusing the evidence which has been given this afternoon.

Chairman.

512. Thank you, Sir Gilbert. This is not the time nor the occasion to offer any observations on what happened this afternoon, except that I would like to say this, I think: I think the Committee will probably agree that it was the duty of the Comptroller and

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[Continued.]

Auditor General to raise the point of principle which has been raised, because, after all, he is the officer who is responsible for reporting to this Committee, and through us to Parliament, what he considers to be not strictly in accordance, shall we say, with the statutory obligations of a particular department. I am bound to say I was a little surprised, shall I say, not to use a stronger word, to hear our good friend Mr. Ismay, who has been so correct and punctilious on the other side of the table, suddenly fall from grace?—(Mr. Ismay.) I would only like to add one word.

513. I have not finished yet?—Not on that aspect. I do not want the Committee to have the impression, from what I said, that the Post Office was not aware of the fact that this account was presented under Statute, and of the terms of the section. What I wanted to make clear quite frankly, was that we had not, so far as I could judge, really addressed our minds to the narrow issue, whether the existence of a separate statutory account, of which we were fully aware, tied us down so rigidly as Sir Gilbert suggests. That is the only point I wanted to make. I do hope the Committee will not think that the Post Office was not aware of the Statute.

514. No?—It is a question how far the existence of a separate statutory account really tied our hands.

515. Thank you, Mr. Ismay. The Comptroller and Auditor General says he does not want to make any heavy weather of the thing at all, except that, I must repeat, he is quite right, and he would be failing in his duty, indeed, if he did not call attention to what he regards as a departure from principle?—We appreciate that, and we drew attention to it in our own foreword to the accounts.

516. Whether the Committee later, when it comes to a report, will deem it necessary to make any special reference to this point, I cannot, of course, say, but we are obliged to you all for having given your respective points of view. We will reserve our judgment till a later date. Shall we turn to paragraph 5. Could you give me some reason for the change referred to on page 43 in paragraph 5 of the Comptroller and Auditor General's Report?—This was merely an attempt to secure

uniformity in treatment through the accounts. We observed that in the general account and the telephone balance sheet we had, in fact, netted the amounts. (Sir Gilbert Upcott.) I have no objection to uniformity in this case, but I hope the Post Office will not carry uniformity quite so far as to regard black as white, always. (Mr. Ismay.) I do not think that observation is really quite deserved by the Post Office.

Chairman.] I start at pages 6 and 7.

Sir Isidore Salmon.

517. On pages 6 and 7 I would like to ask one point of Sir Thomas: Does he not think that the surplus, after allowing the different expenses, is rather low, unless he can fairly be assured that the increased business is going to maintain itself; because I notice that on page 7 he very rightly points out that the wages have gone up on account of the restoration of what were called the cuts—I think something like 1 per cent. or $\frac{1}{2}$ per cent. on the wages bill. Taking the business as a whole, unless the business is increasing, are not you getting to a very narrow margin, because your turnover has gone up, but your expenses have gone up considerably?—(Sir Thomas Gardiner.) Taking postal income, which is where I came to study the question myself, I found it had increased by 4.34 per cent. and the expenditure by 4.96 per cent. I looked into the difference between these various percentages. The expenditure on that particular heading was increased by about £320,000, in respect not only of the consolidation of salaries but of specific improvements of wages that occurred in the interval.

518. It is recurring every year?—Yes, but the effect of that is to bring the increase in expenditure to 4.1 per cent. as compared with 4.96 per cent. and that, as you say, is pretty close to the Postal income increase, which is 4.34 per cent. But there a factor has come into play. Normally, on the postal side, with increasing traffic, you find you can carry the additional traffic at a rate of increase in expenditure that is substantially less than 100 per cent., but the year before the year now in question was also a year of considerable expansion. We have

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[Continued.]

usually a certain amount of staff lag that we can bring in, and we had brought that in with some considerable success the previous year, but this year we were faced with a staff closely adjusted to the increase in traffic, and therefore found ourselves involved in expenditure that very nearly tallied with the increase in traffic that we had to handle. It does not normally happen, but it certainly did happen in this particular year.

519. Therefore you think that your present staff will be able to carry a larger percentage of increased traffic than they have up to the present, in percentage?—Yes, there is more elasticity; we had absorbed our elasticity, as it were.

520. There is a gap now to be filled?—Yes, there is always what I call a lag, and, owing to the pressure of the previous year, we had closed up very closely on our staff, so when this additional work came we found ourselves obliged to put the staff on, not absolutely proportionately, but almost proportionately to it. There is another factor which has to be considered and plays, I cannot say quite what percentage part in the comparison. We have been endeavouring to improve things from two points of view, which come into the postal cost rather heavily; from the point of view of improving accommodation in buildings for the staff, lighting, heating and comforts of one kind and another; and from the point of view of the public, to give them better offices in which to do business. That has put up our cost considerably, as have also certain amenities which we have conceded to the staff in the way of improved uniforms, and so on.

Chairman.

521. Are there any questions on pages 8 to 11? Pages 12, 13, 14, 15,

16 and 17 are all general account; they are not the statutory account. The information in regard to the statutory accounts is in the telegraph and telephone accounts, of course. Pages 18 and 19, Postal Service, pages 20 to 23, Telegraph Service, pages 24 to 27, Telephone Service, pages 28 and 29, Trading Accounts relating to Sundry Subsidiary Services of the Post Office. I notice according to the note at the bottom of this page that there is a reduction of charge from 10 per cent. to 9 per cent.?—In the case of wireless licences.

522. Is that going to be sufficient to cover your management expenses?—Yes.

523. You think it is?—We are just inside it at the moment.

524. Pages 30 and 31, International Telegraph Services. You have £81,000 in the last item on page 30 on the left-hand side. Could you distinguish between Wireless and Cable in regard to that figure?—Yes, they both come in there, cables and wireless. The surplus on the cable side in the previous year was £34,000; it has risen this year to £85,000. On the wireless side we had a deficit in 1935-36 of £9,000 and a deficit this year of £4,000, making a balance of £85,000, less £4,000, £81,000.

525. Could you make a similar differentiation in respect of the next page, page 32, "Surplus for the year", International Telephone Services?—On the telephone side, it is more flourishing. On the cable side in the previous year we had a surplus of £131,000, which is for this year £186,000. We had a deficit on the Wireless Telephone Service, which is mainly long distance, of course, in 1935-36 of £4,000, but in 1936-37 we had a surplus of £18,000.

Chairman.] Are there any questions on pages 34 to 41? May I take it that these accounts are approved? (*Agreed.*)

IMPERIAL AND FOREIGN SURCHARGE, AIR MAIL SERVICES.

Chairman.] Now would you take the return which Mr. Ismay handed in last time? Are there any questions on the

Imperial and Foreign Surcharge, Air Mail Services?* (*No questions were asked.*)

POST OFFICE FUND ACCOUNT, 1936.

Chairman.

526. Turn, please, to the Post Office Fund Account, the Comptroller and Auditor General's account, page 3. The

first paragraph is narrative, I think. Paragraph 2 is narrative. With regard

* See Appendix 3.

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[Continued.]

to Paragraph 3, this is the first time for this system to come into operation, I take it, is it not?—(Sir *Gilbert Upcott*.) It is the first time there has been a payment to the Exchequer. In the past the Exchequer has had to make payments to the Fund.

527. Look at the account itself on page 2. You are not using this £3,842,000 for expenditure, are you, Sir Thomas? You keep this account for reserve, I take it?—(Sir *Thomas*

Gardiner.) Yes. The fund enables us to reduce rates from time to time and to carry the loss until such time as the increased traffic repays us for what we have done. We are at a loss in the interval, and the loss has to be defrayed from this fund. That is the basis of the thing.

528. It is a reserve, is it not?—Yes.

Chairman.] Are there any questions? May I take it that this Account is approved? (*Agreed*.)

POST OFFICE FUND.

STATEMENT SHOWING THE POST OFFICE NET SURPLUS FOR THE
YEAR ENDED 31st MARCH, 1937.

(*On this Statement no questions were asked.*)

(*The witnesses withdrew.*)

(*Adjourned till Tuesday next at 2.30 p.m.*)

TUESDAY, 15TH FEBRUARY, 1938.

Members present:

Mr. MORGAN JONES in the Chair.

Sir Irving Albery.
Sir Edmund Brocklebank.
Mr. Culverwell.
Mr. Lathan.
Mr. Mabane.
Mr. Peat.

Mr. Pethick-Lawrence.
Sir Assheton Pownall.
Sir Eugene Ramsden.
Mr. Wilfrid Roberts.
Sir Isidore Salmon.
Sir Robert Smith.

Mr. F. N. DIXON, C.B., Mr. W. R. FRASER and Mr. H. BRITAIN called in and examined.

CIVIL APPROPRIATION ACCOUNTS, 1936.

CLASS VIII.

VOTE 1.

MERCHANT SEAMEN'S WAR PENSIONS.

Sir WILLIAM BROWN, K.C.M.G., C.B., C.B.E., called in and examined.

Chairman.] Civil Appropriation Accounts, 1936. Turn, please, to Class VIII, Vote 1, Merchant Seamen's War Pensions, pages 432 and 433. I have no questions myself on this vote.

Sir *Isidore Salmon*.

529. I would like to ask one question only: Are these pensions and allowances a dying quantity, Sir William?—(Sir

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C.B., C.B.E.

[Continued.]

William Brown.) They are. For instance, we have only one child allowance left, which will expire in the coming year. They are practically all now fixed for good and falling off steadily.

530. Does it become merely automatic, the sending out of the pensions?—It is not quite automatic; there are certain funds still in a trust fund contributed by shipowners or the owners of

fishing vessels, and, in some respects, those are administered by a Committee rather with the functions of a County Court, to decide whether a capital allowance shall be made to people to set up a little business or to buy a new outfit of clothes.

Chairman.] May I take it that this Account is approved? (*Agreed.*)

CLASS VI.

VOTE 1.

BOARD OF TRADE.

Chairman.

531. Page xviii, paragraph 35, Class VI, Vote 1, sub-head A.2, Special Services. This is a curious story; perhaps the best thing to do would be to ask Sir William to tell us the story?—(*Sir William Brown.*) With all respect, Sir, I should like to agree with your comment that it is a curious story, and, from our point of view, I must admit, an unfortunate story. Under the first Anglo-Argentine Trade Agreement of 1933 it was agreed that the Government of the United Kingdom, as set out in the Comptroller and Auditor General's Report, should co-operate in a joint inquiry into the economic and financial structure and working of the meat trade, with particular reference (obviously put in at the insistence of the Argentine Government) to the means to be adopted to ensure a reasonable return to the cattle producers. The agreement, as members of the Committee will remember, was the first agreement that enabled the United Kingdom Government to limit the imports of beef and, incidentally, of mutton and lamb, from the Argentine. It caused a great deal of political friction in Argentina and a great deal of dispute. This particular part of the agreement was entered into avowedly to assist the Argentine Government in reconciling their cattle producers to the general provisions of the agreement. It was agreed to set up a Joint Committee of the two Governments, and the expenses (apart from those of individual members, which are chargeable to the respective Governments) were to be divided between the Argentine Government and the United Kingdom Government. The Committee itself was not set up until January, 1935, owing to prolonged discussions

with the Argentine Government as to its exact composition. When they examined their terms of reference and the information before them, they decided that it would be necessary to set up a Sub-Committee in Argentina, under the Chairmanship of a member appointed by the Argentine Government, to examine the accounts of the *frigorificos*, that is, the meat freezing and chilling works out there, to examine the accounts of the companies and to ascertain the profits made. The Committee, in consultation with the Board of Trade, decided that it would be necessary to send out a fully-qualified accountant to assist that sub-Committee in their inquiries and to assist them to make their Report to the main Committee and, through the main Committee, to the two Governments. We and the Chairman of the Committee, Sir George Schuster, took advice in a number of quarters to find a suitable accountant. One man was recommended to us on the grounds that he was, first of all, professionally a chartered accountant of standing; he was a partner in one of the very well-known firms of chartered accountants; he had a knowledge of Spanish; and his firm and he had no connection with any of the meat companies and had not audited their accounts. All this had to be borne in mind, and rather limited our field. It was decided to appoint this gentleman in May, 1935. It was agreed, again after consultation with independent members of the chartered accountants' profession and others, that a proper remuneration for a special job like that (which meant a man leaving his business, with the chance of not coming back to it in the same way after some time, going to a foreign country and living under difficult

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[Continued.]

circumstances) on general professional standards, was £500 a month; not a payment on Civil Service standards.

Sir Assheton Pownall.

532. There is no pension, may I point out?—There is no pension.

Mr. Mabane.

533. And no security?—It is fortunate, because by this time he would almost have earned one; the payment was £500 a month and £2 a night subsistence allowance. Half of those payments, as half of the whole expenditure of the Committee, were recoverable from the Argentine Government. At that time, I must admit, we confidently expected that those inquiries would only last a few months, and so did the Committee.

Chairman.

534. When did he actually start?—He went out in May, 1935. He reported from time to time that he was having great trouble in getting the actual accounts from the meat companies in Argentina, and there certainly is no doubt that the meat freezing and chilling companies, the exporters from there, were rather reluctant, for obvious reasons, to give him full access to their books and to give him full information that he required for the exercise of the task imposed on him. In fact, it took him 10 months, from June, 1935, to March, 1936, inclusive, to get all the information that he properly needed from the meat companies. He then had to verify those figures, obtain supplementary figures and report. I think I can only admit that we were very much disappointed by the degree of diligence he showed in examining those questions and reporting. Had it not been that this was a Committee appointed by two Governments as the result of a commercial negotiation, and appointed especially at the insistence, almost, of the other Government, I think it is quite possible that we should have terminated this gentleman's services almost a year before we, in fact, did. The Joint Committee with Sir George Schuster in the Chair, were very dissatisfied at the slow progress. They kept in touch with the Board of Trade throughout, and it was finally agreed that one of their number, an Argentine member then resident in London, should be sent out to see what really was happening. He went out, in

fact, early in 1937 with instructions to collaborate with the sub-Committee in Buenos Aires and to report to the main Committee as to the prospects of his finishing his work. As a result of his inquiries, in June, 1937, the Joint Committee reported to the two Governments that they thought that the gentleman concerned should be instructed to finish, never mind whether he had all the information he wanted or not; we could not wait any longer; he must make a report on the information he had, at latest by September, 1937. It was in August, 1937, that the two Governments accepted this recommendation and gave the instructions. His services accordingly terminated in September, 1937. He produced a report on the work he had done, which again, I must admit, has required a good deal of further work on it, and checking, since that date. It is, I must say, as I said before, a very unsatisfactory story from the point of view of the Board of Trade and of the Committee. The difficulties of the Board of Trade, if I might continue, were these: First, as I said, that the Committee was a Committee of two Governments and was, in fact, a concession to the Argentine Government in the original agreement. So much importance did they attach to it that, although we argued with them (I myself was in charge of negotiations, under Ministers, when the second agreement was being negotiated) that the changed conditions had made this inquiry unnecessary, they insisted that there was so much political as well as economic importance attached in Argentina to this inquiry that it must be continued, and we had to agree to repeat the undertaking to continue this inquiry. Also this gentleman's task was a very technical question. He was the one person who was making inquiries into the meat companies' books and having access to their accounts, and it was very difficult for anyone in London, if he reported that he was having this, that and the other difficulty, to say "We do not accept that; you really ought to finish this and get on with it." It might have resulted in his throwing in his hand after having done months and months of work, and then we might have had to begin all over again. The position of the meat companies in Argentina has always been a delicate one. We were naturally afraid to have any possible suggestion in Argentina that the British Government had in

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[Continued.]

any way curtailed or stopped this inquiry. It would have had a very unfortunate effect on the Argentine Government and on Argentine opinion generally. I think the only thing I can say, in addition, is what I said just now, that, even so, I am afraid that the gentleman's report has required further revision and checking and that we have had, in fact, to engage another accountant since then, to go through the results of this gentleman's work and check it. I should hesitate, after past experience, to assure you that this will be finished at any particular date, but we are expecting the Committee's Report in perhaps a month from now. There is one other point I should perhaps mention. The work done hitherto, independently of the final report on the structure of the trade, has had one very valuable feature. The Committee were asked by both Governments, outside their terms of reference under the Argentine agreement, to produce an interim report to the two Governments on the proper f.o.b. value of chilled and frozen meat landed in this country, because, under another section of the Argentine agreement, a certain amount of the exchange arising out of Argentine exports to this country was assigned to the payment for British exports to Argentina. The Committee, as a result of their labours, were able to produce an interim report to both Governments on that, which was very valuable. It is not a public document, because it was not in their actual terms of reference in the Argentine agreement, but there has already been a very valuable return to both Governments from some of the money spent on this work, and I hope the final report will be of value too, although I expect it will be of more value to the Argentine Government than to the United Kingdom Government.

535. It is, as you say, and as I said before, not only a curious story but a distressing story. Will you tell us, first of all, how long you anticipated that this gentleman's inquiry would last?—At the time that he was first asked to go out there, after consultation with the Committee, we expected it might be six or eight months.

536. It actually lasted how long, as far as he was concerned?—May, 1935, to September, 1937, I am afraid.

537. Over two years?—Yes.

538. Will you tell us why you were especially expected to safeguard the interests of the producers in the Argentine?—The first Argentine agreement was, as I said, the first agreement in which there was a definite restriction imposed on the amount of meat that could be sent from Argentina to the United Kingdom. It imposed a cut of up to 10 per cent. and, in certain circumstances, a further cut on the amount which they had sent in the standard year, which was known as the Ottawa year. In order to justify their assent to that cut as I understand it, the Argentine Government felt themselves obliged to assure their producers (who were much more their concern than the meat companies, who were largely foreign-controlled) that proper investigation was being made into this trade, and that they would have before them the information necessary to make sure that these meat companies were not making excessive profits while the producers were being restricted. It was, as I say, rather on behalf of the Argentine Government than on behalf of the United Kingdom Government, and when we were making up the balance of that agreement, in our own minds we certainly considered that rather as some concession to the Argentine Government.

539. I gathered, Sir William, that you had to find someone who was peculiarly qualified to do this job?—Yes, Sir.

540. Do you know whether the Ambassador in the Argentine, or the Consul-General in the Argentine, if there is one, was invited to make any recommendation of some Englishman there with the necessary qualifications?—I do not think so, Mr. Chairman, because I think that we decided that any English accountant who was out there was likely to be already engaged in this particular business.

541. Yes, I see. What, in point of fact, was the anticipated cost of the inquiry?—The inquiry by the accountant took much longer than we expected that inquiry to take. We expected the inquiries by the accountant, when he was first sent out there, would take six to eight months, perhaps. As to the inquiry itself, we should have been surprised if the complete inquiry had been over in less than a year, at the minimum.

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[Continued.]

542. That is to say, you expected the accountant to be paid somewhere around £4,000, plus £2 per night?—Yes.

543. As a sort of refresher?—Yes; that was described as a subsistence allowance.

Sir *Assheton Pownall*.

544. It is a very dear place to be in?—It is a very expensive place.

Chairman.

545. It is a dear place to pay for, too?—Yes.

546. Actually, what did the accountant cost?—He has cost us, I think, just over £16,000.

547. Could you tell us now precisely what is the sum total of the result that you have got from his inquiry?—We have a report on the accounts of the meat companies exporting from Argentina; a detailed report on the accounts from the point at which the cattle enter their works, showing what they pay the producers in Argentina; the accounts throughout the different processes up to the point at which they ship meat to this country.

548. Was that report satisfactory?—I am afraid not.

549. What did you mean by saying it required further revision and checking?—Because, unfortunately, when the main Committee began to look into it, it became apparent that the report had, in some respects, been inaccurately compiled.

550. Can you assure us, Sir William, that the Committee itself, under Sir George Schuster, had pressed this accountant hard enough to give a report earlier than he did?—I have a report which was compiled for me some time ago, showing the various telegrams and letters which were sent out, which at times resulted in a hint of resignation by the Argentine Sub-Committee. They were pressing so hard that the Argentine Sub-Committee, under the Chairmanship of an Argentine member, hinted at resignation if the main Committee was going to question their proceedings in that way, which would have created, I am afraid, a very unfortunate situation.

551. Would you say that the investigation has, in fact, been of value?—It has undoubtedly been of some value; more value probably to the Argentine Government than to the United Kingdom Government; but the report on the f.o.b. value of chilled meat landed in

this country, which the Committee produced, was of very great value indeed in deciding how much exchange should be available for English exporters.

552. But the accountant did not provide that?—No.

553. That was the work of the other gentleman who went out, I take it?—Of the Committee.

554. Was he also paid at the same rate?—No, nothing like that. This accountant accounts in his total expenses for three-fourths of the total expenditure.

555. I did not grasp that?—The accountant whose conduct of the inquiry is under discussion accounts for three-fourths of the total expenditure of the whole committee.

556. Have you interviewed this gentleman with a view to inquiring why he took so long?—Our giving him notice that his services were terminated has resulted in his remaining in Argentina.

Chairman.] I should have thought he would.

Sir *Assheton Pownall*.

557. Are there many of these companies, Sir William?—Four or five.

558. Only four or five altogether?—Yes.

559. It is mainly English capital?—Some American and partly Argentine.

560. But under British or American management rather than Argentine management?—Yes.

561. That ought, surely, from the point of view of the inquirer, to have simplified things, because business methods are more comparable?—That is so; on the other hand, if I may say so, I think it was in very powerful hands, and that perhaps did account for some of the delay in getting all the information that was required. There is no doubt that some of the companies were reluctant to put at his disposal all the information that should have been put at the accountant's disposal.

562. You say "some"; there are only four or five altogether?—Yes.

563. It was one or two?—Yes.

564. Have we not got a Commercial Counsellor attached to the Embassy in Buenos Aires?—Yes.

565. You say you could not send someone out from England to ginger him up; but was it not possible for our Commercial Counsellor in Buenos Aires to take steps on the spot?—At intervals

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C.B., C.B.E.

[Continued.]

he did so. We were in private correspondence with him, and it was partly as a result of his private inquiries that we were finally able to get the Argentine Government to agree that notice should be given to this gentleman to terminate his appointment. We were in constant touch with the Commercial Counsellor.

566. You say the report was ready at the end of February, 1936, but I do not quite see what happened between then and June, 1937, when you sent an ultimatum?—No, I am sorry. What I meant to say was that the meat companies finally put at his disposal the information necessary for his report in March, 1936; it had taken ten months for him to extract from the meat companies sufficient facilities for the inspection of books, and sufficient information.

567. That 10 months' delay was not necessarily his fault at all?—That is so.

568. But if you expect a report in six months and he does not get any information for 10 months, obviously the time becomes 12 months at least?—Yes.

569. To that extent I do not think you could blame him?—That is so.

Sir Eugene Ramsden.

570. Who paid for his passage out?—That is shared by the two Governments. It is part of the expenses of the whole inquiry, of which half are recoverable from the Argentine Government.

571. Did he require to travel round the country in the course of his inquiry?—A certain amount, but not very much. Most of his work was done within a comparatively limited distance of Buenos Aires.

572. Was any supplementary allowance, in addition to the £2 a night, made for travelling?—No. There were certain actual expenses. His expenses for actual travelling were something over £200.

573. Having seen the report, how long do you think it should have taken him to prepare it, after he had received all the information that was given to him?—It is very difficult for me to make an estimate, because it is very definitely the report of a chartered accountant on the books, and going into considerable detail; I should have no hesitation in saying that it ought to have taken less time than it did, but I should hesitate to say more than that.

Mr. Culverwell.

574. When you said you were dissatisfied with the report, do you suggest that it was an incompetent report, or was there any collusion between him and the Argentine?—I do not suggest any collusion whatsoever. The Argentine Government and our interests were much the same in this respect, to get the facts, and I do not think there would have been any reason for collusion. I merely mean that, in fact, when coming to investigate the report, there were some obvious discrepancies which should not appear in a chartered accountant's report, which naturally put the Committee on further inquiries, and it has had to be re-examined in parts.

575. You merely suggest that he was incompetent?—Yes. I think, in fact, if I may add it, some of our inquiries led us to suppose that his health must have broken down a bit and that he was a bit strained.

Sir Eugene Ramsden.] Hard work?

Mr. Culverwell.

576. You had taken adequate steps to find out whether this man was qualified for the job?—We had made inquiries of independent chartered accountants. As I say, he was a qualified chartered accountant of some reputation and a partner in one of the better-known firms of chartered accountants.

577. You think something odd came over him after he had been employed by the Government?—That is the only explanation I can make. It does happen.

Mr. Lathan.

578. The firm of which he was a member, I suppose, could not have assisted you in exercising some good influence on him?—He resigned his partnership shortly after reaching Buenos Aires.

579. The more information one receives, the less satisfactory does it appear. The fact that he has remained in Buenos Aires does not add to your comfort in regard to the value of the report, I imagine?—It does not.

580. You said that the Committee of Inquiry was set up and that these accountancy investigations took place very largely as a result of a desire on the part of the Argentine Government?—Yes.

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[Continued.]

581. One can understand that; but was there included in any of the considerations attaching to the inquiry anything in respect of the British consumer?—No, I do not think that that was relevant to the actual agreement with the Argentine Government. It was no doubt present to the minds of Ministers, in deciding whether to conclude the agreement, what effect it would have, but it was not relevant to the Argentine Government that we should put anything into the actual agreement concerning that.

582. It is a matter of policy, perhaps, but, since we were accepting equal responsibility with the Argentine Government for the cost of the inquiry, something besides the question of the remuneration or payment to the producers on the other side might have been included in the range of the inquiry?—I have no doubt that when the report is before the British Government it will afford them certain valuable information as to the effect on the consumer of the different arrangements made.

Mr. *Lathan*.] That is a shred of comfort to the consumer.

• Sir *Robert Smith*.

583. With regard to the agreement, that was put before the House of Commons, was it not?—It was.

584. And in the agreement as put before the House of Commons these very words appear: "reasonable return to the Argentine producer"?—Yes.

585. So the House of Commons had full knowledge of this term of the agreement, to begin with?—Yes.

586. That is the point. Did you say that after reaching Buenos Aires this gentleman resigned?—Yes.

587. How long after reaching Buenos Aires?—He resigned as partner in the firm of accountants to which he had belonged within a few months of arriving there.

588. When did that come to the knowledge of the Committee in this country, that he had resigned?—Not very long afterwards.

589. I put it to you, was it not strange that no action was taken then? Did it not seem rather a strange thing for this gentleman to resign his post? Did not that seem strange? Would not that have drawn your attention to something rather curious?—I think that it

had been in the minds of the Committee, in fixing his remuneration, that it would interfere very much with his partnership in the firm at home, and they may have thought (I am speaking rather for the Committee; at that moment they had not reported to us on this) that it was not unnatural that he had found this task rather important and that it was taking a lot of time, and that it was proper for him to give up his partnership in the firm of accountants in London.

590. This gentleman has received £16,000. Has that money been paid to him?—It has.

591. By this country?—Yes.

592. You say the Argentine Government had to pay half the cost? This man not having come home to this country, and being under Argentine law there (he may become a naturalised Argentine subject) does it not seem strange that we should have paid the whole amount in this country, when half of it ought to be paid by the Argentine Government?—Under the accountancy arrangements between the Argentine Government and ourselves, they have paid certain expenses of the Sub-Committee in Argentina. We have paid expenses arising at this end, and there has been a settlement, so that the Argentine Government should pay half. This gentleman was appointed in London and sent out from London and came on our books, as it were, and we have recovered from the Argentine Government periodically their half.

593. Even of this £16,000?—Yes.

594. I understood you to say that, before you sent out the second accountant, you had found that there were statements in the first report which were palpably incorrect?—I am sorry.

Sir *Robert Smith*.] Perhaps you did not; I am putting it to you.

Chairman.

595. I do not think he used those words?—We sent out the second inquirer (who was one of the Argentine members of the Joint Committee at the time) to find out why we had not got his report and what really was happening. It was only after that that we received the report of this accountant, which we have found to be palpably inaccurate in some respects.

596. The first accountant?—Yes.

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[Continued.]

597. You found it to be incorrect?—Yes; that is the only relevant report we have received from him.

598. Did you obtain that information before you paid him his final £16,000, or after?—It was not examined by the main Committee until we had paid the final amount to this gentleman.

599. Yet you were doubtful about this gentleman, were you not, before you sent out the second accountant?—Yes, obviously. That was why the Committee, after consultation with the Board of Trade, agreed to send out a member. We were doubtful merely because of the delays and the difficulty of getting adequate explanation from him of those delays.

600. Would it not have been quite possible for the department then to have put off payment, getting the Argentine Government to agree, until you saw this report and found everything was in order?—I think it was probably rather difficult under the terms of our agreement with the gentleman concerned.

601. You say the Argentine Government were in agreement with you?—They were finally in agreement, but only after we had received the report of the member sent out. It was only at that point that the Argentine Government agreed with us to give this gentleman three months to finish his work, whether it was complete or not, on the basis of the information he had, and to notify him that at the end of those three months, whatever had happened, his appointment was terminated.

602. You said (at least I understood you to suggest) that there could be no suggestion that he was receiving any financial remuneration, other than agreed with you, from the Argentine Government?—Yes.

Sir Robert Smith.] Might it not be that remuneration might have been received, not through the Government but from certain private interests in the Argentine?

Chairman.] I do not think Sir William can say that.

Sir Robert Smith.] I say "Is it not possible"?

Chairman.] We all know it is possible, but we cannot go any further.

Sir Robert Smith.] That is all I want to know.

Mr. Peat.

603. You said in answer to another question that you did not suspect that there was any collusion at all?—Yes.

604. At another point you said that the fact that he had remained in the Argentine made you rather uncomfortable?—Yes.

605. Those two statements did not seem to hang together, quite?—I am sorry.

606. I want to be quite sure whether you think he was in any way dishonest or was in any way influenced by the people on the other side?—We have no reason whatsoever to think that this gentleman was dishonest or influenced by people on the other side. When I say it is unfortunate that he did not come home, I mean that I, myself, and no doubt the Chairman of the Joint Committee, would have been very glad to interview him.

607. I quite appreciate that. Did it ever occur to anybody to have a preliminary survey of the accounting situation? Apparently this man was sent over there to do an investigation entirely out of the blue and he arrives and finds he cannot get the information he requires to carry on. My question is: Did anybody suggest that inquiries should be made as to whether the accounts would be available at a certain date when he arrived?—We did expect that, they would be, because we had had discussions in London with the companies concerned, for instance, during the negotiations and subsequent to the negotiations. They were reluctant, we knew, to give full particulars to any outside accountant, even though appointed by both Governments, but we had some reason to think that they would, in fact, when it came to the point, give this gentleman all the information that was necessary. It got to the point where, at one time, the Argentine Government were asking us whether we would ask Parliament for compulsory powers over the associated London companies, but we had thought that that would be unnecessary and, in the end, it proved to be unnecessary, although after long delay.

608. The delay was the important thing?—Yes.

609. £4,000 of his time was spent in waiting until he got full information?—Yes.

610. The remuneration was a personal one?—Yes.

611. It was a personal arrangement with him and not with his firm at all?—Not with his firm at all.

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[Continued.]

612. What was the character of the mistakes or inaccuracies in the report; was it a matter of not being able to vouch the figures which he produced, or what was it?—If I may make the story even worse, there were, in fact, two identical columns giving the returns for two different companies, and the figures were the same in each column, which obviously put even amateurs like ourselves on inquiry.

613. Are you serious in your statement that he was ill during the period?—For instance, as well as the formal inquiries which were made, the informal inquiries to which one member of the Committee has referred, through the Commercial Counsellor, led us to think that he was not the same man when he was out there as when he was sent out.

614. A mistake like that is not carelessness; it is a matter of delusion, almost?—Yes.

615. Had he got anyone to help him; had he got any junior staff?—I do not think he took anyone from this country. He was supposed to have the collaboration of an Argentine accountant appointed by the Argentine Sub-Committee, whose remuneration was very much smaller and who, I think, did not take a very active part in the inquiry. His fee was supposed to cover any clerical assistance he might need.

616. When you found this gross mistake, why did you not curtail his remuneration?—That was not until we had finished and had given him notice. What happened was that in June, 1937, we received the report of the Argentine member who had gone out there to see why these delays were occurring. As the result of his report to the Joint Committee, the Joint Committee recommended to both Governments that this gentleman should be told that he must complete his report, whether it was finished in his opinion or not, by September, 1937, and that his services would terminate then. Both Governments accepted that recommendation; his services were terminated in September, 1937, and thereafter we received from Buenos Aires his report.

617. Having paid his remuneration before you got his report?—Yes.

Mr. Peat.] I should criticise that very strongly, Mr. Chairman. I have no other questions.

Mr. Mabane.

618. The Argentine Government had an interest in this investigation?—Yes.

619. They wanted it done quickly and accurately?—Yes.

620. Was there then no representative of the Argentine Government interested in observing this man's work on the spot?—There was a Chairman of the local Sub-Committee appointed by the Argentine Government who, in fact, took, in response to numerous representations from the main Committee in London, a very independent attitude as to how far the main Committee in London could interfere, and whether they should interfere at all.

621. Would it not have been possible for him to have discovered quite early that this man was not doing his work?—I should be sorry to criticise a gentleman appointed in Buenos Aires by the Argentine Government.

622. I am not asking you to do so; would it have been possible; were they in the same place?—Yes.

623. It would have been physically possible?—Yes.

624. I take it we have an interest in this, as it affects the funds?—Yes.

625. It occurs to me that we might have a legitimate complaint against the Argentine Government in this connection. The other question I would like to ask you this: You did not discover this man yourself?—No.

626. He was recommended to you?—We made inquiries of certain chartered accountants familiar with Government work, who had no particular interest in this task, and this man was recommended, as I said before, first because he was a chartered accountant.

627. By whom was he first recommended?—I could not say for certain, Mr. Chairman.

628. Within your department? Did the recommendation originate within your department?—No.

629. But it did originate somewhere, and that recommendation was supported by further approvals?—Yes.

630. Have the Board of Trade, or has the Committee, had anything to say to those who recommended this gentleman?—The Board of Trade have not had, because this was an appointment made, in the first place, by the Joint Committee. I believe that the Joint Committee have acted as the Member suggests.

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[Continued.]

631. It is a reflection on those who recommended him?—Yes, I suppose so.

Sir *Irving Albery*.

632. I would like to ask, would it have been impossible, in such a case, to have appointed a firm of accountants to do this work instead of an individual?—The difficulty was that this inquiry had to be conducted in Buenos Aires. Any actual firm located there was ruled out, because they were likely to be concerned in this kind of business.

633. Would it not have been possible to appoint a London firm to carry out that work in their own discretion?—I think it would have been possible, but the Joint Committee thought they were doing best by finding an individual who would drop all his other work to devote himself to this inquiry, being paid, as I said before, a sum that was intended to cover any actual assistance he needed. The Joint Committee recommended that.

634. Do I understand from that, that the question as to whether a firm should be employed or whether an individual should be employed, was considered, and that, after consideration, it was decided to employ an individual in preference?—I believe so, Sir, but I can only speak from recollection of what the Joint Committee, who made this appointment, recommended to the two Governments. I believe that they had considered whether a firm or an individual should be asked to do it, but the recommendation that was made to the two Governments was that this individual should be appointed.

Sir *Irving Albery*.] Would it be out of order, Mr. Chairman, for me to ask Mr. Peat if he would tell us if, in his experience, there is anything to prevent a firm accepting such a commission?

Mr. *Peat*.] Nothing whatever.

Sir *Irving Albery*.

635. The only other question I wanted to ask is this: I take it, from what you have told us, that this accountant, when he reached Buenos Aires, really came entirely under the orders and the control of the Buenos Aires Sub-Committee?—Almost entirely; there was, in fact, a remnant of jurisdiction in the main Committee, and the remonstrances they addressed from time to time through their Sub-Committee show that they felt that responsibility.

636. The Sub-Committee in Buenos Aires really did not see eye to eye with the main Committee; they resented being interfered with?—Very much.

637. And they did not appear to consider that time was being wasted or lost?—That is so.

Sir *Isidore Salmon*.

638. What is the attitude of the Argentine Government with regard to the report? Are they accepting the basis of the report based on figures supplied by this individual?—No. The Joint Committee is now considering the final draft of its report to the two Governments. It has a Chairman, Sir George Schuster, it has British representatives and it has Argentine representatives. They have gone through that report presented by this accountant; they have, in fact, employed another accountant to correct it and to work on it, and it is only on his work and on their own consideration of the accountant's report that they are producing their report to the Governments.

639. Was this accountant actually engaged by the Joint Committee?—By the Joint Committee.

640. Therefore, for the payment of his salary, they would sign a voucher to the Board of Trade?—I believe that was the arrangement: it must have been.

641. Do you seriously say, then, that the Board of Trade paid this officer, on a voucher from the Committee, this final sum of money?—Yes.

642. Notwithstanding the fact that they had not examined his work?—I believe, if I may just correct that, that the final sum was retained in this country for the purpose of satisfying the Inland Revenue.

643. But at any rate the actual money was agreed to by the Board of Trade?—Yes.

644. And a cheque was paid?—Yes.

645. The difficulty that I see about the whole matter is this: How was it that any body of business men, or the Board of Trade (I do not mean it offensively) should pay the finishing fee before they received the report?—The notice that was given to this gentleman, on the recommendation of the Joint Committee and by agreement between the two Governments, was that in September, 1937,

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[Continued.]

whatever happened, his employment terminated, but that before that they wished for a report on what he had done, whether it was complete or not.

646. Surely someone should have seen the report before they gave the final figure?—At that moment, as I say, his final remuneration was withheld from him to satisfy the Inland Revenue authorities.

647. That was not by any action of the Board; that was done by the Inland Revenue putting a garnishee order on it for what was due to them?—Yes.

648. I do not think even the Board of Trade can take any credit for that?—No; I was not trying to.

649. The point I still come back to is: How was it that no official called attention to the fact that it would be unwise or indiscreet to pay until the report had been received and perused?—I know that point was considered very definitely. The difficulty we were in, as representing the United Kingdom Government in this matter, was our fear of allowing any suggestion to be made in Argentina that the United Kingdom Government was interfering in any way to burke those inquiries or to make difficulties about it, or was throwing doubt on the qualifications or work of a gentleman whom the Argentine Sub-Committee had approved.

650. But, with all respect, I do not quite see how that point arises in answer to my question. You were to pay a final sum of money at the rate of £500 a month. You paid that final figure before you even looked at the report?—Yes.

651. Is not that most unusual?—I think it is, Sir.

652. Is no one responsible for doing that?—The Joint Committee had engaged this gentleman on certain terms, and, I am afraid, under those terms all we could do was to give him that notice that he must go in September, 1937, and to say: "Meanwhile, we hope to receive the results of your work, but even if it is not completed and if we obtain nothing, we are not going to continue your appointment."

653. That is quite understandable, but surely the Board of Trade, one would have thought, would have taken some action to see that the final amount was not paid until they received something, even though it was only half a report?—It might be that that would have been

a better course. I can only say that I think we were in great difficulties with a Joint Committee representing two Governments and with a great susceptibility on the other side.

Chairman.

654. Whose servant was he?—The Joint Committee's.

655. Not yours?—Not ours.

656. Did you have to pay up whatever they recommended you to pay?—Before he was appointed we agreed as to the terms on which he might be appointed; both Governments agreed.

657. Did you ask the Treasury about this matter?—Yes, throughout.

658. Did they agree that this money was to be paid without his delivering the goods?—I cannot remember that particular point.

Sir Isidore Salmon.

659. Surely it is a very important point. I understood that, in answer to the Chairman, you said that the Joint Committee were responsible. They gave a voucher for each month's money to be paid?—Yes.

660. You, as the Board of Trade, or the Treasury, could have intimated, I presume, to the Committee, that it was not desirable to pay the final figure until the report had been examined, had you thought of it?—That is so.

661. No one thought of it?—I think the Committee themselves considered it; I am afraid we did not.

Sir Robert Smith.

662. Was this money paid monthly, or in a lump sum?—Monthly.

Chairman.

663. Sir William, you did, I think, give the name of this gentleman, and I see no reason at all why his name should not be given?—His name was Mr. O'Dea.

664. Could you tell us how old Mr. O'Dea was?—I could not say. If you would like it, I can find it and put it as a footnote to the evidence.

665. I would like to know how far this recommendation could have been justified, if he was, in fact, a very young man?—He was not a very young man. From what I remember, he must have been a man in the forties.

Mr. Mabane.] Might we not also know who recommended him?

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[Continued.]

Chairman.

666. Sir William said he did not know?—I am not sure now. There was consultation between the Chairman of the Joint Committee and the Committee and certain chartered accountants who are accustomed to advising the Government from time to time.

Mr. Mabane.

667. Did his own firm, of which he was a partner, recommend him?—Yes.

668. And that recommendation was accepted as a good recommendation?—There were other recommendations.

669. There was such a recommendation?—Yes, but there were others too.

Chairman.

670. Mr. Mabane asked did his own firm recommend him?—Yes.

671. How could his firm have recommended him, unless they were invited to do so?—He was a partner in a firm, one of whose members is a member of the Joint Committee.

Mr. Peat.

672. Could we ask the name of the firm?—Barton, Mayhew and Company.

Sir Assheton Pownall.

673. I think we have got some small benefit out of this, because we paid his fare to South America. I presume, therefore, we were responsible for his return fare, had he chosen to come home?—That is so.

674. It is £100 or so?—Yes.

Chairman.] I think we cannot carry this matter any further.

Sir Irving Albery.

675. There is one point I would like to raise in view of what has just come out. I should like to know whether there was any discussion, before this gentleman left for America, as to whether he was to leave his firm or to remain a partner? Was there any mention of that?—So far as I know, there was no discussion on that subject. His own firm were surprised by what happened and surprised by his resigning his partnership.

Chairman.] I am glad that question was put. That is fair, I think. Shall we turn, please, to page 246, Class VI, Vote 1, Board of Trade. Page 246 and part of 247 is a summary. We will turn to the details on page 247.

Sir Isidore Salmon.

676. On page 246, with regard to the general administration in the Board of Trade, is it not a fact that the expenses under sub-head A, salaries, are higher than they were at the corresponding time last year?—In salaries, yes.

677. Is that because you have more work, or is it an automatic increase?—It is more an increase in the work. I think the increase arises in Departments like the Commercial Relations and Treaties Department, which is concerned with overseas negotiations, the Food (Defence Plans) Department and the Industries and Manufactures Department, which is also concerned with tariffs and tariff negotiations.

678. Is it going to increase further, or have you got more stable?—I really am afraid it is increasing; there are other things still adding to it, for instance, the extra cost of Defence Preparation work, which is thrown on the Board, which is increasing our responsibility and, I am afraid, with it, our staff.

Chairman.

679. Pages 248 to 251. When we come to page 251 I have one observation to make, and I will ask Mr. Brittain if he will note the point. There are on pages 251 to 253 a series of statements which are very involved. I do not know that they add very much to our light and information; anyway, they are not easy to understand. Mr. Brittain, have you anything to say upon these little accounts?—(Mr. Brittain.) Two or three of them are admittedly simply building up to the figures which are shown in the account as having been appropriated in aid, and I think the Treasury would be inclined to agree that they are largely unnecessary. There are five cases altogether. Two of them, on pages 253 and 254, which give details of bankruptcy and companies fees, are really hardly relevant to this account at all.

680. That means (I) and (II) at the top of the page?—No, Sir; half-way down page 253 you will find a note, "Bankruptcy Fees", and on page 254 "Companies Fees". Those simply relate to fees which are already included in returns which you get about Bankruptcy Fees, and, as far as those two are concerned, we would rather like to suggest that they should come out altogether. In front of those there are two or three notes relating to the Patent Office and Companies Department and the Enemy

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Property Branch, which are merely building up the figures which are in the main account, and we think they might be replaced by very short notes relating the receipts to the expenditure.

681. You refer to note (b) on page 251?—Yes.

682. And note (c)?—(b) on page 251 and (d) on page 252.

683. Let us get clear what you are referring to?—Page 251, note (b), about two-thirds of the way down the page. That little table could come out and be replaced by a note. Page 252, half-way down, note (d) and, below that, note (e); and on page 253 those two statements, (I) and (II) at the top half of the page. Those certainly we suggest should come out, because now that the branch is settling down they are largely historical, particularly the second one, and really do not help the Committee at all, I think.

684. What did you say about the bottom of page 253? I thought you said something about Bankruptcy Fees?—Bankruptcy Fees we suggest taking out altogether, and Companies Fees on the next page, because they are already covered by the separate return you have.

Chairman.] Yes. There are Mr. Brittain's observations upon those notes. Are there any questions?

Sir Isidore Salmon.

685. Can we see the figure on the Patent Office in another part of the Vote? I notice the expenditure borne

on the Vote in respect of the Patent Office is £317,000?—You cannot get it from the Vote directly, but we propose to have a note instead of this table, showing this figure, showing what Appropriations in Aid are received, and linking the receipts with the expenditure.

686. You would do the same in regard to the Enemy Property Branch?—The other two, the Companies Branch and the Enemy Property Branch.

687. Under the Enemy Property Branch, is this clearing office practically closed down?—(*Sir William Brown.*) It is now administered under the Finance Department of the Board of Trade. I should very much like to say it is closing down; the staff has been very considerably reduced and it is now quite small, but at present there are pending possibilities of cases; it is a legal question. There is one case alone that is pending, of £100,000, and while there are cases of that magnitude I could not say it was really closing down.

688. What class of staff are you retaining, junior or senior staff?—Junior staff, except for one man who might not be described as junior, who has been throughout in the work and is available for consultation by the Solicitor, chiefly on these big cases and the history of them; but it is a very small affair now.

Chairman.] Are there any further questions? May I take it that this account is approved? (*Agreed.*)

(BANKRUPTCY AND COMPANIES (WINDING-UP) PROCEEDINGS
ACCOUNT, 1936.)

(*On this account no questions were asked.*)

CIVIL APPROPRIATION ACCOUNTS, 1936.

CLASS VI.

VOTE 3.

ASSISTANCE TO BRITISH SHIPPING.

Chairman.] Paragraph 37: Assistance to British Shipping. This is largely narrational. Are there any questions on the paragraph? Turn, please, to page 261, Class VI, Vote 3, Assistance to British Shipping. Are there any questions?

Sir Isidore Salmon.

689. Does this mean that it is not being used at the present time, but it is being carried forward?—(*Sir William Brown.*) It is not being used at all at present. The arrangement was that if the level of freights on a certain basis

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[Continued.]

rose above 100 per cent. of the 1929 level, no subsidy should be payable. In the last six months of 1937, less details were kept, because it was clear that the freight level would be well above that, and it was clear that no subsidy would become payable. We cut down the administration expenses and the collection of details accordingly.

Mr. Lathan.

690. Is it quite clear how the amount available for distribution to shipowners is increased by savings on expenses? I thought there was some formula which governed your payments to a shipowner, not that if you saved on expenses you handed out more?—The maximum amount was £2,000,000 which was voted for this purpose, and, having saved on administration, which we had estimated at £10,000, that went to the other part of the account for the benefit of the shipowners. The total amount we were to spend on administration and subsidy was limited to £2,000,000 in the original legislation.

691. Is there no formula governing the payment to shipowners?—Yes, there is a formula, according to the variation in the freight rates. The average level for freight rates being 90·79, as it turned out, of the 1929 level, that meant that the maximum of £2,000,000 was available. It is only when the freight rate rises a bit above 92 per cent. of the 1929 level, that less than £2,000,000 shall be available altogether.

692. The payment would be made according to the particular formula, and if, over and above your liability on that formula, there is some saving in administrative charges, you say that is handed over also?—Yes, because the freight rate had not reached that level at which the total of £2,000,000 which we were authorised by statute to spend should be reduced. The freight rate was still well below 92 per cent. of the 1929 level, therefore the maximum of £2,000,000 could be spent on this service.

Chairman.

693. What has freight rate to do with the administration of this service?—It is merely that Parliament made available £2,000,000 a year to be distributed according to the level of freights.

Mr. Mabane.

694. The formula was in relation to £2,000,000?—Yes.

695. That is to say, a certain proportion of £2,000,000 becomes available on a certain freight rate percentage?—Yes.

696. Therefore the amount available was the full amount?—Yes.

Sir Isidore Salmon.

697. If I understand the position correctly, you allow a given percentage for administration?—Yes.

698. If you say 8 per cent. is allowed for administration and your administration only comes to 3 per cent. you are permitted, so long as you keep within the £2,000,000 limit, to credit to the shipping subsidy the other 5 per cent.?—That is so.

699. Is that the position?—Yes.

Chairman.

700. That is the point Mr. Lathan was putting, clearly?—That is the position.

701. That whatever you saved in administration went to the subsidy?—Yes.

Mr. Lathan.

702. It still sounds a little incomprehensible to me, except that I understand the replies given by Sir William to mean that the formula provides for a certain percentage of payments?—Yes.

703. The maximum amount allotted does not permit of that percentage being paid in every case. Therefore, if there is, in some instance, a payment at a lower rate than the formula provides for, and there has been a saving contemporaneously on expenses, then you hand over the saving on expenditure to make up the difference?—No. I think I have the point clear now. There is a total sum, not exceeding £2,000,000, available under the authority of Parliament for us to spend on that service in one year. That £2,000,000 will only be reduced if freight rates rise above 92 per cent. of the 1929 level. In this year they did not reach 92 per cent., so the maximum sum of £2,000,000 was available for expenditure under this general heading. That is supposed to cover the actual subsidy and the administrative expenses. As, in fact, the administrative expenses were less than we had estimated, there was that amount more available for the other part of the account, the subsidy.

Chairman.] May I take it that this Account is approved? (Agreed.)

15 February, 1938.] Sir WILLIAM BROWN, K.C.M.G.,
C.B., C.B.E.

[Continued.]

BRITISH SHIPPING (ASSISTANCE) ACT, 1935, ACCOUNT, 1936.

(On this account no questions were asked.)

CUNARD INSURANCE FUND ACCOUNT, 1936.

Chairman.

704. Cunard Insurance Fund Account, 1936. On this Cunard Report, Sir William, have the construction risks on the "Queen Mary" now lapsed?—(Sir William Brown.) They have now lapsed.

705. Was there a profit?—There was a profit, Sir.

Sir Isidore Salmon.

706. It appears that insurance is a good business?—So far, but we have yet to see what might happen if one of the larger risks fell upon us.

Chairman.

707. On the marine risks, is the position on the first year now cleared up?—Yes.

708. How has that worked out?—We have had to pay out £5,240 against receipts of some £32,000.*

Mr. Peat.

709. The marine risks have been renewed?—Yes.

710. Where does that take us up to?—May, 1938, I think, at present.

711. More insurance was taken by the market?—Yes.

712. Was that to help you out, or because they realised it was a profitable transaction? How long are you going on renewing it?—We are under an obligation to do that as long as the market cannot take up the whole amount.

Sir Isidore Salmon.

713. Have you not a contingent liability of £10,000 on marine risks?—We had claims for damage estimated at that amount.

714. That has not been settled yet?—That has not been settled yet.

Sir Irving Albery.

715. What steps are taken (I imagine they are quite ordinary steps) to ascertain whether the market can take up the full risks or not?—The position is that the Company goes to Lloyd's and finds out how much they can get taken up by the underwriters in the ordinary way.

716. At an equal rate?—At an equal rate. They come to us and say that the market is prepared to take £3,500,000 at such and such a rate. We

* *Note by Witness.*—These are construction risk figures. The marine risk figures are £6,160 against £21,637.

say that we will take the remainder at 2½ per cent. above that rate. So as to prevent any desire of the market to throw it on us, we make sure that for anything they come to us for, they pay more than the market rate. That operates as a certain check on the operations of the market.

717. How is the rate fixed?—In the market. As I understand the procedure, the man goes into Lloyd's and says: "I want to place so much; at what rate will you take it?" He gets lines made up until he finds at what rate the market is prepared to do it. Then he finds how much of the total amount he can get placed at that rate. Then they come to us for the remainder at a higher rate.

718. The point I rather wanted to get some information about, if I could, was this (I am not personally expert in Marine Insurance): Supposing a rate, for the sake of example, is 25s., I take it to be quite possible that if you can do £2,000,000 at 25s. you might be able to do £3,000,000 at 26s.?—I do not think so. I think, in fact, what happened when we first embarked on this experiment was that we were advised that Lloyd's market simply could not take one catastrophe risk of this kind.

719. The position still remains, then?—The position still remains.

Chairman.

720. There is not so much risk carried on the new vessel, is there?—No; the market took a greater share on the second vessel.

721. What is the amount of premium?—At present it is construction risks at the same rate as on the "Queen Mary," which was, I think, 30s. per cent. less a discount that underwriters allowed, and we put on our 2½ per cent. for the amount that we took.

722. Have any claims as yet arisen?—No claims yet.

Sir Edmund Brocklebank.

723. Is the proportion between what the market takes and what the Board of Trade takes fixed for all time, or is it variable year by year?—It is variable each time the insurance is renewed.

Chairman.] Are there any further questions? May I take it that this Account is approved? (*Agreed.*)

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C.B., C.B.E.

[Continued.]

GENERAL LIGHTHOUSE FUND ACCOUNT, 1936.

Chairman.

724. General Lighthouse Fund Account, 1936. You will find the Comptroller and Auditor General has presented his qualified certificate on page 9, because there is a Memorandum with relation to that on pages 2 and 3. On this Memorandum, Sir William, I take it that the Board of Trade itself determines whether there shall or shall not be a reduction in the rate of light dues?—(Sir William Brown.) Yes.

725. Can you tell us what justification there was for a reduction in the light dues, in view of the statement that appears there?—It has been a difficult question every year. Although the decision lies, naturally, and must lie, under the Statute, with the Board of Trade, there is a conference with the light authorities and with the ship-owners, which discusses, first of all, the new works questions, and the ship-owners are enabled to comment on the necessity for certain new works and to discuss them. There is then a discussion, preparatory to a decision which is taken later by the Board of Trade, as to what the actual rates should be. I am afraid that for some years the ship-owners were able to say with justice that they were doing very badly indeed, that an increase of the dues at that moment would have an adverse effect again and might even diminish the total received, although I think that might be an exaggeration. A decision was taken in 1928; the rate was reduced to 130 per cent., that being 30 per cent. over the so-called statutory rate. It was then reduced again to 125, then to 120, then to 112½; in 1935 it had gone down to the statutory rates; but in 1937 the Board of Trade decided that this process had gone too far and that, whatever the consequences, there must be greater revenue. The subject was discussed by this Committee and certain comments made, and in 1937 we increased the rates from 100 to 125 per cent. and there is now in course of preparation an Order increasing the rates still further to 130 per cent., on the clear understanding that we shall not necessarily wait for one year, if we find it necessary, before increasing them still further in order that the reserve accounts to which this Committee previously called attention should be adequately filled. I am afraid that is all that we

can say, that we have put them up from 100 to 125 per cent. and again, in the following year, to 130 per cent., and have made it clear that before the year is out, if necessary, we are prepared to put them up again.

726. Was it not in 1935 that shipping was beginning to look up?—It was.

727. How was it you gave a reduction in light dues then? The consequence was that you had to sell stocks?—Tramp shipping was only just receiving the subsidy then. I was a bit hurried in saying that shipping was beginning to look up.

Sir Robert Smith.

728. You said you gradually reduced the dues: from about when?—First of all, there was a period in 1920 when they were actually 200 per cent.

729. I did not mean as far back as that. I was looking at the Appendix you have on page 12. You find that your margin is getting smaller and smaller, that your amount of revenue is gradually going down?—Yes.

730. Yet in 1932 you had a fair amount of expenditure; you are a good deal lower for 1933 and 1934, but you must have known that there was some expenditure coming on, did you not? It seems to me so strange that you should have reduced still further, right up to 1935, when it was quite apparent that you were going to have no margin. May I ask if the reason you did that was because the amount of shipping really was increasing, and you hoped to have a larger return by more ships being in commission?—In fact, we hoped that, and the Committee will not be surprised that that was the advice we received from the shipowners.

731. That, I suppose, was the reason why; but you have now had to put them up?—Yes, to 125 per cent., and again to 130 per cent., with a warning to everyone concerned that we may put them up still further without waiting for the ordinary period of one year to elapse.

Chairman.] May I pursue one point, as you are going on? I thought you said the Board of Trade was anticipating extra shipping?

Sir Robert Smith.] No; that the Board of Trade thought there would be more ships in commission and that naturally the returns from light dues would be higher.

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[Continued.]

Chairman.] The effect of the subsidy was to reduce the number of ships.

Sir Robert Smith.] Of tramp shipping, but not of all shipping; that is what I mean. You get a limited number.

Chairman.] Quite.

Sir Robert Smith.

732. The figure has gone down. To put it quite shortly, as far as I can gather from this, your natural tendency is to get your light dues as low as possible, commensurate with keeping the lighting of the oceans up to proper standards?—Yes; also those reserve funds; that is included.

733. Those are more or less statutory funds which you should try to keep to?—Yes.

Mr. Peat.

734. What is the basis on which you collect the light dues?—They are collected on the tonnage of ships entering certain ports. They pay by tonnage.

735. It may be I was entirely wrong in thinking that you said, to start with, that if the dues were put up too high, the height of the dues would defeat the object of getting more revenue?—I think it is most improbable; that argument has been put to us, but I doubt if the amount of these charges is a sufficient proportion of the charges the shipowners have to pay.

Mr. Peat.] I wanted to make sure that it was not seriously put forward.

Sir Robert Smith.

736. The shipowner would have to lay up the ship to escape the light dues?—Yes.

Sir Irving Albery.

737. At 125 per cent. is the revenue covering expenditure?—It is covering expenditure, but we are doubtful about the reserves, and that is why we are now putting it up immediately. An Order is in preparation now to lay before both Houses. When it has lain for 30 days, the rate will become 130 per cent.

Mr. Lathan.

738. On page 3 it says: "the responsibility for the maintenance of Lighthouses, Buoys, etc., in the Irish Free State resting on the Commissioners of Irish Lights should have been transferred to the Government of the Irish Free State as from 1st April, 1923." I gather from the following paragraph that

it is still a matter of dispute between the Irish Free State Government and ourselves?—That decision, that the responsibility should be transferred to the Irish Free State, has given rise to a number of difficulties, some of which have been raised in this Committee before. It raises difficulties about the exact frontier between Northern Ireland and Eire, and whether certain beacons come in one country or the other. Also, many of the lights there are not for the benefit of Eire, but for the benefit of vessels approaching the coasts of Ireland. It is really the constitutional and political aspect of it which has made it difficult for the Board of Trade to get a settlement of this question.

739. That is the point on which I wanted to get information: The difficulties in the way are political rather than technical?—Yes.

740. At the foot of page 4 there is "Amount due to the Irish Free State Government for collection of Light Dues in the Irish Free State." Is that in the form of a commission?—That is in the form of a commission on the amount they collect for this service.

741. And, despite the absence of agreement on the other matter, we paid them the commission all right?—We work together in a most amicable way.

Mr. Lathan.] That is very gratifying.

Chairman.

742. Is there any hope of this being settled?—We hope so, Sir. The Board of Trade obviously must raise it in connection with the discussion of certain other questions.

743. You have been hoping since 1923?—Yes.

Sir Irving Albery.

744. On page 4, under the heading of "Lighthouses abroad," Bahamas £19,251 6s. 3d.; is that what one might call a loose geographical description, or is that amount entirely confined to lights in the Bahamas?—It is actually confined to lights in the Bahamas. When the Light Dues were carried, before 1899, on the Mercantile Marine Fund, the Colonial Lighthouses (those particular ones, for instance) were borne entirely on Parliamentary votes. The present position is that we hope to cover all expenses on the Bahamas Lights when all the Governments who ought to contribute have ratified their part of an agreement, but the trouble is that it is used

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[Continued.]

largely by the West Indies, and some of the West Indian Governments have not yet ratified the agreement to pay their share.

745. That does not affect all the West Indian Governments?—All the West Indian Governments are concerned. We collect dues in this country from ships which have passed those lights, and similarly the West Indian Governments should collect dues from ships there, in respect of the Bahamas lights; they do not always do that yet.

746. Have any of the West Indian Governments lights of their own?—The Jamaica Government carries its own lights.

Chairman.

747. Do you hand over this money to the Trinity House people?—Yes.

748. It is with this money that they are able to function?—Yes, we finance them on their programme, which is approved by us.

Sir Irving Albery.

749. Are those two different administrations? Is the administration of these lights conducted separately, the Bahamas and the rest of the West Indian lights?—The Bahamas lights are quite separate. They are controlled from here.

750. Is that economical?—The Bahamas lights are an Imperial service.

751. Would you consider it economical that half the lights in the West Indies should be under one service and the other half under another?—I doubt if it makes much difference; in practice there is close co-operation; but there are certain Imperial lights throughout the world for which we are responsible, and, after all, we are in touch with the light-house authorities here. We can earmark stores for those people as well.

752. I was wondering whether it had been considered at all whether it would not be more economical to have in the West Indies some special authority for the purpose?—I would like to say that I will undertake to look into that further. I could not give an answer offhand, but if I may take it that it is the wish of the Committee that we should investigate that question further, we will.

Chairman.] Individual members often put forward suggestions, but they are

always forbidden to speak on behalf of the Committee.

Sir Irving Albery.] I am not doing that.

Chairman.

753. No, but Sir William thought you were?—The Board of Trade will take note of the suggestion.

Chairman.] Are there any questions on pages 4, 5, 6, 7, 8 and 9?

Sir Robert Smith.

754. About half way down page 10 it says: "Miscellaneous. Less value of Light Vessels, Nos. 7, 21 and 39." They were all sold for £10,040, £10,630 and £14,170. What was the cost of those vessels originally?—I am afraid we could not say. When we came to compile reserve funds and capital balance sheets we had to say that as regards anything constructed before a certain year, there were no separable records of what they had actually cost, and we had to give a general value for capital purposes.

755. What would a vessel of the same nature to fill the place of No. 7, for instance, cost you at the present time?—I should think somewhere between £20,000 and £30,000, at least.

Mr. Culverwell.

756. On that page: "New Motor Vessel (to replace S.V. 'Vestal')," £29,000 in that year. I notice in that year you have £100,000 for construction of new light vessels and other vessels. What is the ordinary expenditure in a year on construction, on the average?—This is about what I expect will be the average for some years to come. Owing partly to the War and partly to a general reluctance to put the shipping dues up sufficiently, the programme of Trinity House, in particular, has got rather behindhand in these vessels. It was discussed by this Committee before. There are a number of vessels which will need replacing. Trinity House is drawing up a programme, replacing a certain number each year over a period of years, and I think this might be taken as the average for some time.

757. I asked a question last year about the light vessels and I suggested that it was an unfortunate time to start replacing half your fleet of some 40 odd vessels just when the shipyards were full up with work and there was a rearmament programme being carried out. You

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[Continued.]

said that that had been embarked upon because it was overdue and it was essential?—Yes.

758. I accepted your explanation about the light vessels, although, as they had lasted for such a very long time, I should have thought they would have lasted until a more opportune moment?—They would have got so much more dangerous.

759. But they have been dangerous, according to you, for so long already, that I should have thought they could have waited a little longer. Then there are two other very expensive ships?—They are the tenders for the lightships. I am afraid it is absolutely necessary to have them. There is already considerable delay sometimes in relieving men on lighthouses and getting stores there and so forth.

760. What is the total cost of the new vessel to replace the S.V. "Vestal"?—About £100,000.

761. In Scotland (it is, after all, the same country) you have a new motor vessel "May" which cost £49,000 in that year. What is the total cost of that vessel?—That will be about the same amount.

762. Are they Trinity House vessels?—The one in Scotland will be a Northern Lights Commissioners' vessel.

763. What about the one to replace the "Vestal"?—That will be Trinity House.

764. They are all performing the same type of service?—Yes.

765. How many vessels of that type have they got?—5 or 6.

766. And you are replacing two at this particular moment?—Yes. We do not replace them in one year. As you see, the amount is only about half what we expect the total to be for the second one. On the point which the Honourable Member has in mind, about the shipyards being very busy, I may say that in fact the programme which we expected to carry out has been delayed slightly, and Trinity House have, in the last year, only worked on two lightships where they expected to work on three.

767. Out of roughly five of these motor vessels you are replacing two at the present time?—Five would be for one authority—namely, Trinity House—and three would be for Scotland. I should correct the answer which I gave on that.

768. There are eight or 10 altogether?—Yes.

769. And you are replacing two now?—Yes.

770. It seems curious that they should all wear out round about the same time?—I am afraid it is the result of being rather too economical in the past. You find that all these things come in on you at once.

Sir Robert Smith.

771. How many of the Northern Lights Commissioners' vessels are there?—I could not say.

772. I mean of these vessels?—Of these vessels I think there are three.

773. One of them is quite new; it was built within the last year or two?—Yes, I believe that is so.

774. What was her total cost?—About £60,000.

775. Prior to that, you had worked entirely with two in Scotland, had you not?—Yes.

776. Until the last year or two you have had only two?—That is so.*

777. Was the number of lightships or buoys greatly increased?—Not greatly.

778. But they have increased?—They have increased.

Sir Isidore Salmon.

779. Do these motor lifeboats come under the Admiralty for ordering, or do you order them direct?—Trinity House, and the other authorities, order them.

780. Under the supervision of anyone?—For their capital programme they have to come to the Board of Trade for approval, and that programme is discussed by the shipowners, as to the necessity for these things.

781. Who supervises the actual process of construction?—They have a very considerable technical staff of their own.

782. At Trinity House?—Yes, at Trinity House. They must have that staff for their own ordinary upkeep from time to time, and I imagine that they are rather in the position of a shipping company, which has a superintendent engineer who is qualified to check the ship-builders' work and estimates.

783. And they send out for tenders in the ordinary way?—Yes.

Sir Robert Smith.

784. We had it the other day that the Board of Trade have their own surveyors for shipbuilding?—Yes.

* *Note by Witness*:—These answers were mistaken. The Commissioners have had four vessels for a long time.

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[Continued.]

785. We were told that the last time this Committee met; the point was raised by Mr. Culverwell?—Are not these ships built under the survey of the Board of Trade surveyors or are they built under the survey of Lloyds' surveyors?—I believe they are built under the superintendence of the Trinity House or other lighthouse authorities' technical experts.

786. The Board of Trade surveyors are not consulted?—I believe we are consulted. I would not like to be quite certain about that, because I might mislead the Committee. I do not think the Board of Trade surveyors supervise the building of the ships.

787. Do these gentlemen of Trinity House possess a yacht for ceremonial purposes?—I believe they do.

788. Do you know whether it is a new one or not?—I think that it is a very old one.*

(Sir William Brown withdrew.)

CIVIL APPROPRIATION ACCOUNTS, 1936.

CLASS I.

VOTE 1.

HOUSE OF LORDS OFFICES.

(On this Account no questions were asked.)

VOTE 5.

PRIVY COUNCIL OFFICE.

Chairman.] Are there any questions on page 14, Class I, Vote 5, Privy Council Office?

Sir Isidore Salmon.

793. How is it that they are 50 per cent. out in their estimate of incidental expenses in sub-head B? It is only a small figure, but they are 50 per cent.

789. Have they any power to spend any money upon buying lifeboats?—No. Not lifeboats in the sense of lifeboats that save life; lifeboats for their own ships, yes.

790. They have to go begging for that?—Yes.

Sir Isidore Salmon.

791. Sir William, I thought you were very emphatic the other day on the question of life saving and the necessity of having a ship thoroughly examined from the point of view of seeing that it is safe as regards human lives and all that kind of thing. I notice that with regard to these ships you are not quite so particular?—There is a public authority building these ships, with technical men on its staff.

792. You draw the distinction?—I do.

Chairman.] May I take it that the Account is approved? (Agreed.)

CINEMATOGRAPH FUND ACCOUNT, 1936.

Chairman.] Cinematograph Fund Account, 1936. The report is to be found on page iii and the account on page 2.

Sir Isidore Salmon.

794. Could you give us any information as to how many cinemas are now open on Sundays?—(Mr. Brittain.) I am

Note by Witness:—The vessel referred to is fitted and used for the ordinary lighthouse services, but has also passenger accommodation for the Elder Brethren's inspection duties. She is being replaced.

out?—(Mr. Fraser.) It is explained in the footnote, I think. (Mr. Brittain.) During the year under review I think the number of councils must have been rather difficult to forecast, having regard to the various events of State that have happened. It depends on that.

Chairman.] May I take it that the account is approved?—(Agreed.)

afraid I have not got that. I will see if the Privy Council have it.

Chairman.

795. It would be interesting for us to know that. We had a very full inquiry into this some two or three years ago, you remember, because many of us were dissatisfied as to the amount that was going to charities and so on?—That was last year.

796. Was it last year that we had that detailed report?—The year before

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[Continued.]

you had the detailed report. Last year you examined Sir Russell Scott on the report. (Mr. Fraser.) And Mr. Lead-bitter, too.

797. I thought it was further back than that. It seems to me that this matter wants watching very carefully to see that the charities are getting as much as they ought to get?—The difficulty is that the Act lays down certain procedure.

Sir Isidore Salmon.

798. In giving the report on the Cinematograph Fund, as you do annually, would it not be possible to put at the bottom of the paragraph the number of cinemas to which it refers? It would give one an idea of what they contributed?—This is an account. The Comptroller and Auditor General might put that in his report. (Mr. Dixon.) I do not know that we should know it. Does the Honourable Member mean the actual number of cinemas or the number of areas in which Sunday opening is allowed.

799. The total number of cinemas that are open on Sundays; because it is from the total number of cinemas that are open on Sundays that you get your receipts. The amount of receipts depends on the number of cinemas?—It does depend on the number of cinemas. I do not know whether the actual accounts we get show those figures.

800. They do not?—I do not know. (Mr. Brittain.) The returns come from a certain number of local authorities, and they may not give the number of cinemas.

Sir Isidore Salmon.] I see the difficulty.

Chairman.

801. Mr. Fraser was saying, quite rightly, that the Act lays down certain conditions as to how much shall be allotted to this, that and the other; but what we feel is that we ought to be able to know whether there is any indication that the local authorities are sufficiently insistent upon the proper proportion going to these various funds. It is in their charge to determine that point, is it not?—(Mr. Fraser.) I thought Sir Russell Scott satisfied you last year that there was no doubt about that.

802. That is no reason why we should be satisfied this year?—(Mr. Brittain.) That percentage was deliberately left by Parliament to the local authorities, as a matter of policy.

Mr. Pethick-Lawrence.] We have no power in this matter, have we?

Chairman.] No.

Mr. Pethick-Lawrence.] The evidence of the witnesses last year threw doubt on the Act itself, as passed, rather than on the administration of the Act.

Chairman.] My feeling is that perhaps Parliament did not realise that it would work out in the way in which it is working out.

Mr. Pethick-Lawrence.] Parliament may have nodded, but I do not know that we can do anything about that.

Chairman.] We want to be satisfied that all the money that should go into the fund is going into the fund.

Sir Irving Albery.

803. If you take the Comptroller and Auditor General's certificate, he says that he has examined the account and, according to his audit, the account is correct. The account shows what has been received and what has been spent. About that there is no doubt. What concerns this Committee (I think that is what the Chairman means) is that we do not feel satisfied always that all the money that should go into the account goes into it. I do not think we have any evidence to satisfy us on that?—(Mr. Fraser.) There is no doubt that all the money that is due has gone into the Fund in accordance with the Act. The discretion in this matter was left to the local authorities.

804. You mean that the money is collected from the local authorities?—Yes.

Sir Irving Albery.] May I take it that that statement means that you are satisfied, not only that the local authorities pay into the fund the proper proportion of the money they receive, but that they actually receive what they should receive?

Chairman.

805. That is where it breaks down, does it not?—(Mr. Brittain.) Except that you may remember the Committee had some discussion on the question of audit, and the Committee were told that there were two classes of local authorities: First, those whose accounts are audited by the District Auditors of the Ministry of Health; they were satisfied about that; secondly, the smaller local authorities whose accounts are audited by elective auditors. In those cases the Privy Council Office gave

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[Continued.]

you an undertaking that they would ask for a certificate that the amounts are fully received. That is working now. I understand that there are one or two outstanding cases where they are pressing for the certificates, but on the whole I am assured it is working well. (Mr. Fraser.) The thing about which the

Committee were really dissatisfied is the thing which was left at large in the Act.

Mr. Lathan.] That was the point. I remember it perfectly well.

Chairman.] Are there any further questions? May I take it that the Account is approved? (Agreed.)

CIVIL APPROPRIATION ACCOUNTS, 1936.

CLASS I.

VOTE 7.

CHARITY COMMISSION.

Chairman.] Turn please to page 16, Class I, Vote 7, Charity Commission.

Sir Isidore Salmon.

806. What is the meaning of the footnote at the bottom of page 16: "Termination of a redundancy in the clerical grade"?—(Mr. Fraser.) Officers

of the clerical grade were to be replaced, as vacancies arose, by officers of a lower class.

807. Is that being done?—Yes. It takes some time.

Chairman.] May I take it that the Account is approved? (Agreed.)

VOTE 8.

CIVIL SERVICE COMMISSION.

Chairman.] Pages 17 and 18, Class I, Vote 8, Civil Service Commission. Are there any questions?

Sir Isidore Salmon.

808. The only point about that is that there seems to be a difficulty in estimating the correct figure of your income. I suppose it is difficult for the depart-

ment to do it, because they are not always sure of the number of entries?—(Mr. Fraser.) Quite. You may get 10,000 candidates at one examination, and 15,000 at the next.

809. It is very difficult to estimate?—Yes.

Chairman.] May I take it that the Account is approved? (Agreed.)

VOTE 11.

GOVERNMENT ACTUARY.

VOTE 12.

GOVERNMENT CHEMIST.

(On these Accounts no questions were asked.)

(The witnesses withdrew.)

(Adjourned till Thursday at 2.30 p.m.)

THURSDAY, 17TH FEBRUARY, 1938.

Members present:

MR. MORGAN JONES in the Chair.

Sir Irving Albery.
Mr. Benson.
Sir Edmund Brocklebank.
Mr. Culverwell.
Mr. Lathan.
Mr. Peat.

Mr. Pethick-Lawrence.
Sir Assheton Pownall.
Mr. Wilfrid Roberts.
Sir Isidore Salmon.
Sir Robert Smith.

Sir GILBERT UPCOTT, K.C.B., Mr. W. R. FRASER, and Mr. H. BRITAIN called in and examined.

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CLASS VI.

VOTE 6.

MINES DEPARTMENT OF THE BOARD OF TRADE.

Sir ALFRED FAULKNER, C.B., C.B.E., called in and examined.

Chairman.

810. Mines Department, Civil Appropriation Accounts, Class VI, Vote 6, page xx, paragraph 40: Sir Gilbert, have you anything to say in regard to these accounts dealing with the Miners' Welfare National Students' Exhibitions Fund?—(Sir *Gilbert Upcott.*) I have no criticism to make on this account, which was set up under the powers vested in the Miners' Welfare Committee, but I should like to draw the attention of the Committee to the multiplication of these subsidiary accounts of the Miners' Welfare Fund. I do not doubt that it is necessary to have these subsidiary accounts for various purposes from time to time, and it is, of course, proper that they should be audited and certified, but I am not very clear that the Act of 1920 contemplated that it would be necessary to present to Parliament more than a single account of the payments into and out of the Fund. While, of course, it is entirely the function of the Treasury to prescribe the form in which accounts should be kept, I thought the Committee might perhaps like to consider whether the multiplication of these subsidiary accounts really makes the operations of this Fund easier for them to follow.

My own view is that it would be possible to have a single account which would give all the information that is necessary.

811. Sir Alfred, would you like to say a word upon that point?—(Sir *Alfred Faulkner.*) I agree with Sir Gilbert, Sir, that really all we are required to do under the Acts of 1920 and 1926 is to present to you the accounts which appear on pages 270 to 272; that there is no obligation on us to submit to you the accounts on pages 273 and 274; but the view of the Ministry of Mines has been that, as these Funds are Funds for which either the Secretary for Mines, in his position as Minister, or I, in my position as Accounting Officer, have some responsibility, it was desirable that they should be put before the Public Accounts Committee; but, while we are prepared to do that, I think I would deprecate running into the one main account the subsidiary accounts, which are administered by quite different people. The first one of them, on the top of page 273, is administered by a special Committee appointed for the purpose.

812. A Committee of what?—A Committee appointed by the Secretary for Mines, representing the mine owners, mine workers and scientists, with a Chairman.

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[Continued.]

813. Quite independent and unrelated to the Miners' Welfare Fund?—Unrelated, except that they have to get their money from them. The other two Funds are endowment Funds, where the cash has once and for all been paid out by the Miners' Welfare Fund into the hands of trustees, and I, being one of those trustees, rather naturally think it right that the accounts should come before the Public Accounts Committee; but they are administered by trustees quite separately from the rest.

814. Perhaps we might have with advantage the view of the Treasury upon this. Have you anything to say, Mr. Brittain?—(Mr. Brittain.) Yes. We have no desire to dispute what the Comptroller and Auditor General and Sir Alfred suggest about the legal position. It seems rather a question whether the public interest would best be served by having these accounts separately. No doubt there is a certain amount of interest shown in these different Trust Funds. We have not come to any definite conclusion about it, and we wondered whether we might be allowed by the Committee to think it over before next year.

815. When you say "in the public interest," I take it that these accounts do appear elsewhere, so that the general public may know what happens to these?—I do not think they appear in the same detail in the Mines Department Report. (Sir Alfred Faulkner.) The accounts do not appear. A report on the working of the Funds appears in the Annual Report of the Safety in Mines Research Board and also in the Annual Report of the Miners' Welfare Fund Committee, but the accounts do not appear in detail in the Reports.

816. Shall we say that you will consider it between now and next year?—(Mr. Brittain.) Yes.

817. And you will perhaps consult with the Comptroller and Auditor General as well and see what can be done in the matter?—Yes.

818. I know what scholarships are, but I do not quite know what exhibitions are, for this purpose?—(Sir Alfred Faulkner.) The Fund is a new Fund, started only last year, with the intention of helping those people who cannot secure scholarships, and without the same limitation that they must go to

a University. They are of wider scope both in their application and in their conditions.

819. I see the point.—The selection is made from those people who fail to get scholarships, but without the same limitation that they must go to a University.

820. There is a financial point that arises on the second sub-paragraph. What is the meaning and purpose of the transfer as at 1st November, 1935?—Although the Committee only made its decision in July, they handed over stock with interest accrued as from that date in November, in order that the Fund might have an income to enable them to get to work at once.

Sir Isidore Salmon.

821. You sold this £25,000 worth of stock to meet certain expenditure. I suppose it was intended, when you invested the money for the time being, that it would be used for this purpose and that it would be necessary to sell the stock?—We, the trustees, in this case, I think, actually received cash and not stock. We did not sell anything.

822. It says: "To allocate from the Miners' Welfare Fund a sum of £25,000 to be held on trust for the purpose of providing exhibitions." You did not sell anything; it was held in trust?—They turned cash over to us.*

Chairman.

823. Are there any other questions? Turn, please, to page 267. I would like you just in a word or two, Sir Alfred, to tell me what you mean by these "Inquiries, Arbitrations &c."?—That covers all the inquiries that the Mines Department has been concerned with during the course of the year.

824. I do not want the details of the items?—The main item is an item of £3,000 which was spent in getting the I.C.I. to make tests of South Wales coals as to their suitability for hydrogenation purposes. In addition, there was the Gresford Colliery Inquiry, which cost a good deal.

825. On those tests there is a note?—Yes.

826. Who did the tests, I.C.I.?—Yes, I.C.I.

* See correction by witness after answer to Question 838.

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[Continued.]

827. Was it to determine whether a particular type of coal was suitable for hydrogenation purposes?—Yes; the coals were selected by the Department of Scientific and Industrial Research.

828. What was the result?—The result was surprisingly satisfactory. There are quite a lot of suitable coals.

829. Did you find merely that it was practicable, but not financially so?—Financially, no; purely technically; but the output of petrol from a ton of coal was in many cases very satisfactory.

Sir Isidore Salmon.

830. On sub-head F you say the under-spending is "mainly due to a decline in the number of candidates presenting themselves for examination." That is why you have not spent the amount of your grant. What is the cause of this decline?—I think it was just because everybody was shouting so much that the industry was in such a bad way; coal was said to be so down-and-out that people did not come forward as students in the industry. I am glad to say that the last examination since then, in 1937-38, has shown an improvement, because the industry is looking up.

Chairman.

831. Are there any further questions on pages 267 to 269? On page 269, I just want to ask simply what results there were, apart from the revenue realised, from the "application fees for licences and minimum annual payments by licencees under the Petroleum (Production) Act." Are there any results from it?—They have not yet found oil in any commercial quantity, but they have not finished exploration.

832. They have not finished?—No, they have not finished.

Sir Isidore Salmon.

833. Are the Coal Mines Reorganisation Committee still functioning to any extent?—No. In July of 1935, after the case was lost in the Court, the Government asked the Committee not to proceed with their inquiries. Changes were made, the Chairman and the nucleus of staff which was retained were employed on other duties, mainly defence duties, and the Commissioners ceased to be paid, except for actual attendance at meetings.

834. So this Commission is really being used for other purposes?—Yes; it has

been dormant for two years and the staff is being used for other purposes.

835. Are the other purposes really essential, or merely supernumerary?—They were essential; it was work undertaken at the request of Sir Thomas Inskip.

Chairman.

836. Will you be recovering that money?—I do not think it is intended to do so, Sir.

837. Turn to pages 270 and 271. On page 271, I think I am right in saying that £375,000 was the figure which the Miners' Welfare Fund was due to provide for pithead baths?—Yes.

838. How was it that there is only £152,000?—Because they received £181,000 from the royalties welfare levy, £29,000 from interest and the £152,000 was the amount required from the General Fund to make up the total of £375,000. It is a sort of balancing amount. It is these three items at the bottom.

May I, before I go any further, correct a remark I made to Sir Isidore? I was wrong in saying we were given cash.* Stock was transferred; there was no selling or buying of stock. I thought I recollected a discussion as to the stock into which we should put the money. I was mistaken. The discussion was as to which stock we should take of those available for transfer.

Sir Isidore Salmon.

839. On the Miners' Welfare Fund, is it a fact that there is more or less investment at the present time? Do you sell certain stocks when you have a big demand on the Fund, or is your normal income sufficient to meet all the demand?—No; I am glad to say that now the standing balance is being reduced; as the pit-head baths programme is growing, the standing balance is being reduced and, so far as that occurs, we have to sell. For everything else we avoid selling as far as we can. We put a certain amount of money at the beginning of each year into temporary investments like Treasury Bills, which are easily realisable, and when there is any money to be handed over to the Trustees of any recreation ground, or baths, or anything of that kind, it is done in the form of stock, so there is a sale only in abnormal cases. In the case of this account, there was a very big redemption of stock and we had to re-invest.

See Question 822.

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[Continued.]

Chairman.

840. If you look at page 271, you will see the item "Research £44,995 18s."?—Yes.

841. If you look at page 273, you have the Mining Research (Safety and Health) Endowment Fund. That is one difficulty which I have, not only in regard to that, but in regard to the Education figures as well. Where do I get that figure of £66,979 on page 271, if it ought to be there at all?—You do not. You only

(Sir Alfred Faulkner withdrew.)

VOTE 19.

CLEARING OFFICES.

Mr. H. S. GREGORY called in and examined.

Chairman.

842. Page 321, Class VI, Vote 19, Clearing Offices. You started, if I remember rightly, with a token Vote?—(Mr. Gregory.) We did.

843. You have an actual substantive expenditure, have you not?—Yes.

844. Why?—I am afraid I am not seized of your question.

845. You have an actual substantive expenditure, have you not?—Yes, we have.

846. Yet you only took a token Vote of £100?—The position was that at the beginning of the year in question there was only one clearing in existence, which was the Spanish clearing. Subsequently, in the course of the year, other agreements were arrived at which involved new clearings and consequent increase of expenditure in staff and other matters. (Sir Gilbert Upcott.) Last year Mr. Twentyman said that there was a substantive Vote for that year, but his anticipation was that, taking the year then under review (that was the year 1935), and the current year and next year, we shall be all square.

847. Is that your view, Mr. Gregory, a year later?—(Mr. Gregory.) In the year 1935-6 we had a definite surplus. In the year under review now, there was a deficit. This year we shall, I think, making all allowance for everything, be on the right side, but I should not like to balance up exactly. (Sir Gilbert Upcott.) The Committee will, of course, understand that the expenses of the offices are not entirely confined to this Vote. There are also the Allied Services, about £5,000 or £6,000 in addition.

get the £44,995 which you will find as the second item on the left-hand side of the Account, and that is the amount paid during the course of that year from the Miners' Welfare Fund. The remainder of the Health and Safety Fund's income is secured by interest on their Endowment Fund, £12,000, a contribution from the Department of £1,750, and miscellaneous receipts of £3,000.

Chairman.] May I take it that this Account is approved? *(Agreed.)*

848. Yes. There is that £41,240 commission chargeable under Section 5 referred to lower down, on the bottom of the page?—(Mr. Gregory.) Yes.

849. Is that £41,240 likely to be enough to pay the expenses of the office, including the Allied Services?—For the year in question?

850. Yes.—No, I am afraid it would not cover the Allied Services for the year in question.

Sir Isidore Salmon.

851. Was it not the intention, when the Clearing Offices were set up, that they should be a self-contained unit?—That was so.

852. What has arisen to make them otherwise?—A variety of things occurred in that year. In the first place, there was the suspension of the Spanish clearing, which left us with a considerable amount of sterling which we had anticipated paying out, which would have accounted, of course, for an increased commission, and, as I indicated, there were the additional staff charges, arising out of the Italian, Turkish and, to some extent, Roumanian clearings. In the case of Italy we did not begin to pay out quite so quickly as was anticipated.

853. So there will be a carry-over, and the next year will make up for it, you think?—Of course, in the next year again we have not been paying out on Spain, but I anticipate that at any rate in the year 1937-38 we shall be clearing expenses.

Chairman.] May I take it that this Account is approved? *(Agreed.)*

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Mr. H. S. GREGORY.

[Continued.]

DEBTS CLEARING OFFICES AND IMPORT RESTRICTIONS ACT, 1934,
ACCOUNTS, 1936.*Chairman.*

854. Let us take the White Paper, page 6. There is a reference in paragraph 1 to a commission at a rate not exceeding 2 per cent. chargeable in respect of the moneys distributed; actually you are charging $\frac{3}{4}$ per cent.—(Mr. Gregory.) We are charging $\frac{3}{4}$ per cent. at present.

855. Are you satisfied that that is enough?—It is enough for the year we are now in, but not for the year under review. For the current year it is enough.

856. Paragraph 2 is to be taken with page 2. Is there any change with regard to the balance you are holding?—The balance still remains held by the Treasury Order. It is still in reserve.

857. It still remains there?—It still remains there.

858. Are there any questions on that account? Paragraph 3, the Anglo-Roumanian Account; take with that, page 3. Are there any questions? Paragraph 4, Anglo-Italian Account; take with that, page 4. What is being done with this balance? It is a pretty large one, Mr. Gregory?—That balance was rather swollen on the 31st March, 1937, owing to a number of causes. Actually we had been collecting sterling on this side, under the Treasury Order, from, I think it was, July. The agreement was

(Mr. Gregory withdrew.)

CIVIL APPROPRIATION ACCOUNTS, 1936.

CLASS VI.

VOTE 14.

MINISTRY OF TRANSPORT.

Mr. L. BROWETT, C.B., C.B.E., called in and examined.

Chairman.

863. Civil Appropriation Accounts, page xxiv, Ministry of Transport, paragraph 48. In the second sub-paragraph, Mr. Browett, there is a reference to the work which is being undertaken in connection with the Air expansion programme. Could you tell us what that work is?—(Mr. Browett.) It is primarily concerned with the construction and maintenance of roads, but there are certain other kinds of work which are

47855

actually made in November, and the balance there represents (apart altogether from the day to day balance which naturally arises) the necessary delays, I think primarily on the Italian side, in getting over advices of payment against which we could work.

859. Necessary delays?—I think they were delays which they could scarcely obviate.

Sir Isidore Salmon.

860. Is there any chance of our losing any money through exchange differences?—Not in this case, I think. There is one small provision in the agreement, relating to exchange differences on a particular type of transaction, but actually at present we are showing just a little bit in hand.

861. On the right side?—Yes.

Chairman.] Are there any further questions? Paragraph 5 we take with page 5, the Anglo-Turkish Account.

Sir Isidore Salmon.

862. When is the Anglo-Turkish Account going to be finished with? When do you hope that that will be closed down?—I am afraid I should not like to hazard a guess on that; it would definitely be a guess.

Chairman.] Are there any further questions? May I take it that this White Paper is approved. *(Agreed.)*

also being carried out, for example, the construction of what are known as aprons, that is, runways on aerodromes, parade grounds, hangar floors, landing tracks, site clearing work, levelling and draining of landing grounds and so forth. It is all analogous work to road work, in a sense.

864. I take it that the Treasury take that view, that it is analogous to Ministry of Transport work?—(Mr. Brittain.) Yes.

E

17 February, 1938.] Mr. L. BROWETT, C.B., C.B.E.

[Continued.]

865. Have you anything to say about that, Sir Gilbert?—(Sir Gilbert Upcott.) It is an arguable question, but it is no doubt good business that the same person should do the same kind of work. I understand that the Treasury have taken adequate steps to see that it is shown on the Estimates that this work is being done by the Ministry of Transport.

866. I understand the view is taken that it is economical and efficient?—I understand that that view is taken.

Sir Isidore Salmon.

867. To what extent do you actually do the work? Are you merely agents to give it to contractors?—(Mr. Browett.) A great deal of this is done by direct labour, and we have an engineer and resident engineers who run the job, so to speak.

868. Is that since you have become the authority on trunk roads?—No. This has been going on for some time.

869. I always thought that you gave your work out to contracting firms?—So we do.

870. Or, in turn, through the local authorities?—So we do, but these particular jobs in and about aerodromes are found to be more conveniently handled and expeditiously and economically handled in this way. Many of them are not big enough jobs for what you might call the ordinary public works contractor.

Chairman.

871. Are there any questions on that paragraph?—(Sir Gilbert Upcott.) This has been done ever since the war. The Ministry of Transport has employed direct labour on this kind of work ever since the war, but it has become very much larger in the last year or two, owing to Air expansion.

Mr. Culverwell.

872. In paragraph 48 I see the Treasury decided to postpone the question. I cannot quite see why they should ever want to take it out of the hands of the Ministry of Transport, if it is working so well. (Mr. Fraser.) The question was raised by the Comptroller and Auditor General, and that caused it to be considered.

873. Has he raised it as a book-keeping matter; because it seems to me much more sensible that the Transport Minister should undertake roads for every department, where necessary?—

(Mr. Brittain.) It is a question whether we should transfer the complete staff to the Air Ministry; that was the main question which was discussed last year.

874. Would not that lead to overlapping?—The balance of advantage was decided to lie, for the moment at any rate, with leaving it with the Ministry of Transport. (Sir Gilbert Upcott.) I do not think, if I may say so, that I ever raised any objection to this expenditure. I am quite content, as long as it is duly shown. I think I am correct in saying that the real reason why the question was seriously considered was external criticism. (Mr. Fraser.) I was not suggesting that the Comptroller and Auditor General criticised it; merely that the opportunity was taken of his raising these various points to re-consider the whole matter.

875. I was only hoping that you were not going to remove it from the scope of the Ministry of Transport?—(Mr. Browett.) The Air Ministry very much want us to keep it.

876. So the paragraph says; but apparently the Treasury have, almost as a favour, as I read this paragraph, decided to postpone their consideration of the matter for the present. I may be wrong. "The Treasury decided to postpone the question pending a substantial contraction in the volume of the work," as much as to say they wanted it done, but they would spare you until the work had become less?—(Mr. Fraser.) There might be circumstances in which it would be undesirable to have this system going on.

Mr. Culverwell.] What are those circumstances?

Chairman.] We cannot anticipate those, I am afraid, now, Mr. Culverwell. The next paragraph is paragraph 49; that is formal and statistical.

Sir Isidore Salmon.

877. Mr. Browett, now that the income has increased under this head, have you found that the local authorities who are acting as your agents in connection with the granting of licences have reduced their overhead costs in percentage?—(Mr. Browett.) The percentage is still very low indeed; it is under 2 per cent.

878. What was it before this higher turnover?—It was exactly the same in the previous year.

879. Do not you think that, with a very large increase such as this, it would not be an unreasonable thing to expect

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[Continued.]

the local authorities to be able to run this cheaper? Their overheads must be the same?—My own opinion is that the cost of collection is very moderate indeed. After all, there is a considerable amount of work involved in this. It is not only the actual cost of collection, but it is the whole system of registration, and it is impossible to distinguish those two elements. It is dealt with through 185 offices spread about the country, and obviously in a work of this kind you have to have proper and adequately paid supervision. I think we get the accommodation and supervision on very moderate terms by running it in with the other work of local authorities.

880. I am afraid I have not made my point clear. I am not saying it is not done well; I am not saying it is too expensive. All I am saying is that, now the turnover has gone up so considerably, one would have thought naturally that the percentage of expense would have come down?—It is a small percentage to be reduced.

881. It is on £34,000,000 of money?—Yes.

Sir *Isidore Salmon.*] I do not want to press it any further.

Mr. *Pethick-Lawrence.*

882. I do not know whether this is the occasion, but I would like to ask a question: In view of the decision of the Chancellor of the Exchequer to deal differently with the whole question of the motor taxation, am I right in thinking that this is the last time this White Paper will be produced, and also that the whole of these transactions about the motor tax account will in future go out?—That is so. In its present form it will disappear.

883. It will, of course, be incorporated in the ordinary account, but will, in substance, the main items of information remain?—There will still be the account of the Road Fund. The Road Fund will be fed by a Grant-in-Aid through the Roads Vote, voted by Parliament, and that will involve a very considerable alteration in the form of the accounts.

Chairman.

884. On that point, Mr. Pethick-Lawrence, I was going to raise the same issue, as a matter of fact. It is interesting to know what is going to happen to this White Paper. I notice that the

present Prime Minister, when Chancellor of the Exchequer, in June, 1936, answering Mr. Strauss, said: "The Honourable Member asked me whether the practice of producing a Road Fund Account would be continued and I said, 'No.' That, of course, is because it will no longer be required." That was the view of the Chancellor of the Exchequer of that day. But surely the production of this White Paper is a statutory obligation, is it not?—Yes.

885. Then how does anyone say that it will be discontinued?—As I have said, we shall produce a Road Fund Account.

886. I understood you to say to Mr. Pethick-Lawrence that it was not so?—No; I said it would be in a very different form, because obviously a number of items that now appear on it will no longer appear. If you have the account in front of you, all those items under the heading of Administration Expenses will go either to the Ministry of Transport Vote or to the Votes of the other departments that incur the expenditure. On the other side, the fees which are now credited to the Road Fund will be carried as an Appropriation in Aid to the Ministry of Transport Vote, and you will be left with the Grant-in-Aid to the Road Fund and the expenditure out of it on road works. (Sir *Gilbert Upcott*): I think the Chancellor of the Exchequer may have been thinking of the fact that the Road Fund will no longer be entitled to a specified share of revenue, and that may have led him to think that there would not be an account; but, of course, there will be an account, although, as the Accounting officer says, in a very different form; on one side the receipts of the Fund from monies provided by Parliament; on the other side, a very much reduced number of items of expenditure.

Mr. *Pethick-Lawrence.*

887. I am not quite clear now. First of all, there will be this difference, that, whereas the receipts have hitherto been the motor taxation, in future they will be the Grant-in-Aid?—(Mr. *Browett*): The Grant-in-Aid.

888. That is clear, I think. The second point is: will there or will there not be something corresponding to this White Paper, or will the account be completely embodied in the accounts? That second question seems a little in doubt?—It will be embodied in the accounts.

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Mr. L. BROWETT, C.B., C.B.E.

[Continued.]

889. There will be no separate White Paper?—I gather there will not; no.*

Chairman.

890. Is that so?—(Sir Gilbert Upcott): The obligation to present an account will remain.

891. Obviously?—(Mr. Brittain): I do not think there is anything in the Finance Act, 1936, which altered the statutory obligation to provide an account of the Road Fund. That continues.

892. I will not press it any further. I have no further question on those paragraphs. Shall we turn then to page 305, Class VI, Vote 14, Ministry of Transport accounts. On page 306, Mr. Browett, there is a note] at the bottom of the page "The reconstruction of Tomnaburich Bridge was postponed." Is this a saving or postponement?—(Mr. Browett): It will be re-voted next year.

Sir Robert Smith.

893. I want to ask a question on the notes on page 305: take note A; it is with regard to your estimating. You say: "Savings due to staff requirements for Crofter Counties Scheme and Driving Test Organisation, £4,882, not being as large as was anticipated." Then you find note D, "Excess mainly due to increased activities in Roads Department and Driving Test Organisation," and on page 307 one finds in the details of Appropriations in Aid that you estimated for £70,000 and got £125,000. It seems to me so strange that you should have first the reduction in salaries because you did not require such a large organisation, and then you were able to do far more work with a smaller number and got a better return?—May I take those points one by one? As regards the Crofter Counties Scheme—

894. I am not taking the Crofter Counties Scheme?—I thought you mentioned it.

895. I am taking the Driving Tests Organisation part of notes A and D with the details of the Appropriations?—As regards the driving test staff, the answer is that the number of tests carried out during the year 1936 was very much larger than we anticipated, as you say, but nearly 43 per cent. of those tests fell into four months, from May to September. As a result, we

* *Note by Witness*:—A Road Fund Account will continue to be presented in accordance with the provisions of Section 3(5) of the Roads Act, 1920.

found it possible to reduce the staff in the later months of the financial year and to use the services of some of those remaining, on other work, so that in the result we secured a saving on staff of nearly £5,000, although the actual receipts from the driving tests, as you have pointed out, were very much higher than we estimated.

896. But, with your previous experience, were you not able to realise that your staff would be able to carry it out without having so many people employed?—We had had very little experience of this. As a matter of fact, these driving tests only came into operation in about May, 1935.

897. It does seem to me rather strange, reading the one explanation and reading the other and taking the results of the appropriation, which was such a large amount. It seems to me that if you were able to do this largely increased work and get this large increase of fees, you ought to have known that you could keep your staff down?—As I say, we lacked experience on this at the time; when we had had another year of this service we got nearer to the truth.

Sir Irving Albery.

898. On page 307 I wanted to ask, if I could be told, under 8, "Details of Receipts", "Recovery from Service Departments in respect of supervision of agency work"; what is that?—That is the matter which we have just been discussing. It represents our percentage that we charge to the Air Ministry for supervising this road construction work at aerodromes.

Chairman.

899. On page 308, the last item, "Welsh Highland (Light Railway) Company, amount invested, £35,774", dividends received, nothing. Last year, Mr. Browett, we were told by your predecessor that the Ministry was about to enter into discussions as to the failure to pay whatever was due. What is the present position?—The present position is that the Festiniog Company, the Company which entered into the lease to which you refer, having run the railway for a while, came to the conclusion that it was a thoroughly bad proposition, and in fact they decided in the early part of 1937 not to run the Railway, and it is now lying idle. They then applied to us (when I say "To us", to the Receiver, because we are only partners in this undertaking; there are

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[Continued.]

a number of other holders of debentures, including the Carnarvon County Council) to be relieved of their lease, and the investing authorities, including ourselves, on the 29th April, 1937, passed a resolution recommending that, subject to the consent of the Court, the Festiniog Company should be released on payment of £500 and rent due to date of release. The Festiniog Company have been informed of this proposal, but up to date we have had no reply and no money from them. Then comes the question of winding up the Company, because it is obviously the only thing to do. The position as regards that is that the Court have not yet released the present Receiver, as we have had no certificate allowing his accounts. This matter of the certificate is actively in the hands of the London agents of the County Council, and it is hoped that when the present Receiver is released the Court will agree to the appointment of the County Treasurer as Receiver, and then we can get on with the winding up of the Company. I may add that the concurrence of the Treasury has been obtained to the action I have just endeavoured to describe to you, and they have agreed that the Festiniog Company should be released (I use their own words) on the best terms obtainable.

Sir Irving Albery.

900. May I ask which authority was originally responsible for granting the lease to this Company?—It was an action by the Receiver acting on behalf of all the debenture holders.

901. He granted the lease?—He granted the lease.

902. Have any payments at all been received from that Company?—No.

903. No rent at all?—No.

904. At any time?—No; the lease was from the 1st July, 1934, for a period of 42 years, and for the first six months at a nominal rent of £1.

905. Do you know what the paid up capital of that Company was?—Of the Festiniog Company?

906. Yes.—No, I am afraid I have not that information. They are not in a

flourishing condition. Their debenture interest, I understand, is in arrear.

907. If the Receiver is responsible, I do not know that it really comes up here and now, but I was wondering whether, before the lease was granted, any steps really were taken to see whether they were the kind of people who would be likely to make any of the payments they had contracted to make. It is one thing if a Company goes on with a business and pays some rent and it does not succeed and they fall down on it, but when they never start paying, one begins to wonder what steps were taken, to begin with, to ascertain whether they were ever likely to pay?—I think it was thought that we were very fortunate in persuading anybody to take it on.

908. Would the value of the property now handed over be in no way deteriorated since the time they took it on?—I could not say precisely as to that, but I should imagine not. I understand that it is a line that runs between the hills; I do not know exactly what state the rolling stock is in, but the traffic has disappeared. The tourists no longer go by the railway; they go by road. The mineral and slate traffic which used to go by the line has disappeared or now goes by road.

Chairman.

909. Even the slate traffic?—Yes.

910. Does it really?—So I am informed.

911. I was there not long ago, and there seemed to me to be a revival in the slate industry, but probably it does go by road, as you say?—That is my information.

Chairman.] May I take it that this Account is approved? (Agreed.)

Chairman.] Are there any questions on page 309, Holyhead Harbour Accounts, page 310, Caledonian Canal Accounts, page 311, Crinan Canal and Menai Suspension Bridge Accounts, or on page 312, Mersey Conservancy Accounts? May I take it that these Account is approved? (Agreed.)

ROAD FUND ACCOUNTS, 1936.

Chairman.

912. Now take the White Paper, please, and turn to page 8. As I understand the Comptroller and Auditor General's Report, paragraph 3, page 8,

there is an underspending: an estimate of £24,795,000 and an expenditure of £22,931,000. Could you explain how it is that there was that underspending, Mr. Browett?—(Mr. Browett.) I have not any specific explanation, Sir.

17 February, 1938.] Mr. L. BROWETT, C.B., C.B.E.

[Continued.]

913. It is difficult to estimate more closely?—It is not easy to estimate with any great certainty, because, of course, in regard to a great deal of our expenditure, we are dependent on the co-operation of other people. (Sir *Gilbert Upcott*.) The rate of the expenditure of local authorities is really the determining factor, if I may suggest it.

914. But, before local authorities embark upon an expenditure, they have to have the approval of the Minister of Transport. Do not they submit well in advance what their prospective programme is to be, or are there sudden decisions taken?—(Mr. *Browett*.) Yes, they submit a programme, but sometimes circumstances arise which perhaps prevent them going on as fast as they thought they could go on in regard to roads.

915. Could you tell me what the total commitments are under your five year programme?—£37,317,000 at 31st March, 1937.

916. At what rate do you expect to deal with those commitments?—That is the five years programme from 1935 to 1940. It is difficult to say how quickly we may work that off. I should not like to hazard a guess.

917. Paragraph 4, the Dartford-Purfleet Tunnel. Can you tell me when you expect to recover balances from local authorities?—The position of that tunnel, Mr. Chairman, at present is that the pilot tunnel is being driven, and I am informed that work on it is so advanced that it is hoped to be able to let the main contract within the next six months. The actual financial position of the tunnel is that the Government have undertaken to find 75 per cent. of the total cost, up to a total cost of £3,500,000, and, as far as the experts can estimate the position, the total cost is not likely to exceed £3,500,000. The County Councils of Kent and Essex have each undertaken to find £250,000, so that £500,000, with the Government contribution of £2,650,000, gives you £3,150,000, leaving a balance, assuming the cost is £3,500,000, of £350,000. I think it is still hoped that some contributions may be received from other sources towards that, but, in so far as that is not covered in that way, under the Act it is to be recovered by way of tolls.

Sir *Irving Albery*.

918. I understand the pilot tunnel will be finished probably in six months?—

That is my information, that the pilot tunnel is so advanced that in six months it is hoped to be able to let the main contract.

919. I was wondering why the Minister decided to charge forthwith against revenue a part percentage, for which the Road Fund will be liable, if they cannot decide, until the pilot tunnel has been completed, whether they can proceed with the main tunnel?—Because, if it were found that we could not proceed with the main tunnel, we are under obligation to pay the whole expense of the pilot tunnel.

920. That means that you have only charged, so far, the expenses of the pilot tunnel?—The preliminary expenses.

921. It is not a charge on account of the main tunnel?—We have not got to the main tunnel yet. (Sir *Gilbert Upcott*.) What is charged to the Fund is the amount which will in any event be payable out of it.

Chairman.

922. Pages 2 and 3, Revenue Account. Fifth from the bottom on the right hand side, "Special road programme in Crofter Counties of Scotland including Administration". I understand there was 100 per cent. grant here, was there not?—(Mr. *Browett*.) That is so.

923. Including administration. How are those grants administered; who does the work?—The work is done under the supervision of our Divisional Road Engineer in Scotland and his officers. We have engineers on the site. We have one at Inverness and one at Oban. The accounts are audited by our audit staff in Edinburgh.

924. So that you really still retain control of the administration, so to speak?—Certainly. (Sir *Gilbert Upcott*.) The local Councils are acting as agents. (Mr. *Browett*.) As agents, yes, in effect.

925. But your officers there on the spot have a very close contact with the whole business?—Certainly our engineers have.

926. Have you many instances where you have given 100 per cent. grants for roads like this? This is not one of the trunk roads, is it?—No; this is a special scheme.

927. Have you many instances where you have given 100 per cent. grants?—I do not know of any others.

17 February, 1938.]

Mr. L. BROWETT, C.B., C.B.E.

[Continued.]

Sir Robert Smith.

928. I think you will find in the Highland area, very largely, where there is a scattered people, they have given them other advantages. The Development Board have always done it?—In

amplification of my answer, I understand that in days gone by we had some 100 per cent. cases, but this is the only one at the moment.

Chairman.] Pages 4, 5, 6 and 7. May I take it that this Account is approved? (Agreed.)

(The witnesses withdrew.)

(Adjourned till Tuesday next at 2.30 p.m.)

TUESDAY, 22ND FEBRUARY, 1938.

Members present:

Sir Irving Albery.
Mr. Benson.
Sir Edmund Brocklebank.
Mr. Culverwell.
Mr. Peat.

Mr. Pethick-Lawrence.
Sir Assheton Pownall.
Mr. Wilfrid Roberts.
Sir Isidore Salmon.
Sir Robert Smith.

(In the absence of the Chairman, Sir ASSHETON POWNALL was called to the Chair.)

Sir GILBERT UPCOTT, K.C.B., Mr. W. R. FRAZER, and Mr. H. BRITAIN called in and examined.

CIVIL APPROPRIATION ACCOUNTS, 1936.

CLASS II.

VOTE I.

FOREIGN OFFICE.

Sir FREDERICK BUTLER, K.C.M.G., C.B., called in and examined.

Sir Assheton Pownall.

929. Foreign Office Vote, Civil Appropriation Accounts, pages 56 and 57. Sir Frederick, I see that in last year's evidence you said that you would consider the question (I think it was originally raised by Mr. Mabane) with regard to the possibility of hiring occasional cars rather than spending money on taxis. I do not know whether you have been able to look into that?—(Sir Frederick Butler.) Yes. I think the point Mr. Mabane put directly to me was: Would it not be cheaper to make a contract to cover our requirements? We have investigated that possibility. We got the Stationery Office, whose experience we trust in these matters, to call for tenders. We stated our requirements and the Stationery Office got us four tenders, two of which were quite

obviously out of the question, as they were very much more expensive than anything we had been paying in past years. Two others were sufficiently near our figure of actual expenditure to be looked into a little more; they did not show any very great possibility of saving, but some. But when they came to be investigated, they fell down on the question of the rates of pay of the drivers. We found that the rates of pay for drivers included in those tenders were lower than the Stationery Office felt that a Government Department could agree to. They quoted, I think, a Fair Wages Resolution of the House of Commons, and on that addition to the cost we found there was no saving to be expected from either of the two lowest tenders, so we left the matter alone.

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Sir FREDERICK BUTLER,
K.C.M.G., C.B.

[Continued.]

Sir Irving Albery.

930. May we know what the rate was?—The rate for drivers included in the tender was 56s. a week.

Sir Assheton Pownall.

931. That was the amount payable to the driver?—Yes, that was the amount on which the figures of the tenders were based. The Stationery Office thought that 60s. a week was the lowest that a Government Department ought to agree to. That made a difference of some £70 or £75 a year.

932. Was either of these firms given the chance, when this was pointed out to them, of re-submitting a tender?—No, they were not, because if they had put in those rates it would have raised their figures to rather more than our own expenditure.

933. I quite see; that just turned the scale?—It just turned the scale.

Sir Assheton Pownall.] Are there any questions on pages 56 and 57?

Mr. Benson.

934. On that point of the taxis, it was raised, I think, two years previously?—Yes.

935. I think you said that you would try to sort out your documents so that only the immediately urgent ones were sent by taxi?—Yes.

936. Is that being done?—That is being done, and we are now saving something like £400 a year as a result of that re-sorting; that improvement has been maintained now over nearly two years.

Mr. Culverwell.

937. I do not know whether it arises here, but might I ask regarding the Non-Intervention Committee, have you got a staff now for that?—That is the secretariat—the clerical staff. It includes an interpreter and various shorthand writers and duplicators, and so on.

938. But there are certain officials employed by the Non-Intervention Committee, are there not?—Yes; the officials appointed by the Committee itself are paid from the international fund.

939. But are they not selected by you?—Not selected by us.

940. Are not a proportion of them selected by you?—No.

941. I only asked because I heard of a case?—They are selected by the International Board.

942. Recommended by you, are they?—We may recommend some, but we do not appoint them. We appoint our own observers in Portugal, if you are thinking of them.

943. It was brought to my knowledge that there was an offer of employment by you to serve in some capacity in relation to the Non-Intervention Committee?—I think not. We have appointed direct, of course, the observers in Portugal, for whom we are directly responsible and whom we pay directly; but otherwise the International Board selects its own officers and pays them out of its own fund.

944. Which is subscribed to by us?—Which is subscribed to by us and by the other Powers represented on the Non-Intervention Committee.

Sir Isidore Salmon.

945. Sir Frederick, I notice that your salaries are up £11,000. Is that because you have added to your staff, or was it through increments?—Do you mean compared with the year before?

946. Yes.—There have been certain additions to staff and, of course, increments would also play a part.

947. Is it the intention, then, to go on increasing the staff at the Foreign Office?—Only in so far as it is found to be necessary from time to time. The increase under subhead A may sometimes be that we have brought people from the Diplomatic Service abroad, to serve in the Foreign Office. Some part of the increase may always be that, and in that case there is always a corresponding reduction on the other Vote; but there have been increases of clerical staff.

948. I notice under sub-head C, messengers' travelling expenses are considerably less than last year. Is there any special reason for it?—Nearly £400 of that is due to the cause which has just been discussed, the reduction on taxi fares. £300 or so more was due to the fact that we had expected to use the Imperial Airways mail for our bags to Rome, and during part of the year, owing to the weather, they could not be used; we saved some £300 there; and Continental fares were a little less, owing to the depreciation of foreign currencies.

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SIR FREDERICK BUTLER,
K.C.M.G., C.B.

[Continued.]

949. On the question of passports, I notice that the receipts have gone up by £50,000 more than you anticipated?—Yes.

950. Was I correct in understanding last year that you stated that the total cost of running this office is £61,000 a year?—It is rather more when you collect the larger amount of fees, because you have to have in extra temporary staff at the peak season of the year, in the summer. The cost in this year was about £70,000, when you take into account the services rendered by the Stationery Office, the Post Office

and the Office of Works. (Sir Gilbert Upcott.) It was £61,000 last year, including the allied services. (Sir Frederick Butler.) Yes.

951. The point I would like to ask you is this: Have the Department considered the possibility or the practicability of reducing passport fees, having regard to this enormous increase?—Yes, we do consider that every year and every year we are informed that the Chancellor of the Exchequer does not wish to give up the revenue.

Sir Assheton Pownall.] May I take it that this Account is approved? (Agreed.)

VOTE 2.

DIPLOMATIC AND CONSULAR SERVICES.

Sir Assheton Pownall.

952. Will Members turn to pages 58 and 59, Diplomatic and Consular Services, the first two pages? On sub-heads A, K and O there were big savings, partly owing to depreciation of currencies. Could you tell us a little more where the depreciation of currencies helped us so much?—(Sir Frederick Butler.) The main countries were Germany and France: in Germany because, after we had framed the estimates for that year, we found that it was going to be permitted to our Diplomatic and Consular Officers to get registered marks for the whole or for a part of the year, instead of having to pay the official rate. That was one source of saving.

953. Have you any figure at all showing how much that contributed towards the £17,000?—No; I cannot isolate it from the £17,000; but out of a total saving owing to this cause, over both Diplomatic and Consular Services, of £38,000, I think Germany was responsible for £12,000 or £13,000.

954. About one-third?—Yes; France was another country, and the countries whose currencies dropped more or less at the same time as France's: Italy and Holland.

955. Switzerland?—Switzerland. They all contributed to that saving.

956. That is, of course, a permanent benefit; that will come in following years as well?—No; in the following years, with the experience of the rates, we shall probably estimate more nearly the actual facts.

957. There will be a saving to the taxpayer, I mean?—Yes.

958. Are we still getting registered marks for our diplomats?—Yes, we are getting them.

Sir Assheton Pownall.] Are there any questions on pages 58 and 59?

Mr. Culverwell.

959. On the registered marks, was that a free-will offering on Germany's part, or had you been agitating for it?—I do not think we had been agitating for it; I think it was spontaneous. It was a general allowance to diplomats.

960. Then that will be permanent, will it?—I could not say.

961. It was not just for some particular reason?—No. For some reason, no doubt, it suited the German Government, but whether it will continue to do so I could not say.

Sir Robert Smith.

962. I wanted to ask a question about these Chaplains in the Embassies: they come under sub-head A, I think, do they not?—Yes.

963. There is no special rate paid for Chaplains, is there?—I am afraid I am very ignorant about Chaplains. I ought not to be, I know. I think we have an upward limit of £250, and otherwise it depends on what the local community raise.

964. I am given to understand that there is no special arrangement for a Chaplain to be attached to any Embassy specially, is there?—No. It is a historical process; they have been

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Sir FREDERICK BUTLER,
K.C.M.G., C.B.

[Continued.]

attached at certain Embassies in the past and continue to be attached; I do not think we attach new ones.

965. You have no Chaplains' service really completely through the Service?—No.

966. There is nothing laid down at all as to providing Chaplains for our Embassies?—No, there is no regular scheme or service.

Sir Irving Albery.

967. On sub-head O, the Consular Service, saving of £20,000, I take it that saving of £20,000 would have been entirely on the allowances and not on the salaries. Is that correct, Sir Frederick?—Yes, except to this extent, that "salaries" there does include something for exchange relief, and the amount that had to be paid in exchange relief was less because of the depreciation of local currencies.

968. In other words, the salaries of the Consular officials, through that means, do vary according to the rate of exchange payable?—According to the rate of exchange.

Sir Isidore Salmon.

969. On sub-head D, "Couriers", one notices that the expenditure is dropping, but the point I would like to be clear about is this: Do we use the air service at all for Couriers to travel about?—Not for Couriers themselves to travel. When we use the air mail we send the bag in charge of a British pilot (it must be a British service, of course) and he delivers it to the agent or emissary of the Legation or Mission to which it is going.

970. And you always send it via Brindisi instead of Rome?—We served Rome direct while we were using Imperial Airways. Brindisi was the taking off ground for Athens and eventually Alexandria, not for Rome itself.

971. Under sub-head H "Incidental Expenses", this goes on increasing year by year, but it is rather a large item, is it not, to lump together, £14,000 odd?—Yes; it covers 44 or 45 different Missions and is made up of a great number of very small items. It would be rather difficult to sort it out.

972. What makes me raise the point is that I notice on the explanation of H: "Due mainly to loss by exchange on balances held abroad, in consequence of the depreciation of certain currencies",

and yet again, if you turn to the explanation of sub-head O: "Savings:—On the provision for purchase of exchange, owing to the depreciation of certain currencies"?—Yes; it is the reverse process. When we have to make currency payments, if the local currency has depreciated we buy it more cheaply in sterling, and therefore we show a saving in our sterling accounts; but if our people have balances, as every Mission must have some balance at the end of the quarter, however small, if the currency has depreciated in the course of the quarter, that has to be shown as a loss by exchange.

973. Is it necessary to send that home, when the money has depreciated, if you require it the next quarter for paying out?—No, it is not sent home, but it is brought forward in the accounts at the revised figure at the beginning of the quarter.

974. It is merely a book-keeping entry?—It is merely a book-keeping entry, and this figure in sub-head H is the net figure, for all the quarterly accounts of all the Missions, in respect of that particular gain or loss by exchange on the quarterly balances between the beginning and end of the quarter.

975. You do not physically bring it home?—No.

Sir Assheton Pownall.

976. On sub-head H, could you give us the main headings of this £14,000; because it is rather a big sum of items to have bracketed together without any details at all?—Yes.

977. Not now, but as regards the future?—If you would like it now, it is set out in rather more detail in the Estimates; it is not very long there. I daresay it could be sorted out a little more. The heading in the Estimates was "Maintenance and repair of the launch at Constantinople (£3,000)"; we had to buy new engines for the launch there; "Wireless apparatus at Peking and Addis Ababa (£1,000); stable at Teheran (£200)," and the balance is "Cost of foreign newspapers, portorage on official business, customary presents and official fees, bank charges, telephone charges, uniforms for official servants at certain posts and other miscellaneous expenditure"; that is for the 44 or 45 separate posts.

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Sir FREDERICK BUTLER,
K.C.M.G., C.B.

[Continued.]

978. My view would be that anything over £1,000 would be worth while showing separately; because you have some small items under other headings?—(Sir *Gilbert Upcott*.) The largest single item was telephones.

979. How much was that?—(Sir *Frederick Butler*.) I have not got the figure, but we are now taking out telephones and showing that item separately. (Sir *Gilbert Upcott*.) I think we suggested that; it came to over £4,000.

Mr. *Culverwell*.

980. Arising out of the reply to Sir *Irving*, did I understand you to say that the salaries of our Consular Servants varied according to the rate of exchange?—(Sir *Frederick Butler*.) No; if there are very substantial exchange variations, to the detriment of our people, we make it good by giving them some exchange relief; at least, we did in the year under review.

981. In Germany, for instance?—There they have got registered marks; the question would not arise.

982. They have only just got registered marks?—If they did not get registered marks we should make up a certain percentage of their salary; we should make 75 per cent. of their first £300 up to the par value of sterling. We should make two-thirds of the next £600 up to the official value of sterling, and so on; up to £2,000, we should make up 60 per cent., and after that, 50 per cent., the theory being that a certain amount of those salaries must necessarily be spent locally, and, on that, we would not compensate.

983. Even if the local cost of living had not increased?—No, I have got it wrong, it is the other way round. A certain amount must be spent in this country, and, on that, we would not compensate; but on the balance, which they must be expected to spend there, we would compensate; but that is only if the exchange variation is substantial—say, 15 per cent. or more.

Sir *Assheton Pownall*.

984. Will the Committee pass to pages 60 and 61. On sub-head S, Sir *Frederick*, "Law Charges", your expenditure was, roughly speaking, double what you had been granted. There is a note with regard to it. Could you tell us rather more about this item of £1,500 in Egypt?—Yes; there was a very complicated piece of legislation

over the estate of a British subject there, and we got involved in various legal proceedings, in the course of which our advisers out there found it necessary to press for the appointment of a Receiver of the estate, to administer the estate whilst these legal proceedings were being threshed out, and this was the fee that had to be paid to the Receiver appointed by the Court.

985. How did we come to have this heavy expenditure for a British subject, if we could not re-coup ourselves from the subject?—It was a question whether the estate of a British subject had paid the proper amount to the Consular Court. The estate of a British subject was liable to certain fees on being administered by what was then our extra-territorial Court in Egypt, and it was because there was some doubt as to the correctness of the declaration of the value of the estate that we (when I say "we" I mean the British authorities in Egypt) initiated proceedings in order to recover the proper amount.

Sir *Irving Albery*.

986. On page 60, under sub-head V, outfits and travelling" the note says "Savings were effected on the provision for local journeys and transfers and on the provision for expenses of officers proceeding on leave of absence." May I ask, Sir *Frederick*, does that note really mean that for some particular reason there was a saving of money—that it was more economically done—or does it really mean that the Vote was over-estimated?—It means that it was actually an over-estimate.

987. There was an over-estimate?—Yes. Our practice in these not very definitely to be estimated subheads is to take an average of years, and if that average happens to be falsified in one year, because for some reason or another not so many people travel, or do not travel so far, then we are under; sometimes we are over.

988. I was only wondering whether, in a note of that kind, it would not be better to say that such and such items cost less, than to use the word "savings," because it rather implies that there has been some special economy?—We do not wish to claim that. It is purely fortuitous; it simply happens that not so many people travelled, or they did not travel so much.

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Sir FREDERICK BUTLER,
K.C.M.G., C.B.

[Continued.]

Sir Isidore Salmon.

989. On sub-head T, "Relief of distressed British subjects," your explanation looks rather strange. It first of all says it was "due to unforeseen expenditure in connection with the repatriation of British subjects from Spain (£4,500) offset in part by lower expenses in other countries." It was not because of your extra expense in Spain that you had an offset in other countries; I suppose it was merely accidental?—Purely fortuitous. We spent a great deal more on people from Spain and not quite as much as we had expected on people from other countries than Spain.

990. On sub-head KK, "Telegrams," the difference is presumably due to the difficulty that you have in arriving at any figure when unsettled conditions exist?—That is the difficulty.

991. But do you not, in some of these places, especially in the East, have a different system altogether from merely using telegrams, namely, the wireless?—We have at Peking; that is the outstanding example, and there we do spend very much less on our telegrams than we should if we had not got the wireless; after the wireless has paid its expenses, we show a very distinct saving.

992. Under sub-head KK, the expenditure for telegrams represents the expenditure for the whole world, does it not?—The whole world; and our own telegraph bill at home for telegraphing abroad is included in that, too.

Sir Assheton Pownall.

993. Notwithstanding the changed conditions in China, you find the Peking wireless service useful?—Yes; that is the centre for all our messages; we communicate with Peking, and it can get

into wireless touch with Shanghai and any post at which a British guardship is stationed; on the Yangtse, for instance; Peking passes on our messages, and *vice versa*.

994. On page 63 there is an item low down, £400,000, Iraqi Railways, but you reported to us about that and we discussed it last year, if I remember rightly?—That is right.

995. That is all settled up now?—Yes.

996. We have had the £400,000?—That is the payment about which I gave the explanation last year.

Sir Assheton Pownall.] Are there any questions on pages 62, 63 and 64?

Sir Isidore Salmon.

997. I notice that you still bring forward on page 62, sub-head OO, "Relief in Russia," the nominal figure of £100?—Yes; oddly enough, not in this account, but in the current year, we have actually had another of the claims under that head; a small amount of £66 will appear in the account for the current year. We like to keep this sub-head open, because we never know when these receipts are coming out to be honoured.

998. In the Appropriations in Aid you have realised £60,000 less than last year?—Yes.

999. The main cause of that seems to be Consular receipts?—That depends whether the business comes along, I suppose.

1000. You have no control over it?—We have no control over it.

Sir Assheton Pownall.] May I take it that this Account is approved? (*Agreed*).

VOTE 3.

LEAGUE OF NATIONS.

Sir Assheton Pownall.

1001. Page 65, the League of Nations Vote. What effect has the devaluation of the Swiss franc had on our contribution towards the League of Nations?—(Sir Frederick Butler.) In this particular year, very little, because the actual devaluation which occurred in the autumn of 1936 was after we had made our payments. The saving or under-spending shown on sub-head A was due

to the fact that, in assessing our payment for the year, in framing our estimate, we took 15 Swiss francs to the pound as the probable figure, and, in actual fact, it was a bit more favourable to us than that when we made our payments. In another year, of course, the difference will be more marked.

1002. It is 21.40 now?—In the current year there will be this complication, that the League did not fix its original

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Sir FREDERICK BUTLER,
K.C.M.G., C.B.

[Continued.]

contribution in Swiss francs, but in gold francs, so that only some part of the saving will be found to accrue to us in the current year. Next year, that is, for 1938, I think the contributing Powers are going to get the whole of the benefit of that depreciation, but in the current year, owing to the budget having been fixed in gold francs, and the League only allowing the Powers a 20 per cent. abatement instead of 30 per cent., it has piled up a small reserve fund.

1003. They made about 10 per cent. out of it?—Yes; that is in the year that is just concluding.

1004. Has our proportion remained the same?—I think it went up from 105 out of 991 to 108 out of 991, owing to some adjustment in the course of the year. (Sir Gilbert Upcott.) It went up from 10.3 to 11.7 per cent., to put it in another way.

1005. Owing to the withdrawal of countries from the League; would that be the reason?—(Sir Frederick Butler.) Partly to that and partly to variation; some of the poorer countries put up a case for a variation, and I think we have taken on one or two extra units because of Burma. We are now representing Burma, which is now separate from India, as you know.

Mr. Benson.

1006. With regard to sub-head E, will that appear in more recent accounts, or has it finished?—No, it has not finished. We were not called upon to make any payments in the year now under review, but in the current year we have been making payments, and actually, I think, a Supplementary Estimate is now before the House, involving a further payment, but nothing of this magnitude; more like £18,000.

1007. Is that £110,000 merely an estimate, or is that our maximum?—No, it is not the maximum. That was an estimate of what we were expecting to have to contribute to the Ghab scheme in that particular year; our over-riding maximum at that time was £250,000, but there is no likelihood that we shall have to pay that.

Sir Irving Albery.

1008. Could you tell us the significance of the word "gift," under sub-head D, for the new League of Nations Building?

(Sir Frederick Butler withdrew.)

—The League of Nations, as you know, has built and is now occupying a very big and splendid new building in Geneva, and the various nations were invited to make presents to it in the way of furnishing, or some architectural feature, and the present of His Majesty's Government took the form of some relief sculptures by Mr. Eric Gill, which are to be put up over one of the big doors in the League building, and this is the payment for the sculptures.

1009. Is that the total amount involved, £1,500?—£3,000 was Mr. Gill's fee, and that is being paid in accordance with the progress of the work, under our contract with him.

1010. Have other nations made similar contributions?—Yes, they have made similar contributions, and many have made larger gifts.

1011. What authority would a gift of that kind come under?—It was voted by Parliament in the Estimates.

Sir Isidore Salmon.

1012. What is anticipated to be the increased cost of the new building of the League?—I am afraid I have not got that figure in my mind.

1013. It will be, presumably, higher than it has been in the past?—It is a complicated financial question which has been going on for years, and I am afraid I have not got it up.

1014. You are not in a position to say how much more it is going to cost this country?—I do not think it is going to cost us any more. I think they have got their funds. The building is practically finished. I do not think we are being invited to contribute anything more.

1015. You were saying it was such a large and magnificent building; buildings of that sort generally cost so much more to maintain, and I did not know if it was going to put our contribution up?—I do not think so.

Sir Robert Smith.

1016. On sub-head D, were you not aware that the full amount of £3,000 would not have to be paid in this year? Why did you take a Vote for £3,000?—We hoped it would, but Mr. Gill was ill for several months and could not get on with it as fast as he wanted to.

Sir Assheton Pownall.] May I take it that this Account is approved? (Agreed.)

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[Continued.]

CLASS IV.

VOTE I.

BOARD OF EDUCATION.

Sir MAURICE HOLMES, K.C.B., O.B.E., and Mr. D. DU BOIS DAVIDSON called in and examined

Sir *Assheton Pownall*.

1017. Board of Education, page xiii, paragraph 24 of the Comptroller and Auditor General's Report. Sir Gilbert, have you anything to say in addition to the note on the paper?—(Sir *Gilbert Upcott*.) The point of this paragraph, Sir, is that the Board of Education overlooked in this year the statutory provision that a charge in the Appropriation Account is not permitted unless the money has come in course of payment during the year. They did, in fact, issue, apart from a certain sum for salaries and expenses, a sum of £1,000 to the Central Council of Recreative Physical Training to cover their initial expenditure on office administration and so forth, but, in fact, only about £200 of that was expended by the end of the year, and, technically, the difference between that sum and the £1,000 should have been removed from the Appropriation Account and transferred to the Account for the succeeding year. That would have involved a great deal of labour and confusion, and as the Account is, in fact, a running account for a continuous service, though I felt obliged to qualify the certificate, I did not feel that it would be necessary to recommend the Committee to disallow the charge to the current year; but, at the same time, I am bound to express some surprise that an experienced accounting department like the Board of Education should have been unaware of that statutory obligation.

1018. Have the Treasury anything to say about this?—(Mr. *Brittain*.) Yes; we have been in consultation with the Exchequer and Audit Department in the last week or two, and we hope we shall come to some arrangement which will avoid any like difficulties in the future. It is largely a practical difficulty, I think, of adjusting grants to a continuing scheme in the light of the audited accounts of the recipient. We hope to find some way out of the difficulties very shortly. (Sir *Gilbert Upcott*.) I think it will be possible to find a practical

arrangement, but, of course, there is that statutory obligation which has to be met.

1019. You would like to say something about this, Sir Maurice?—(Sir *Maurice Holmes*.) I am afraid I can only plead guilty to the technical irregularity to which the Comptroller and Auditor General has drawn attention. The position was that in March of last year the body in question, the Central Council of Recreative Physical Training, needed financial assistance to keep them going for the period from that date in March until the date in April when they could be given some more, and a grant was made by the Board of £1,000, on the recommendation of the Grants Committee, calculated on the basis of estimates received from the Central Council of their anticipated needs for that period; but I am afraid none of us at the Board of Education did take note of the particular point to which Sir Gilbert has called attention, and all I can say is that we have taken steps to ensure that we are not guilty of a similar irregularity this year or in any future year.

(Sir *Assheton Pownall*.) Are there any questions on this paragraph. Will members turn to the accounts themselves on page 154; page 154 is a summary. The details are to be found on the subsequent pages. I have nothing on page 155. Are there any questions?

Sir *Isidore Salmon*.

1020. I notice that the total expenditure is £2,000,000; £1,000,000 for elementary education and £700,000 for higher education and also £300,000 for teachers' pensions. Is that on account of larger grants that you are giving to the schools, notwithstanding the fact that there is a smaller school population in elementary schools?—No, Sir, it has nothing to do with additional grants. As regards the pension point, if I may take that first, the Committee will be aware that that is a charge that grows annually by some £250,000 or so, and I

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[Continued.]

am afraid it will go on growing until some date in the sixties, by which date every teacher in the service will have been a contributor towards his pension from the time he entered the service. The other increases to which you refer, Sir, are in the main due to development, because, though the school population is falling, I am afraid that does not mean anything like a commensurate fall in the number of teachers. New buildings have to be built to meet the needs of new housing estates, and I think I am right in saying that in the year in question (Mr. Davidson will correct me if I am wrong) there was the element of the remission of the remainder of the cut on teachers' salaries, which, as will be remembered, was originally 10 per cent. and then was reduced to 5 per cent. and then was remitted altogether. (Mr. Davidson.) That is right.

1021. You say under sub-head AI.: "An excess due to the secondment of staff to other departments and the payment of substitutes was partly met by savings due to vacancies." Presumably the staff are seconded to other departments; their salaries are paid by them and you save the whole of the money?—(Sir Maurice Holmes.) Yes, that appears in the Appropriation in Aid. It was a matter of some 19 officers of various grades who were lent, and their salaries were paid to us by the departments to which they were lent.

1022. How is it that you are able to lend as many as 19 officers, unless you have a lot of redundant officers?—In the case of some of them, the loan is not difficult; perhaps it would interest you to know who they were: One assistant legal adviser was lent to the Statutory Commission of Durham University; and, if the legal branch happens not to be particularly busy with legislation and that sort of thing at the moment, we can, by everybody else pulling a bit more weight, get through. We have, as you know, a substantial executive and clerical staff, and 14 of those people were lent to two departments; one typist you will hardly bother about; and three inspectors. The three inspectors were lent, one to the Iraqi Government, one to Southern Rhodesia and the other to the Scottish Education Department. We feel that our inspectors have something to learn as well as something to give by experience abroad, and though it does,

I admit, cause a certain amount of dislocation in their inspecting work, we try to do that as far as we can within the limits of our numbers?—(Sir Gilbert Upcott.) We all of us have to help in these days. In the present circumstances, the Service departments and new creations like Clearing Offices are always asking for someone to be lent to help them out of an emergency.

Sir Assheton Pownall.

1023. Pages 156 and 157. On C1, Sir Maurice, you have got wonderfully close there; £565 on a total of £34,000,000, allowing for supplementary. When was that supplementary taken; how long in advance of the end of the financial year?—(Sir Maurice Holmes.) In February, I am told.

1024. I do congratulate you; it is very close shooting?—We are not asking for much credit for that. The note shows that we do not claim a great deal.

Sir Assheton Pownall.] Are there any questions on pages 156 and 157?

Sir Isidore Salmon.

1025. I should be the last one to want to suggest that you should not have the credit where credit is due, but, as a matter of fact, do not you know before you estimate, to all intents and purposes, what the exact figure is going to be under this head?—Very far from it indeed, Sir Isidore, because the estimates we get nearly always contain a great deal of what we call "water" that has to be squeezed out. Authorities, for their own purposes, cannot afford to put in estimates that are too low, and we always have to discount them to a certain extent, in making up our own.

1026. So you do have to use a great deal of discretion in making up your estimates?—Yes, based on experience in past years.

Sir Isidore Salmon.] So you deserve credit.

Sir Assheton Pownall.

1027. Note (2) on page 158, "Additional Sixth Form grants were less than expected." What was that Sixth Form grant?—Quite recently we introduced a new system. Instead of paying a block grant of £400, as we used to do in respect of Sixth Form work, provided there was a minimum number of pupils, usually half a dozen, we introduced a new system of capitation grants on a sliding

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[Continued.]

scale, that being additional to the ordinary capitation grant that is paid in respect of secondary school pupils. The figures, I think, were £16 per head for the first so many, £12 for the next and £10 for the rest. I am not sure of the accuracy of those figures. At any rate, it was a sliding scale of grant, additional to the ordinary capitation grants, to encourage the Sixth Form work in secondary schools.

1028. On the next page, 3,353 new awards were given in the year under review. I find the normal figure is round about 3,000; was there any special reason for that extra 300 new awards in this year?—I do not think so; as you say, it is round about there.

1029. 300 is a good deal more; 10 per cent.?—I do not think there was anything particular to drive them out.

1030. There had been, five or six years before?—Yes. (Sir *Gilbert Upcott*.) The annual report for 1936 remarks upon this increase as a notable increase.

1031. That occurred in the year under review; have you any idea what has been happening this year; has this increase been kept up?—(Mr. *Davidson*.) I should think undoubtedly it has. I think it is largely a matter of the age group falling due for pension and the teachers consequently going off in increased numbers. It is entirely a matter of age, I think.

1032. Is it automatic at 60, or can they stay on up to 65?—(Sir *Maurice Holmes*.) 65 as a rule. They can go at 60, or be sent off at 60, but, as a rule, they stay on after that.

1033. Unless either side wishes to terminate?—Yes.

Sir *Assheton Pownall*.] Are there any questions on pages 158 to 161?

(ACCOUNT OF THE SALES OF CASTS AT THE VICTORIA AND
ALBERT MUSEUM, 1936.)

Sir *Assheton Pownall*.] We have the record of sales of casts at the Victoria and Albert Museum. Are there any questions?

Mr. *Benson*.

1038. Are any steps taken to increase your sales by any advertising? So far as one can gather from this, your charges are very largely overheads, and, if you doubled your output, you would not very materially increase your

Mr. *Benson*.

1034. I should like to draw attention to the fact that, with regard to the two Museums, one spends £1,000 a year and the other £500 a year on telegrams and telephones; that seems a rather heavy expenditure for Museums?—Yes. The position is that the telephone charges are fixed by the Post Office on a basis, as I understand it, of the number of telephone points, and the Museums are very well supplied with telephone points, if only because they have, in case of emergency, to be able to communicate with one another pretty quickly. It is not entirely external telephones.

1035. The basis is fixed by the Post Office?—Yes; we have no choice. We never challenge the matter. They simply tell us how much we owe for the service they provide.

Sir *Isidore Salmon*.

1036. Do you find the number of persons who visit the Victoria and Albert Museum is increasing?—No, I regret to say it is dropping and it is a cause of some trouble to the Director; we do not know why it is dropping, but that it is dropping is undoubtedly the case.

1037. Does that apply to the Science Museum?—No, not so much to the Science Museum; I think their figures are pretty good. It is the Victoria and Albert Museum that seems to be suffering.

Sir *Assheton Pownall*.] Are there any questions on pages 162 to 164? May I take it that this Account is approved? (Agreed.)

charges?—(Sir *Maurice Holmes*.) I do not think that ordinary advertisement would do us much good.

1039. I was not meaning ordinary advertisement. I was assuming that you sold these things mainly to art schools and art classes?—Yes.

1040. Have you ever circularised them?—I think all the art schools and art classes in this country are familiar with the casts that the Victoria and

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[Continued.]

Albert Museum have at their disposal. I should say that is the case; if it is not, I will look into it.

1041. They may be familiar with them?—You mean, have they got a price list?

1042. Do you call their attention to anything new, or do you circularise them to jog their memories to buy?—I could not say offhand whether the Museum does or does not.

1043. It might be worth while doing?—I will look into it.

1044. The Manchester Grammar School has a number of casts and so has practically every big school. I was there the other day, and they had many of the identical casts, some chipped, that they had when I was a small boy?—I do not wonder they were a bit chipped.

Sir Robert Smith.

1045. With regard to note (a): "The value of work executed but not paid for on 31st March amounted to £223 12s., compared with £70 12s. 7d., at the end of the previous year," was there any special reason for that?—No. I do not think there was any special reason for that. They were not bad debts. They will come along all right in time, and it may be a source of some satisfaction to the Committee to know that for the first nine months of the current year the figures are very much better.

1046. Were your sales that year distinctly more than the sales in the year before, so that you had this outstanding amount?—No, I do not think so; I think they were very much the same.

1047. Then why should there be that difficulty: because you are dealing with the same class of customers. Why should you have the extraordinary difference between £70 and £223 12s.?—That may be entirely due to the fact that the sale was shortly before the close of the financial year.

1048. It is just a question of the time?—Yes.

1049. You referred to the question of these casts in answer to Mr. Benson. Is there any other firm that is competing with you in the sale of casts to schools?—I do not know of any other firm in England at all. When we took over the business in 1921, it was because the art world felt that it would be a disaster

for the only existing firm to go out of business and for nothing to replace it.

Mr. Peat.

1050. Has it ever been considered whether you should increase the price you charge for these casts?—I think that is what the Director of the Victoria and Albert Museum always has before him, but I think he is always apprehensive that an increase in price might mean a decrease in sales, more particularly as some of the moulds, I understand, are not as good as they originally were, and we are anxious not to charge too high a price for an article that is not absolutely first class.

1051. I asked because I happened to buy one of those casts a short time ago, and I thought the price extraordinarily low for what I got, which was really a very beautiful thing?—Yes.

Sir Irving Albery.

1052. Is one to understand that the output is practically a maximum output? Do they go on producing a certain number of casts and hoping to sell them, or do they work only in accordance with what has been sold in the past?—I understand that at the present time the department has more orders than it can execute; in other words, it is working absolutely full time. We reduce the staff if orders fall off very much; we should put somebody off for the time on to other work in the Museum. We do treat it in that sense as a business concern.

1053. Arising from what Mr. Peat said, of course, if this work is done to help the art schools at a loss from an economic point of view, there is no point in doing more of it than is necessary; but if, on the other hand, more of it can be produced, and if the producing of more and selling more would cover the loss, from what Mr. Peat has said and from what I have heard in other directions, I should think with some further sales organisation a lot more stock could be sold?—Though we are very anxious to avoid any loss we can, we do regard ourselves in this respect as providing an educational service, for which we do not necessarily expect to get back 100 per cent.

Sir Assheton Pownall.] May I take it that this Account is approved?—(Agreed.)

(Sir Maurice Holmes and Mr. Davidson withdrew.)

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[Continued.]

CIVIL APPROPRIATION ACCOUNTS, 1936.

CLASS IV.

VOTE 12.

PUBLIC EDUCATION, SCOTLAND.

Sir JAMES PECK, C.B., called in and examined.

Sir Assheton Pownall.

1054. We begin on pages 184 and 185. On page 184, you get an automatic increase of 11/80ths, do you not, on the General Aid Grant in sub-head C, £71,000?—(Sir James Peck.) Yes—on the whole £7,231,000.

1055. You get an extra 11/80ths on that?—We get first a basic figure of about £2,300,000, which was the figure in 1914. Then, in addition, we get 11/80ths of whatever the English grant for the year is.

1056. Is the £71,000 what represents the extra payment in the year under review?—Not quite, Sir. That was the consequence of a supplementary estimate which the Board of Education found themselves required to introduce. They found that their original estimate was not sufficient to cover the expenses of the year, and they introduced a supplementary estimate. In consequence of that, under the Act we get 11/80ths of any supplementary estimate, so it is purely automatic, so far as we are concerned, and not due necessarily to anything in Scotland.

Sir Assheton Pownall.] We shall come to the expenditure in a moment. Are there any questions on pages 184 and 185?

Mr. Benson.

1057. Assuming you have not spent your total amount that comes automatically to you, it goes back into the Exchequer, I take it?—No, it does not. The Act says that when we get this grant it goes into our Education Fund, which is contained on page 188. The Act says that we have to expend the whole of that Education Fund in the year, as nearly as may be, so we expend that sum, to within a small balance, which we carry forward for safety, in block grants to the education authorities. Our grants are not related to the education expenditure, as they are in England. It is a block grant, by which we say we have so much to expend, so many teachers, so many scholars. We work out capitation rates so as to exhaust the total, as near as may be, and then give the education authorities block grants on the formula.

Sir Isidore Salmon.

1058. I should like to probe that a little further. In other words, you have a bonus; it takes the form of a bonus, because you have not provided for it in your estimates; you are receiving a figure surplus to your apparent requirements, and when you get that surplus you divide it among the different education authorities in Scotland?—Yes.

1059. But, notwithstanding that, presumably, the total figure of increase in your estimates in the year under review, against the year previous, is roughly £315,000?—Yes, about that, Sir.

1060. How much of that £315,000 would you consider comes under the heading of the bonus part?—It depends how you define the bonus. If you define what came to us under the Supplementary Estimate of the English Board as the bonus, it is the figure given here, £71,000.

1061. So your ordinary expenditure in grants to your education authorities in Scotland has gone up by the difference between £71,000 and £315,000?—Yes. (Sir Gilbert Upcott.) The position is that, if the English expenditure goes up, as it is going up, Scotland automatically gets a proportion of it. If the English expenditure goes down, for whatever reason, the Scottish grant goes down equally. (Sir James Peck.) Our grants are not related to expenditure at all. We have simply to divide out what comes to us under the automatic arrangement among the local authorities in Scotland. If we had expenditure grants, I have no doubt the education authorities in Scotland would be asking for more, but we do not work it in that way.

1062. I notice that there has been a good deal of saving in respect of vacancies?—Yes.

1063. Are you proposing to fill those vacancies or to reduce your establishment?—They have been filled in the last year. One of the vacancies was due to my own promotion, and my successor was not appointed for about a year, for various reasons.

1064. It is vacancies of that sort?—It is vacancies of that sort.

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Sir JAMES PECK, C.B.

[Continued.]

Sir Assheton Pownall.

1065. Are there any questions on pages 186 to 189? On page 188 I see you begin the year, Sir James, with £31,000 odd; you end up with £26,000?—Yes.

1066. I understand you had what we might call a windfall of £72,000 on the 11/80ths plan?—Yes.

1067. Notwithstanding that, you are still £6,000 less well off at the end of the year than you were at the beginning?—Yes.

1068. Would you mind telling me how you regulate your expenditure in these matters?—The £71,000 windfall goes into the receipts on page 188. There we get from the Vote £6,644,000. Then we have to expend the Fund, as nearly as may be, after we have met the prior charges on page 189. We have prior charges for a number of purposes: Secondary School Inspection, Central Institution grants, Training of Teachers grants, and the pensions, a very big thing. After we have done all that, we have a balance which is somewhere about £6,000,000 or so, and that we are required by Statute to divide in that year, as nearly as may be, among the Local Education Authorities. We always keep a small balance in reserve, and at the beginning of the year it was £31,000; at the end it was £25,000; but I do not think that matters very much. We just keep a safety margin; but we would be in breach of the Act if we did not distribute practically the whole of what we get in that way.

1069. What happens supposing you have, as happens in England, several hundred extra teachers who want, early in the year, to come upon pension? How do you get over a difficulty of that sort if you are closely regulated in the amount you can possibly spend?—So far as pension is concerned, do you mean?

1070. Yes, and extra people to take their place?—The pension payment is on page 189, £1,000,000 a year. We have to pay these pensions from the Fund, not from the Vote, and we calculate what we probably will have to pay on these purposes before we come to the balance, the £6,900,000, to be divided among the Education Authorities.

1071. We have just found in England a difference in the Estimate of 10 per cent. in the number of teachers who went on pension in the year under review?—Yes.

1072. I was wondering how you would cope with an appreciable difference of

that sort on your system of budgeting?—Our pensions do not affect the Vote at all. The amount of the Vote for pensions, which you find on page 184, Sub-head D, is 11/80ths of the English expenditure on pensions of teachers in England, and therefore is an automatic sum that comes to us as soon as the English Estimate is framed. That sum, which is a payment of £951,000 from the Vote, becomes a credit in the Education Fund on page 188. You will see it is the fourth figure down there.

1073. It is still not quite clear to me?—(Sir Gilbert Upcott.) The short point is that if their pension expenditure went up in the way you suggest, they would have to cut that figure of £6,000,000 which is paid by instalments, and the Rating Authorities would have to make up the balance.

1074. You allocate to the Rating Authorities early in the year the amount they are going to have. I do not see how, if you have an item that may come along afterwards, you can accurately estimate the two things?—(Sir James Peck.) We pay our grants in instalments throughout the year, and we pay the balancing sum in the following year to complete the grant under consideration, so we really have something to work upon in that instalment system.

1075. You find that in practice it works satisfactorily?—Yes. (Sir Gilbert Upcott.) They are always working in arrear of England. They know where they are.

Mr. Peat.

1076. The £825,000 was the last instalment, paid in 1935, on 1934?—(Sir James Peck.) Yes, that is so. We have only once got on to the wrong side of this balance in the Education Fund, after meeting the pensions, which are difficult to calculate, no doubt, and in dividing the £6,000,000 or so among the Authorities, as I say, we have only once had a debit balance on the Account.

Sir Assheton Pownall.] Which you made up in the next year, I hope. Are there any further questions?

Sir Isidore Salmon.

1077. Do not you make it a little difficult for the Local Authorities to know what their total income is to be, under the head of Education, if you only pay them an instalment and do not tell them to start with what their total figure is to be?—No. At the beginning of the year we get from them an estimate of

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[Continued.]

what they are likely to require in the year, and we take that into account when we work out the capitation rates for the dividing up of the money; and we have always the power to adjust the final sum for a given year in the following year.

1078. My point is this: If I understand it correctly, you leave them a little in mid-air as to what the final figure is to be for their expenditure, and if they are committing themselves to expenditure for buildings or other things, does not that make it a little difficult for them?—We intimate to them what the rate per teacher and the rate per scholar is, early in the year, and they, knowing what the numbers of the teachers and the scholars are, can budget pretty closely as to what they are going to get from the Fund.

Our grant is determined on three factors only: number of teachers, number of scholars, and rateable value.

1079. You find in practice that it works pretty satisfactorily?—It works very satisfactorily.

Sir Edmund Brocklebank.

1080. In other words, you have no quarrel with the 11/80ths scheme?—We have no quarrel with the 11/80ths scheme.

1081. You do not want any change?—No. It has the great administrative advantage that it does not involve the scrutiny of a large number of items of expenditure either by the Treasury or by the Local Authorities or by us.

Sir Assheton Pownall.] May I take it that this Account is approved?—(Agreed.)

CLASS III.

VOTE 14.

APPROVED SCHOOLS, ETC., SCOTLAND.

Sir Assheton Pownall.

1082. Pages 137 and 138, Class III, Vote 14, Approved Schools, etc., Scotland. I have only one question on page 138, which is with regard to the differentiation between parental contributions and Orphans' Pensions. They were not distinguished last year, if I remember rightly. They are distinguished now?—(Sir James Peck.) You asked us to do so.

1083. Would you mind telling us what these Orphans' Pensions are, and under what circumstances they are paid?—Under the Widows' and Orphans' Contributory Pensions Act an orphan is entitled to a pension in virtue of his parents' contributions. That orphan might commit a crime or might be neglected. In that case the Court would commit him to an Approved School. As he has been taken away from his home, the pension should not go to the home but to the body which is responsible for his maintenance, so we get these pensions into our Accounts and they are taken into account when we divide up the grants to these schools which are maintaining these children.

Sir Assheton Pownall.] Are there any questions on pages 137 or 138?

Mr. Benson.

1084. Do you make a grant of 50 per cent. here, as in England, to the Approved Schools, or is it still under your other Scottish system?—No; it is practically 50 per cent. We estimate the total cost of the Approved Schools and then we say that half should be borne by the Exchequer and half by the Local Authority. We work out what the average rate for the maintenance of these children is, and in the year of account it was worked out as 26s. per week. Each Local Authority must then pay 13s. per week to the Approved School for the maintenance of the child, and the Government grant makes up the difference.

1085. Who does the inspection—the Scottish Office or the Home Office?—The Scottish Education Department. In England it is under the Home Office, but in Scotland it is all under my Department. We have an inspector who specially deals with it. The administration was transferred to us from the Scottish Office about 1923.

1086. How many Approved Schools are there?—Twenty-three.

Sir Isidore Salmon.

1087. What is the reason of the parental contributions being so much down in 1936 as against 1935? In 1935

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[Continued.]

the parental contributions were £3,900, but in 1936 they were only £1,570?—I think the answer is that last year the Orphans' Pensions and the parental contributions were stated in one figure. This year we have separated them out.

1088. Thank you very much; I had not noticed that they had been

separated?—(Sir Gilbert Upcott.) I think the two items were only one last year. (Sir James Peck.) Yes.

Sir Assheton Pownall.] May I take it that the Account is approved?— (Agreed.)

(Sir James Peck withdrew.)

CLASS I.

VOTE 9.

EXCHEQUER AND AUDIT DEPARTMENT.

Sir Assheton Pownall.

1089. Page 19, Class I, Vote 9, Exchequer and Audit Department. Sir Gilbert, I just want to ask you about the position of your staff. You give us an account usually with regard to its increase or decrease, as the case may be?—(Sir Gilbert Upcott.) Yes. I mentioned last year that there had been a considerable increase in the number of accounts which it is my duty to audit, and that the growth of rearmament expenditure was, of course, involving very considerable addition to the work of my Department. Though in the Account which is before you, you will see that there was an under-spending of the provision for salaries, I have found it necessary in the current year, with the approval of the Treasury, to make fairly substantial additions to the staff of the Department, both as regards the examining strength and as regards the directing grades. The Committee will appreciate that the growth of work has been considerable not only in amount but also in complexity, and the developments of the last few years have very substantially added to the burden on the higher officers of the Department; and I should like to take the opportunity of acknowledging the assistance which they give me so fully in enabling me to meet my own responsibilities to this Committee. The staff changes which have been made have not been more than are sufficient to cope with the increase of work which has already occurred, and if the public expenditure goes in increasing both in amount and in variety of forms in the way that has been taking place in the last few years, I am afraid I shall find it necessary to ask for further additions later on; but that will be judged in the light of experience.

1090. What sort of percentage increase has taken place?—The increase in numbers of the auditing and clerical staff has been about 10 per cent. in total, and about two-thirds of that has been in examining strength and one-third in the directing grades. There will be an addition of 29 persons in the forthcoming Estimates, and about two-thirds of those will be in the examining ranks and about one-third or rather less in the directing ranks.

1091. You told us last year of an Epitome which was last issued in 1926, of the main decisions and rulings of this Committee for the last seventy years. What is the position with regard to that?—Last year I told the Committee that I hoped that the new edition which was in preparation would be brought out before the end of 1937. I am afraid I have not been able to fulfil that anticipation, because the issue was delayed owing to the illness of the editor in the late summer of the year. That caused an inevitable delay, and that being so we took the opportunity of reconsidering the position; and whereas the edition which was then in preparation was intended to cover the year 1936 inclusive, we came to the conclusion that it would be very desirable, with a little further delay, to include 1937, because, as the Committee will remember, last year, owing to the incidents which occurred at the National Gallery, the Committee took the opportunity to review rather fully the position and functions of the Accounting Officer, which is a rather fundamental matter from their point of view. We thought it very desirable to get that review of general principles into the new edition, even at the cost of a little further delay. That is being done, and

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[Continued.]

I hope that it will be possible to bring out the new edition, up to and including 1937, during this summer.

1092. You say "up to and including 1937"?—Yes; it will include the recommendations of the Committee.

1093. For this year?—No; the recommendations of the Committee of 1937 and the Treasury Minute on them; or rather such portions of their Report as are selected for the Epitome.

Sir *Assheton Pownall.*] Are there any questions on this Account?

Mr. *Benson.*

1094. I should like to ask, with regard to Appropriations in Aid, how does the Comptroller and Auditor General manage to earn anything?—As a rule, I give my services free of charge to Vote Departments, but a certain number of self-contained funds and quasi-independent Authorities which are supposed to finance themselves, pay the cost of my audit; for instance, the Unemployment Funds do.

1095. They regard your audit roughly as a Limited Company regard a chartered accountant's audit?—I am their statutory Auditor, but as the Accounts are supposed to bear the full charge of their administration an audit charge is made to the Accounts.

Sir *Robert Smith.*

1096. What is "post intrans training"? Is a post intrans what one might call a post entrant?—It means training after entrance into the Department.

1097. It is practically the same as what one would call a post entrant?—Yes. I think we have always called it "post intrans training".

Sir *Assheton Pownall.*

1098. Is it a misprint?—No; "post intrans" is considered the correct expression.

Sir *Irving Albery.*

1099. Has it ever been considered whether it would be desirable that all the audits should be charged to the respective Departments?—I think that question should be addressed to the Treasury, because it involves the question of inter-Departmental payment. (Mr. *Fraser.*) It would be contrary to the ordinary rule on inter-Departmental payments. The cost of the audit is brought out in the Gross and Net Cost Return. (Sir *Gilbert Upcott.*) The cost is brought

out in the Gross and Net Cost Return. It would be purely a question of book-keeping, and as far as statistics are concerned it is there shown.

1100. What is the number of your accounting and examining staff?—The effective number will be 328, including the clerical staff.

1101. Did you say that there had been an increase of 29 persons?—That is the addition made or about to be made.

1102. An increase of 10 per cent.?—Yes, that is so.

Sir *Isidore Salmon.*

1103. Under the heading of "Salaries" in the Accounts of the year we are going through, there is an increase of £2,500. That may be due to increments or to extra staff added?—There is a steady increase due to increments going on all the time.

1104. When you speak of 29 more staff, from what year do you start as your datum line? Is it the year 1935 or 1936 or 1937?—I was giving you the numbers in the Estimates for 1938 as compared with 1937, allowing for officers seconded for service elsewhere. I was giving you the numbers up to date, not the numbers borne in this Account.

1105. In your view it will be of a progressive character, so far as staff is concerned, on account of the extra work that has been thrown on you?—I am not my own master in that respect. I am obliged to audit Government expenditure as it accrues, and if Government expenditure increases the audit cannot be cut down beyond a certain minimum.

1106. Is it not a fact that some Departments have been slightly less than they were previously, in the period in which the Comptroller and Auditor General has had to deal with the Accounts? In other words, in recent years the work in every Department presumably has not increased: in some Departments it has decreased?—It is quite true that there have been reductions in certain blocks of expenditure, as, for example, War Pensions, but the general trend has been steadily upwards, especially in the large blocks of expenditure.

1107. The reason I was asking that question is this: You emphasised just now, and rightly so, the extra work you have to do in regard to the rearmament programme. That programme is not going on for ever, and a time will

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[Continued.]

come when that class of work will be reduced, and then you will have presumably more permanent staff (unless you have a wastage every year), than you will have any work for?—Unless any cataclysmic reduction of the work of Government Departments should occur, I do not anticipate any danger of being

landed with redundant staff in greater numbers than could be disposed of by not filling vacancies.

1108. By ordinary wastage?—Yes.

Sir *Assheton Pownall.*] May I take it that this Account is approved?—*(Agreed.)*

VOTE 14.

IMPORT DUTIES ADVISORY COMMITTEE.

Sir *Assheton Pownall.*] Class 1, Vote 14, Import Duties Advisory Committee, page 24. Are there any questions?

Sir *Isidore Salmon.*

1109. Do the Treasury settle the number of staff that should be engaged on this work?—*(Mr. Fraser.)* Yes.

1110. And the grades of the staff?—Yes.

Sir *Robert Smith.*

1111. They have increased?—Yes, practically each year. They started with 46 in 1932, and were 146 in 1937. Their duties have increased very much.

Sir *Assheton Pownall.*] May I take it the Account is approved?—*(Agreed.)*

VOTE 17.

NATIONAL SAVINGS COMMITTEE.

VOTE 18.

PUBLIC RECORD OFFICE.

(On these Accounts no questions were asked.)

VOTE 19.

PUBLIC WORKS LOAN COMMISSION.

Sir *Assheton Pownall.*] Public Works Loan Commission, Class 1, Vote 19.

Mr. *Benson.*

1112. Is this Public Works Loan Commission identical with the Public Works Loan Board?—*(Mr. Fraser.)* Yes, it is the same.

1113. Do the salaries include the whole of the work of the Board?—The Board themselves are unpaid. This is for the salaries of the permanent staff.

1114. This covers the investigation of all loans?—Yes.

Sir *Assheton Pownall.*] May I take it that the Account is approved?—*(Agreed.)*

(The witnesses withdrew.)

(Adjourned till Thursday at 2.30 p.m.)

THURSDAY, 24TH FEBRUARY, 1938.

Members Present:

Mr. MORGAN JONES in the Chair.

Sir Irving Albery.
Mr. Benson.
Sir Edmund Brocklebank.
Mr. Culverwell.
Mr. Lathan.

Mr. Mabane.
Mr. Pethick-Lawrence.
Sir Assheton Pownall.
Sir Isidore Salmon.

Sir GILBERT UPCOTT, K.C.B., Mr. W. R. FRASER and Mr. H. BRITAIN called in and examined.

CIVIL APPROPRIATION ACCOUNTS, 1936.

CLASS I.

VOTE 2.

HOUSE OF COMMONS.

Sir GILBERT CAMPION, K.C.B., and Mr. J. LUXFORD, O.B.E., called in and examined.

Chairman.] House of Commons; Civil Appropriation Accounts, 1936, pages 6 and 7, Class I, Vote 2. Are there any questions which Honourable Members have to put to Sir Gilbert?

Sir Isidore Salmon.

1115. Sir Gilbert, I find it a little difficult to understand the explanation in the note to sub-head A1, when you speak of money being saved by salaries not paid to deceased Members and a Member declining his salary, and you go on to say: "Offset by one Ministerial post being abolished, £400." How is it offset? I do not quite follow it?—(Sir *Gilbert Campion.*) The fact of one Ministerial post being abolished meant that the salary of that Member came on to this Vote; he became payable as a Member instead of as a Minister. It reduced the saving.

1116. I see the distinction that you are drawing: instead of being a Minister, he loses the money as a Minister and only gets paid as an ordinary Member of the House?—That is so. (Sir *Gilbert Upcott.*) He would get his money as a Minister from another Vote.

1117. Does he get both, as a Minister?—No.

Chairman.] I can assure you he does not.

Sir Isidore Salmon.

1118. The cost of travelling, one observes, is up by £2,600, on sub-head A.2, as against last year?—(Sir *Gilbert*

Campion.) That is probably due to a different constitution of the Parliament.

1119. The number of days that the House is sitting?—No; it is difficult, in estimating for a new Parliament, to know to what extent Members will avail themselves of the facilities for travelling. One Parliament will differ from another.

1120. Under what head are the salaries of Clerks of Committees shown?—Under the Department of the Clerk of the House, sub-head B.

1121. Is there any special reason why the Shorthand Writers' salaries have almost doubled? Is that due to the extra work that they are called upon to do before Committees? That is under sub-head H?—It is very far from nearly doubled; it is £750 to £946.

1122. Take last year's figures?—(Sir *Gilbert Upcott.*) Last year it was £546 expenditure.

1123. This year it is £900?—£946.

1124. I did not know if there were any special reasons for it?—(Sir *Gilbert Campion.*) This increase, as you see in the note, is due to the larger amount of reporting of Select Committees.

1125. Entirely due to extra Committees?—Select Committees.

Chairman.

1126. Before you finish with that item, I thought you told us, Sir Gilbert, that the travelling expenses were up. They actually are down, are they not?—

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Sir GILBERT CAMPION, K.C.B.,
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[Continued.]

The actual amount spent has gone up; the estimate was larger.

1127. The amount actually spent has gone up as compared with last year?—Yes.

Sir Isidore Salmon.

1128. It is not greater than the grant, but more than last year?—(Sir Gilbert Upcott.) Yes; they were £24,000 last year.

Chairman.

1129. I suppose night travelling has something to do with that?—(Mr. Luxford.) No; the sleepers only came in for the last three months of the period under review.

Sir Isidore Salmon.

1130. Would you mind explaining, under the heading of Police, why you have a figure regarding the Police which is up £2,000 against last year, although I do not see that the figure is down for Custodians?—(Sir Gilbert Campion.) The figure for Custodians is a fixed payment which is made to the House of Lords.

1131. It does not come under this Vote?—Yes, the lump sum which is paid at the end of the year to the House of Lords appears in the Vote.

1132. You put it all under the heading of Police?—Yes. (Sir Gilbert Upcott.) There is a wider description in the Estimates.

Chairman.

1133. I quite overlooked putting a question or two which I wish to put myself. Perhaps it is more convenient to take them now, so that other Members may follow them up if they want to: Could you tell me whether you have any control over the arrangements for the public attending the House and the people having business at the House?—(Sir Gilbert Campion.) For coming on to the precincts?

1134. Yes?—No.

1135. No control at all?—No.

1136. Have you any control at all over the arrangements that are made in respect of accommodation for private secretaries in this House?—No; the Speaker is responsible for that, ultimately.

1137. You do not control at all the exercise of the privilege of granting cards to secretaries of Private Members?—No, that is done directly by the Serjeant-at-Arms, under the orders of the Speaker.

1138. I will put a specific question to you, Sir Gilbert. Is there any money paid by people who act as secretaries to Members of this House and who use this House as their office?—No; a certain amount of accommodation is provided for Members' secretaries, but that would be available equally for the secretaries of all Members.

1139. Could you tell me whether the people who exercise that function are limited to any part of the House?—Yes, I think so. There is a room for the secretaries of Members, and I think their passes enable them to come into the Central Lobby.

1140. The Central Lobby?—Yes.

Sir Edmund Brocklebank.

1141. You mean the Members' Lobby?—No.

1142. Anybody can go into the Central Lobby?—They have to be accompanied.

Chairman.] Have the holders of these cards the right to occupy the corridor between the two Lobbies?—Anybody brought there by a Member can; they can only be brought there by a Member.

1143. Can they establish themselves there for hours?—There is nothing to prevent their remaining there, if they are brought by a Member.

1144. To the exclusion of the rights of other members?—No; this would apply equally to any Member or group of Members. They all have the right to bring their secretaries there.

1145. You say that you have no control over it?—No.

1146. There is no contribution for the right of using these corridors in this way?—No, it is a privilege given to Members generally.

Chairman.] Then I shall have to raise it with the Speaker of the House.

Sir Irving Albery.

1147. Might I ask Sir Gilbert if he could give us a little more explanation of the note under sub-head M: "The provision made for the retirement of the Clerk of the House proved unnecessary"?—Yes. The retiring allowance of a high official is a large sum, which has to be estimated in advance. It was thought that the late Clerk of the House was retiring in the year 1936; as a matter of fact, he did not retire till the following year, and this sum which had been estimated for him proved to be unnecessary. It does not cover the whole of that, though.

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[Continued.]

1148. The other question I wanted to ask you was under "Extra Remuneration: The Counsel to the Speaker, £1,953," which includes, I suppose his salary?—Yes.

1149. "Received pension of £547." Is that a pension granted on account of some previous service?—Yes. He used to be chief Parliamentary draftsman, and in taking this appointment, I think by a generally recognised rule, his total remuneration was made up to what he had been previously drawing.

1150. In other words, his present remuneration was made up, taking the pension into account?—Yes, to £2,500.

Mr. Benson.

1151. With regard to subhead A.1 why, in your estimates, do you include the salaries of the two Members who have not taken the oath?—The two Irish Members?

1152. Who will not take the oath and whom there is not the slightest likelihood of your having to pay?—There is no guarantee that they will not change their minds.

1153. No, but do you not frame your estimates rather upon the high probability of what you will have to spend than on the theoretical outside limit?—The aim is to avoid the necessity for an excess.

Chairman.] What is the high probability: that the Member will change his mind, or not?

Mr. Benson.

1154. I am afraid we cannot introduce high probability into political questions?—One of them might die and be succeeded.

1155. In view of the fact that they have never been paid, it seems to me to be erring on the side of caution to include their salaries in the Estimates?—Is there any harm done? Any surplus is surrendered to the Exchequer.

1156. There is no harm done, except that one likes to have an estimate as close as possible?—(Mr. Luxford.) On that, we already allow for three Members who decline salary, and if we take these two off as well, that will mean five; and any Member who declines salary is entitled to come back on the list at any time. Having allowed for three of them who decline, we thought we should not allow on the Estimate

for too many, otherwise we might get a little under. That was one of the guiding factors.

1157. I follow. With regard to the Police, what is the relative cost of the Police and Messengers or the direct servants of the House of a similar status?—(Sir Gilbert Campion.) It is very hard to establish an analogy.

1158. Cloakroom attendants, for example?—(Mr. Luxford.) I have not got the Police rates of pay.

1159. I only want it approximately; the Police rate works out at approximately £300 per man per annum?—(Sir Gilbert Campion.) £6 a week.

1160. £6 a week?—A cloakroom attendant would not be very much less, I think.

1161. The high cost of the Police, of course, is partly due to the fact that there is a very high relative pensionable liability. They retire very early?—Yes.

1162. The bulk of the policemen seem to be engaged on duties similar in calibre to those of the cloakroom attendants?—You will remember that there was a large change over to the employment of Custodians and not Police, which has meant a considerable saving, amounting to about £5,000 in a full year.

1163. But you have policemen whose job is doing nothing but opening doors to Members who can well open the doors for themselves?—That is not the sole use for which they are employed.

1164. I think there might be some further consideration whether these young powerful policemen are engaged on really necessary work?—The matter was gone into carefully a few years ago, and the Custodian service was established, which did result in a large saving.

Mr. Lathan.

1165. Just by way of information, under note D, there is a record of an increase of salary to the Editor, which appears meagre. Am I correct in assuming that that was for a limited period of the year?—Yes, just a part of the year.

1166. Under sub-head F: "Due to savings on additional cleaners", that seems a little contradictory, but it is capable of explanation, I am sure. It is savings on additional cleaners. One would have thought there would have been expenditure on them?—There are

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[Continued.]

always additional cleaners beyond those regularly employed, and there was less spent on that category of cleaners.

1167. It says: "Due to savings on additional cleaners, changes in staff and sick pay"—I think "additional" means additional cleaners to those regularly employed. (Mr. *Brittain.*)

(*Sir Gilbert Campion and Mr. Luxford withdrew.*)

TREASURY MINUTE ON PARAGRAPH 2 OF THE SECOND REPORT OF
THE COMMITTEE OF PUBLIC ACCOUNTS, 1937.

Sir KENNETH CLARK, K.C.B., and Mr. H. ISHERWOOD KAY, called in and examined.

Chairman.

1168. National Gallery Accounts. We take the Treasury Minute, please, on paragraph 2 of the Second Report. I must ask the Treasury whether they have any statement to make as to any of the results of the review which is referred to in paragraph 2?—(Mr. *Fraser.*) Yes; we have carried out a review since the Committee considered this last year, and Mr. *Brittain* will tell you the results.

1169. I shall be glad to hear it, Mr. *Brittain*?—(Mr. *Brittain.*) You will remember that in the Memorandum we circulated to the Committee last year we said that there were about 30 cases where departments had been in the habit of using cash receipts to meet cash expenditure without paying them into a bank. We said, of course, that the extent to which that was done in different cases varied considerably, and the reasons for which it was done also varied, and we promised to review this. We have been into all the cases. About one-third of them are cases where the receipts are very trifling in amount and casual in nature, and in those cases we do not really think there is any need to disturb the existing arrangements. Four large offices had been in the habit of following this practice in order to avoid drawing on the Paymaster General more often than was necessary, and those four offices have agreed now to conform to the recommendation of this Committee and in future to bank all their receipts. There are also five smaller offices, mostly Galleries and Museums, where the practice was followed because the amounts were really small and it was not thought worth while to do otherwise. In those cases, about nine in all, we are proposing that in future they shall bank all their receipts; in fact, they have

There is a separate item in the Estimates for additional cleaners, in addition to the six who are the permanent staff. There is a fluctuating margin.

Chairman.] Are there any further questions on the Account? May I take it that this Account is approved? (*Agreed.*)

begun to do so. There are about eight cases into which we have been very carefully, in which we propose that the existing practice should be retained; there are special reasons in each of them, and in those cases we have made a special examination of the controls in the departments to see that all receipts are accounted for, properly and regularly. In that connection we have been in touch with the Audit Department, who, I think I am right in saying, are satisfied in those particular cases that the arrangements are satisfactory. In about one-third of the cases, therefore, where the receipts are admittedly substantial, we should like the existing practice to continue.

1170. Thank you, Mr. *Brittain*. Have you anything to say, Sir Gilbert?—(Sir *Gilbert Upcott.*) No, Sir. As Mr. *Brittain* said, there has been communication between the Treasury Officers of accounts and my Department on certain of these cases, and I have no reason to differ from the conclusion at which the Treasury have arrived, subject, of course, to the safeguards which have been laid down being duly applied. That is a matter which will be kept in view.

Chairman.] Has any Member of the Committee any question to ask on this paragraph?

Sir *Isidore Salmon.*

1171. I would like to ask Mr. *Brittain*, who will be responsible for seeing that the regulations which you are laying down are carried out?—(Mr. *Brittain.*) The regulations are, in the first place, and primarily, the responsibility of the Department. I or my officers have been round to see what regulations had been laid down, for instance, by the Headquarters of the Prisons Commission, for

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Sir KENNETH CLARK, K.C.B.,
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[Continued.]

meeting the observations of the Committee. They are laid down by the Department, and the Department is responsible for seeing that they are carried out. Most of the cases in which we are proposing to retain the existing practice are cases in which there is an experienced and, in some cases, a fairly large accounting staff at Headquarters.

Chairman.

1172. Who will be responsible, in the case of this Gallery, for instance, for seeing that the regulation is carried out?—I think it is the Department's responsibility. (Mr. Fraser.) The Departments have accepted the responsibility in each case and particularly in this case.

Sir Isidore Salmon.

1173. On that, will there be any audit or supervision whatsoever by the Treasury or by the Comptroller and Auditor General?—(Mr. Brittain.) I think it was explained last year that, so far as the Treasury is concerned, it is not really part of our function to go round to every department and see that everything is correct there. We do come in when we are asked to come in, and, in these particular cases, for instance, when any general topic comes up, we go round and see what is happening and whether the arrangements are satisfactory. Of course, the whole of these arrangements are subject to the investigation of the Audit Department. They see from month to month what is being done, and the Audit Department helps us and the departments concerned by drawing attention to possible loopholes in the arrangements.

1174. So the Comptroller and Auditor General's Department will keep an eye on this particular operation, where it happens?—(Sir Gilbert Upcott.) Yes; I should demur to anything being said or done to infringe the responsibility of the Accounting Officer, and I am sure that the Accounting Officers and the Treasury would agree with me in that view; but the Committee last year did make a recommendation, to which we shall come later, that my officers, wherever they have the opportunity, as they will have, to observe any weakness, should draw attention to it, and that will be borne in mind.

Mr. Mabane.

1175. Mr. Brittain said that, I think, in the case of five departments it was

decided that the advantages of continuing with the practice of not paying cash receipts into the bank were deemed to outweigh the disadvantages. Could we be told in rather more detail what sort of circumstances convinced the Treasury that that system can be advantageous?—(Mr. Brittain.) Perhaps I might mention first the case of the County Courts Department, as to which we circulated to the Committee last year a special note setting out the details, where you had large amounts of money being paid in each day, both for Fines, which are public moneys, and also for sums paid into Court by Suitors. At the same time large amounts of Suitors funds in Court are being paid out. The two kinds of payments, the payments in and payments out, are never dealt with by one individual at any time.

Mr. Mabane.] Would it be too much, Mr. Chairman, for us to ask that those offices where this system is deemed to be advantageous should be put in detail before us, so that we can be quite sure that, if ever any matter arises again, we have been aware of the circumstances from the start?

Chairman.] Mr. Brittain, could you do that?

Mr. Mabane.

1176. Mr. Brittain has told us of the County Courts Department. The circumstances there might be quite different from those of other places; for myself I should like to see them in detail. Mr. Brittain said 30 cases in all had been investigated?—Yes.

1177. But I think I am right in saying that in five cases of substance it was deemed that the present system was advantageous. If it is only five, could we have details?—There are eight altogether.

Mr. Mabane.] I know, but could we have a paper?

Chairman.

1178. You could do that, could you?—We should be quite happy to send you an outline of the procedure; the circumstances are different in each case, and the County Courts were just the first on the list.

Mr. Mabane.

1179. Last year it seemed to some of us that the trouble had arisen on account of some laxity in vouching. You

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[Continued.]

will remember there was a roll of tickets, and these tickets had to be torn off against payment, and the rolls of tickets were not presented as vouchers, as appeared to us to be proper. Has that aspect of the system been examined, namely, the vouching of the cash receipts, or is it still being taken, as was taken in the case of the National Gallery, that, if some officer says the money has been received, his *ipse dixit* is taken as sufficient evidence that the money has been received, without any voucher?—I think that is really a matter for Sir Gilbert Upcott. (Sir *Gilbert Upcott*.) I do not recollect the case of the roll of tickets to which you have referred. The trouble with the National Gallery arose with the turnstile receipts.

1180. Some figure was registered on the turnstile and, so far as I recollect, no effort was taken to secure that the register of the turnstile (I thought it was probably tickets) agreed with the cash receipts?—The real trouble arose from the fact that the accountant kept the receipts and drew more money than he needed for payment of wages, and therefore had a balance which he put in his pocket; that is the way in which the trouble arose.

1181. The vouchers were not, in effect, checked?—Arrangements are now being made for duly paying in the receipts, which will prevent the trouble which occurred in that year?—(Mr. *Brittain*.) I think I can assure you, Sir, that the vouching for receipts, or rather seeing that an officer does account for everything he receives, is one of the most difficult sides of this matter. It is not really affected by the question of paying receipts into a bank or not. It does not make any difference whether he uses it for cash expenditure or pays it into a bank, if he does not account for some of it at all.

1182. I know, but nevertheless it is much easier for an officer to fall into error if his vouchers are not being checked?—I entirely agree. (Sir *Gilbert Upcott*.) The trouble which really arose in the National Gallery case was the delay in rendering the accounts, which enabled the defalcations to go on for a long while without being discovered.

Mr. *Lathan*.

1183. Last year there seemed to have been some dubiety in regard to the

responsibility for satisfactory arrangements. I gather that the inquiry which the Treasury has made, and the examination of the Accounting Officer, has adjusted the difficulty in that direction now. (Sir *Kenneth Clark*.) I believe so, Sir, if that question is addressed to me.

1184. Cannot you tell the Committee something more definite than that?—(Mr. *Fraser*.) The Treasury have had completely satisfactory assurances from the Gallery on those points.

1185. The question did arise as to the responsibility which fell on Sir Kenneth and the Accounting Officer or the accountant there. There seems to have been some dubiety in their minds as to the particular responsibility which fell on them?—(Sir *Gilbert Upcott*.) I think the review which the Committee made in their Report last year as to the respective responsibilities of the Accounting Officer and of the Treasury and of the Audit Office, made it quite clear as to what are their individual functions. I do not think there is any doubt in anybody's mind now.

1186. There is no dubiety now?—I do not think so.

Sir *Edmund Brocklebank*.

1187. Which are the eight departments in which this system is proposed to be continued?—(Mr. *Brittain*.) The Board of Control, the Prisons Departments, English and Scottish, the Mercantile Marine Offices, the Ministry of Agriculture and Fisheries, a small department of the Department of Scientific and Industrial Research, the County Courts and a very small case, one of the Colonial Office out-stations.

Chairman.

1188. I rather wish we had seen that list. It does not strike me that those are entirely watertight, so to speak?—We will be happy to put in a note, as asked, covering these individual cases. (Sir *Gilbert Upcott*.) I think it would be easier to judge if the Committee saw the cases in writing, with the reasons in each case.

Chairman.] We will not comment this afternoon; we will return to it at some other time.

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Sir KENNETH CLARK, K.C.B.,
and Mr. H. ISHERWOOD KAY.

[Continued.]

TREASURY MINUTE ON PARAGRAPH 3 OF THE SECOND REPORT OF
THE COMMITTEE OF PUBLIC ACCOUNTS, 1937.*Chairman.*

1189. Paragraph 3 refers to the supervision of accounting methods; have you anything to say on this?—(Sir *Gilbert Upcott.*) That has already been covered by the questions which have been asked. My officers have given special attention to this matter and, in certain cases, they have assisted in strengthening the methods of control. I am sure the recommendations of the Committee and the approval of the Treasury will very materially assist in that collaboration. (Mr. *Fraser.*) The Treasury Officers of Accounts' branch was strengthened last year; several visits have been paid by officers of the branch to various Departments, and these points have been discussed.

Sir Irving Albery.

1190. When we were dealing with this before, Sir Gilbert quoted the regulation in full, that if an Accounting Officer takes office during a period of account and subsequently signs accounts, etc., he should be made aware of his responsibility. The witness at that time said that no doubt he ought to have known it, but at any rate he said he

had never had his attention drawn to that regulation and apparently had never seen it. Have any steps been taken to make sure that in future all Accounting Officers taking over are made aware of their responsibility?—(Mr. *Fraser.*) Yes, that is dealt with in the Treasury Minute. They all get the book of words now.

Mr. Mabane.

1191. I wanted to ask what the formal notice was. It is referred to in paragraph 1?—We can hand in a copy of the formal letter.

1192. "Accompanied by formal notice of the extent of the responsibility which, by such appointment, is assumed by the officer concerned." I wondered whether it would be proper for us to see ourselves what that formal notice was?—We can hand in a copy of that. (Sir *Gilbert Upcott.*) I can confirm that all Accounting Officers recently appointed have been given this formal notice. (Mr. *Fraser.*) It is almost the same as is in the Treasury Minute.

Chairman: We are coming to the Treasury Minute now.

TREASURY MINUTE ON PARAGRAPHS 11 AND 12 OF THE SECOND
REPORT OF THE COMMITTEE OF PUBLIC ACCOUNTS, 1937.*Chairman.*

1193. Treasury Minute: paragraphs 11 and 12. You will notice, Sir Kenneth, that in the letter of the Treasury, the last sentence but one, these words occur: "My Lords cannot but concur, with regret, in this conclusion and They would be glad to be assured that the necessary steps have been taken to ensure such supervision in the future." I take it that steps have been taken, Sir Kenneth?—(Sir *Kenneth Clark.*) Yes, steps have been taken, Sir, that is to say, both the Keeper and myself make surprise checks of cash from time to time. I think those surprise checks have been made, roughly speaking, once a month; some are made by the Keeper, some by myself and some by another officer of the Gallery, so I think there can be no doubt that they are fairly thorough.

1194. So really, special attention is being paid to that point?—Special attention is being paid to that point.

1195. I take it that the Treasury are satisfied on this point?—(Mr. *Fraser.*) We are quite satisfied on that point.

1196. Have you anything to say on the letter, Sir Gilbert?—(Sir *Gilbert Upcott.*) In the reply to the letter below, addressed to me, I informed the Treasury that "suitable action has been taken to reduce the interval between audits at the National Gallery in order that the examination may follow more closely on the cash transactions." The audits will now be at quarterly intervals and they are up to date, and I can assure the Committee that I am satisfied that the accounting arrangements are now satisfactory. (Mr. *Fraser.*) One of our people has been over to the National Gallery on this very point and has discussed it with Mr. Kay and we are all quite happy about the arrangements.

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Sir KENNETH CLARK, K.C.B.,
and Mr. H. ISHERWOOD KAY.

[Continued.]

TREASURY MINUTE ON PARAGRAPH 13 OF THE SECOND REPORT OF
THE COMMITTEE OF PUBLIC ACCOUNTS, 1937.

NOTE BY THE TREASURY ON ACCOUNTING ARRANGEMENTS FOR THE TATE GALLERY.

Chairman.

1197. Paragraph 13; with this we take the Treasury Note. This paper issued by the Treasury refers to some statutory provisions. Could you tell us what those statutory provisions are?—(Mr. *Fraser*.) I am not sure whether Sir Kenneth has had a copy of this paper.

1198. I am asking you?—But I think, if I may say so, he ought to see it, if he has not. (Sir *Kenneth Clark*.) No such paper has reached me. (Mr. *Fraser*.) I think we ought to have sent him one; it was by inadvertence that we did not.

1199. That is the *amende honorable*?—It was of course discussed with the Gallery.

1200. What is the statutory provision to which you are referring in that Note?—The statutory provision is the Act of 1856, 19 and 20 Victoria, Chapter 29, which enacted that: "All pictures and works of art which have already been or may hereafter be from time to time given or bequeathed to the public or to the Nation, or given or bequeathed by words showing an intention that the gift or bequest should enure to or for the benefit of the public or the Nation, shall . . . vest in and be under the care and ordering of the said Trustees and Director of the National Gallery." The Tate Gallery was created, by agreements and a deed of gift in 1893 to 1898, as a part of the National collection under the charge of the Trustees and the Director of the National Gallery.

1201. At the end of the Note there is this phrase: "The Treasury are satisfied that arrangements exist whereby the responsibility of the Accounting Officer to Parliament is fully safeguarded." What are those arrangements, may I ask?—(Mr. *Brittain*.) They mainly rely on direct consultation between the officers of the Tate Gallery and the Accounting Officer and his staff at the National Gallery. In particular we are assured that before, for instance, any new charges are proposed to be incurred by the Tate Gallery, they shall make sure that the Accounting Officer at the National Gallery knows of them and is given an opportunity of ensuring that

there are sufficient funds available, and so on. The accountant at the National Gallery keeps the Tate Gallery informed as to the amount available from time to time on the subheads which have been allocated to the Tate Gallery.

1202. Sir Kenneth, have you anything to say on that arrangement at all?—(Sir *Kenneth Clark*.) No, I cannot add anything to what the Treasury have said. The only grant which the Tate Gallery could possibly use without previous reference to me is subhead D, that is, the heading for general expenses, including framing and petty cash, and for that, of course, as to any large item, we will be consulted beforehand to find that there is sufficient money. The estimate will be sent in. The small items are furnished by the officers of the Tate Gallery, sent straight to our accountant with full details, and as to any details like a small amount for cleaning, we naturally have to rely on the Director or Assistant at the Tate Gallery. We have to take his word, as the man who has actually seen the work being done, that the work is satisfactorily done. Then the bill is received from the appropriate firm and paid direct to the firm.

1203. Did I understand you to say at the beginning of your remarks that an item like framing, and that kind of thing, is not referred to you at all?—It probably might not be referred to me. If it was a large sum, and the Director or Assistant at the Tate Gallery felt that it might exceed the amount of money at their disposal, he would naturally consult our accountant before incurring that expenditure; but, in the ordinary way, I think he must be given that much liberty to buy a frame or to have a picture cleaned without consulting me; and, of course, he will furnish the account, certified by him, for our clerk to scrutinise and to pay.

1204. I am not anxious to press the point too far, because I am sure we understand each other now, but I would like to ask this question again: You used the word "accountant." You said that reference was made to your

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[Continued.]

accountant; that means in practice, formally, at any rate, that it would be referred to you?—I used the word "accountant" wrongly. I think "clerical officer" would be the right expression; the man who keeps the accounts for the National Gallery, not our Accounting Officer.

1205. He would not give authority without your accepting responsibility?—He would not give authority without my accepting responsibility, but I, in fact, probably, cannot have seen the work done; I have to take the word of the Director of the Tate Gallery that the work has been efficiently done. It is certified, of course, by him.

1206. You are satisfied that you, as Accounting Officer, have adequate control?—Yes, I am. It cannot, of course, be first hand, personal control, but it is as near to that as can be. To escape from that control it would mean not

only forgery on the part of the Director of the Tate Gallery but collusion with the firm who were furnishing the bill.

1207. That is as safe as it can be. Have you anything to say upon this matter, Sir Gilbert?—(Sir Gilbert Upcott.) I think that, as the Statute definitely makes the Director and Trustees of the National Gallery the owners of and responsible for the management of these pictures, it is obviously correct that the Director of the National Gallery should be the Accounting Officer. No one would expect Sir Kenneth to be personally required to manage the expenditure in detail. All that is necessary is that he should be satisfied that all matters of importance are referred to him and that the regular methods of accounting and control are, in point of fact, operated by persons in whom he has confidence.

Chairman.] Are there any questions upon this item?

CIVIL APPROPRIATION ACCOUNTS, 1936.

CLASS IV.

VOTE 6.

NATIONAL GALLERY.

Chairman.] We will turn then, please, to page 173, Class IV, Vote 6, National Gallery. Are there any questions on page 173?

Sir Isidore Salmon.

1208. You have had an extra grant, have you not, from £3,500 to £5,000, Sir Kenneth?—(Sir Kenneth Clark.) Yes.

1209. That grant is voted by Parliament?—That grant is voted by Parliament for the purchase of works of art.

1210. You apply for larger grants if you find you want to make a special purchase?—We have applied in the past, I think—not in my time—to the Treasury for special grants, which, I suppose come before Parliament. Is that the case?—(Mr. Kay.) The Treasury would have to answer that. (Sir Kenneth Clark.) The Treasury would have to answer how that is done. It has certainly not been done in my time or for a large number of years. (Sir Gilbert Upcott.) About ten years ago it was done for the purchase of the Cornaro Titian and the Wilton Diptych. (Sir Kenneth Clark.) Yes. (Mr. Fraser.)

On the whole the grant is stable, because, if they save it one year, they can spend it the next.

1211. You had a grant under the heading C, Police Pensioners; you have not expended any money under that head?—(Sir Kenneth Clark.) That is explained in the notes to A. and C. at the bottom of the page. You will see that the name of "Police pensioner" at the Tate Gallery was an old fashioned system of duplicating the headings. They have now all become Warders and are paid under sub-head A. That is why we have a deficit under sub-head A of £398. We have exceeded the grant by £398, but we have, of course, not spent any of our £1,208 under sub-head C, which gives the surplus which you will notice in the last row of figures. So, as a matter of fact, the whole of the salaries now come under sub-head A. They now come under sub-head A; that is what it comes to.

Mr. Lathan.

1212. Do I gather that the responsibility for the expenditure under sub-head B falls upon you?—It falls on the

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[Continued.]

Trustees. (Sir Gilbert Upcott.) The money out of that sub-head goes into the Grant-in-Aid Account which you will get over the page.

1213. It is a contribution rather than the particular expenditure for the year under review?—(Sir Kenneth Clark.) Yes. (Sir Gilbert Upcott.) It is a fixed grant which goes into a fund which is under the discretion of the Trustees.

1214. Who are the Trustees?—(Sir Kenneth Clark.) There are ten; do you wish me to give the names of the ten?

1215. I will not press you?—Lord Balmiel is Chairman, and the senior Trustee is Sir Robert Witt, followed (I perhaps do not give them exactly in the correct order) by Sir Philip Sassoon, Mr. Ormsby-Gore, Lord Bearsted, Mr. Henry Harris, Mr. Anthony Eden, Sir William Llewellyn and Sir Evan Charteris. There is one Trustee yet to be elected, owing to the retirement of Mr. Courtauld; his vacancy has not yet been filled.

1216. Will that Trustee be appointed by the other Trustees?—No; by the Prime Minister.

Chairman.

1217. On page 174 there are one or two questions I wanted to ask. There is a Grant-in-Aid of £5,000 referred to in the Grant-in-Aid Account?—Yes.

1218. Is not the Grant-in-Aid supposed to be for immediate use?—It can be put by and saved; it can be saved as long as the Trustees think fit.

1219. I put that the wrong way. The Grant-in-Aid is there for use in case of necessity?—For use in case of necessity, yes.

1220. Why was it thought necessary or desirable to buy a long-dated stock?—It is not for me to criticise the policy, either of the Charity Commissioners or of those Members of the Board who have financial experience, in what stocks they buy; that decision was taken either by the two bodies on the advice of those Members of the Board, like Lord Bearsted, who are conversant with finance, or of the Charity Commissioners. Is not that the case, Mr. Kay?

1221. I do not ask you to criticise it, but I do ask you to try to explain it to us?—Perhaps the Keeper can explain better than I can. (Sir Gilbert Upcott.) The Charity Commissioners are only custodian Trustees. (Sir Kenneth Clark.) Yes, but their advice is taken in things like that. They advise the

Keeper or me. (Mr. Kay.) The Charity Commissioners will not actually advise as to what to buy; they will approve a suggestion. If we said "Would you object to our buying this"? they would say "No, those are quite good things to buy"; but they will not pick on what are good things to buy, so our Trustees have to decide.

1222. You have rather missed the point of my question. There is a Grant-in-Aid of X pounds which is to be available for purchases as they may immediately arise. You invest that in a long-dated stock. Then suddenly comes a need. What happens? You sell it at a loss. Should you have done that?—This is the first time there has been a loss.

Mr. Mabane.

1223. Has it been sold?—Yes. (Sir Kenneth Clark.) Yes, since the period of account. (Mr. Kay.) It is shown in here at the market value, that being less than the cost price.

1224. It does not declare here that it was sold; that is new information?—(Sir Kenneth Clark.) It has since been sold. (Mr. Kay.) The question of the investment of the Grant-in-Aid goes back beyond my time, actually. As it happens it is usually the Keeper's job to inform the Board; in fact, he is in charge of the Trust funds in the hands of the Trustees, and every time anything falls due for investment, or re-investment after maturity, he has to go to the Trustees and say "What shall I do with this money?", and they direct him. Actually, I have personally no knowledge of stocks and shares. I do not know what the difference is between a long-dated and a short-dated stock, so far as value is concerned.

Chairman.

1225. The difference is between £200 and £300 in this case?—We lost £180; the directions are from the Trustees in this respect.

1226. I quite see that you have people to advise you in this respect, but the point of principle remains, whether this Grant in Aid should be used and locked up in that way, so that when you want it it is not available, and, in order to make it available, you have to run the risk of a loss, or possibly an appreciation, true, but in this case apparently there was a loss?—There was a loss. I think I may say that we now appreciate that

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[Continued.]

it is better not to invest the Grant in Aid, and in fact, the Trustees did guarantee that for the future that should not be done.

Mr. Mabane.

1227. Following on that, these stocks had been sold to buy pictures?—Yes.

1228. To buy the recently-acquired panels?—In fact, it was in connection with that purchase.

1229. When you saved this money, was it then in contemplation that the panels should be bought?—Oh no, not when we invested the money; that was a long time before.

1230. When was this 4 per cent. Consolidated Stock bought?—It was bought in April, 1936.

1231. And at that time there was no knowledge of the panels at all?—No; we had no cognisance of their existence.

1232. Because, if you had known about them and you hoped to buy them, it would have been foolish then, clearly, to buy a long-dated stock?—Yes.

1233. And you probably would not have done it, if you had known that there was this near possibility?—That is so.

Chairman.

1234. Of course they would not?—(Sir Kenneth Clark.) I think I ought to say, if I may, about the financial dealings of the Trustees, that, of course, these investments have been made by men like Lord D'Abernon and Lord Bearsted, and, in the course of the last few years, that is to say, since 1932, the Grant-in-Aid invested has appreciated by £2,846. The only loss shown is the loss to which you have drawn attention, and, even subtracting that, the net profit on our Grant-in-Aid investment is £2,846.

1235. Our £200 has still gone?—I do agree, Sir, in principle, that it was certainly a mistake to do it, and I think we have reconsidered that policy; it has been brought up before the Trustees and we have reconsidered the policy, and in future the Grant-in-Aid is not to be invested at all.

1236. My point is the question of principle, whether the Grant-in-Aid should be invested in that way, running the risk of a loss, which has proved to be the case?—Yes.

Mr. Pethick-Lawrence.] I should like to be quite clear about this. Sir Kenneth

says the future policy is not to invest at all. That surely is rather going to the opposite extreme. What the Chairman asked was this question of long-dated securities.

Chairman.] Yes.

Mr. Pethick-Lawrence.

1237. There are securities which, owing to the early date of redemption, will still yield interest, but cannot fluctuate very largely from the price at which they were fixed. As the result of one loss happening at the end of a long series of gains, I am suggesting that it would be rather unwise, would it not, to go to the opposite extreme, in which the money would be kept in a stocking?—I feel that very strongly, and I would wish to buy short-dated securities, but the Treasury think we should not invest at all. (Mr. Brittain.) That is so. (Sir Kenneth Clark.) We have had some correspondence with the Treasury, and they feel that it is so important that public money should not be lost by what might be regarded as speculation of a very mild sort, that they would rather the money were kept in a stocking, as you say. (Mr. Fraser.) No. (Sir Kenneth Clark.) They think that it should be used by the Treasury.

1238. I should like to ask the Treasury what the policy is?—(Mr. Fraser.) Perhaps I may disentangle the two points which have arisen on this. The first is that, if you have some money to invest and you know you are going to want it, possibly not to-morrow, but in six months or a year, it is wrong to invest it in a long-dated or undated depreciable security. Supposing you are going to invest it, you should choose something short. That is agreed on all hands, I think. When Sir Gilbert Upcott drew this matter to our attention we saw that there was a further point, and that was, that this Grant-in-Aid money ought not really to be invested in the ordinary sense at all, because it is still the Exchequer's money, although the system of Grant-in-Aid is adopted to avoid a surrender at the end of the year. Therefore, we asked the Gallery, and they agreed, to come into line with all other similar Grants-in-Aid, and to keep the money with the Paymaster General until they wanted it. There is no theory that applies to an ordinary investment behind that.

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[Continued.]

Chairman.

1239. The point I was aiming at has no application to the Paymaster General?—No, none whatever.

Mr. Pethick-Lawrence.

1240. That means that the money still remains in the hands of the Exchequer?—In the hands of the Paymaster General. It is at the disposal of the National Gallery the whole time.

Sir Isidore Salmon.

1241. There may be no accretion under your system?—No.

Mr. Pethick-Lawrence.

1242. The point I want to be clear about is this; the money is not used by the National Gallery until it is required?—(Mr. Fraser.) That is right.

1243. Therefore any benefit from the possession of the money remains the benefit of the Exchequer until the time it is actually used?—Yes; the benefit the Gallery gets is that otherwise, supposing we had £5,000 voted one year and none was spent, that would have to go back, and if the Gallery wanted that money again we should have to vote £10,000 next year, and, if it was not spent that year, in order to put them on an even keel we should have to vote £15,000 the year after that, and that would be most inconvenient for everybody; therefore we have adopted the Grant-in-Aid system, but we do not feel that it follows that the National Gallery should get interest on the investment of the money. That follows the general practice and the Gallery have merely come into line with the general practice.

1244. It is quite different from the case of money paid into Court?—Yes.

1245. That is not the money of the Government in any sense?—No.

1246. And in that case the Court, or whoever is responsible for the money, is allowed to invest it?—Yes, and in that case it would choose an investment the length of which was suitable to the time when the money was required.

Sir Isidore Salmon.

1247. Perhaps the Treasury could answer this better than Sir Kenneth. Is it usual that when money has been lost it is described as in the note on page 174: "The total of admission fees

collected at the National Gallery turnstile was £1,477 os. 6d. but from this has been written off a cash deficiency"?—(Sir Gilbert Upcott.) That was the case dealt with last year.

1248. I know; but is it the usual thing to deal with it under that head?—Yes, that is correctly noted in this account. The Committee were informed of it last year in order that they might be informed at once. It occurred during two years, but it substantially affects this account and therefore it appears in this note in the account.

1249. That is the explanation of the £342?—Yes, that is the formal explanation of the second one. (Mr. Brittain.) It would depend on the nature of the moneys on which the loss arose. This is a loss on account of receipts. In other cases it would fall into the account above, as an expenditure out of a subhead.

Mr. Mabane.

1250. That establishes that the whole of the deficiency was a deficiency in admission fees?—Misappropriated receipts.

1251. Not receipts, but admission fees?—Admission fees which should have been received by the Gallery.

Mr. Mabane.] Which emphasises my point about the voucher.

Mr. Benson.

1252. I gather that the Grant-in-Aid was paid in the first month of the financial year. Are there any other departments where the Grant-in-Aid is paid in the first month?—(Mr. Fraser.) That point will not arise now that the Grant-in-Aid remains with the Paymaster General.

1253. Are there any other departments where it has been the practice to pay a Grant-in-Aid in the first month of the financial year?—(Mr. Brittain.) I should think in most cases they leave it till nearer the end of the year and transfer it from the vote account to the Grant-in-Aid account rather late in the year. (Mr. Fraser.) It is a matter about which the precise arrangements vary.

Mr. Mabane.

1254. I do not understand in the Details of Receipts: "Refund of amount provided in subhead A for wages and

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[Continued.]

insurance of saleswoman"?—(Sir *Kenneth Clark*.) That is an arrangement by which the Tate Gallery pay their saleswoman. We pay the saleswoman and the money is paid back; the Keeper could explain it better than I can. It is an anomaly that has lasted on from the first establishment of the saleswoman at the post-card stall at the Tate Gallery.

Chairman.

1255. Can you explain it, Mr. Kay?—(Mr. *Kay*.) I cannot say very much more than that. It has to do with the production of the official catalogue and guide at the Tate Gallery. Years and years ago the production of those two items was regarded as a proper charge on the Vote. The Treasury agreed that the wages of one saleswoman should be charged to the Vote, the receipts accruing from the sale of the official catalogue and guide going also to the Vote.

Mr. Mabane.

1256. This is a transfer from the Tate Gallery, is it not?—Yes; then it became more involved because the Tate Gallery began to develop their publications business with the help of our Publications Fund which is not on the Vote.

1257. Clearly this saleswoman is employed either at the Tate Gallery or at the National Gallery?—She is at the Tate Gallery.

1258. Then why is her salary borne on the Vote of the National Gallery? Then you get in this item of receipts a repayment of her wages from the Tate Gallery Vote which sounds rather silly?—(Mr. *Brittain*.) This Vote covers the Tate Gallery. (Mr. *Kay*.) Yes, sub-head A covers the Tate Gallery. (Sir *Gilbert Upcott*.) This lady is paid from the Vote quite correctly, but the position is that the cost of the service for which she is responsible comes out of the publications account which is a Trust account, therefore her cost is made good to the Vote from that account.

Mr. Pethick-Lawrence.

1259. Supposing in any one year the publications sold were less, then you would not get the whole of this money back?—(Mr. *Kay*.) I do not think in any year the receipts have equalled her

salary. (Mr. *Brittain*.) I think we should hope to get the money back in any case because the ups and downs of sales of publications do not affect this account at all, but are financed out of Trust moneys in the hands of the Trustees; therefore no receipts or expenditure in connection with sales appear on the Vote. The saleswoman was placed in charge of that business and therefore they charge her salary and insurance to the business; that is why it comes in as a receipt to this Vote.

Mr. Mabane.

1260. That is to say, she sells certain publications and postcards, and so on, and they pay back her salary?—Yes.

Sir Isidore Salmon.

1261. Is there any particular reason why the attendances at both the National Gallery and the Tate Gallery have apparently fallen considerably as against the year previous?—(Sir *Kenneth Clark*.) The figures have actually risen considerably in the last two years.

1262. How is it that fees for admission to the National Gallery in 1935 realized £1,309, and the fees for admission to the National Gallery in 1936 were only £1,134?—That is explained by the £342 that was written off the Tate Gallery for the defalcations of the fraudulent accountant.

Mr. Lathan.

1263. May I take it that the item referred to under the heading of "Extra remuneration" has been transferred to the Inland Revenue or to the Estate Duty Office?—(Mr. *Kay*.) That is chargeable direct to the Estate Duty Office.

1264. I gather it is part of the terms and conditions of the employment of those concerned that they are permitted to undertake this additional work?—Yes, we have a covering Treasury authority for that. (Mr. *Fraser*.) There are general Civil Service rules as to such cases; there are limits to the amount they can be paid.

Chairman.] Are there any other questions? May I take it that this Account is approved? (*Agreed.*)

(*Sir Kenneth Clark and Mr. Kay withdrew.*)

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[Continued.]

VOTE 4.

IMPERIAL WAR MUSEUM.

Mr. L. R. BRADLEY, O.B.E., called in and examined.

Chairman.

1265. Will you tell us briefly what are the functions of the Imperial War Museum?—(Mr. Bradley.) We were founded in 1917 and established in 1920 as a memorial of the war and a place to study war history. We have a library and maps and air photographs and cinematograph films and photographs and the works of artists, and also exhibits of models and weapons and so forth, that were collected by the Army, Navy and Air Force. We are a free museum; we charge no admission.

1266. Where is it?—In Lambeth Road.

1267. Under sub-head A your expenditure is £212 16s. less than was granted. Yet down in note A there is a note which says that "new posts not filled until necessary." Does that note mean that you have more staff than is necessary?—No, Sir. During part of this year that you are reviewing the Museum was closed to the public. We removed from South Kensington to Lambeth Road and during that time two of the attendants left and while the Museum was closed I did not think it necessary to replace them.

1268. Could you tell us, Mr. Bradley, what is the special cleaning of floors at the new building that is not undertaken by His Majesty's Office of Works?—That was a sum of £10 12s. 6d.

1269. Never mind how small it was?—It was when we had finished the moving, and there was to be an opening ceremony. The floors were all new; we had new linoleum, and so forth; the exhibits had been moved across the floors and they were in a very filthy condition after the work of builders, plumbers, painters and so on, and I had to have them clean for the opening ceremony. The Office of Works said that was a thing they could not undertake; they said it was my job and the Trustees agreed that I should get some outside help for that.

1270. It was too small a job for His Majesty's Office of Works, was it?—No, Sir, I understood that the cleaning of floors in Museums is a Museum service

for which the Museum is responsible and not the Office of Works.

1271. What are these reproduction fees?—They are the copyright fees for photographs that are reproduced in newspapers or books.

1272. Have you any copyright in these matters?—The copyright is vested in the Crown. We exercise it for the Stationery Office. We are responsible for collecting the fees for the use of the photographs, of which we have about 500,000.

1273. I had a note on the estimates. On the details of receipts, your estimate was £750 and you realised £1,323?—Yes.

1274. Can you explain that difference to us?—I will try. There was for instance a certain weekly publication which used a great number of our photographs, and we had no knowledge that the publication was in view at all when the estimate was made. Actually the fees they paid to us over that year and this year have amounted to £960. That sort of thing often happens. For instance, on the death of King George V, our photographs were widely used in the same manner. We are never able to foresee those things.

Sir Isidore Salmon.

1275. Mr. Bradley, since you have moved to Lambeth have you found the public visit the Museum in larger numbers?—We have had 538,998 since we have been there, in eighteen months, as compared with over 3 million in eleven years at South Kensington. We had very large numbers indeed in the first few weeks, with the publicity over the opening, but I think on the whole we are maintaining our numbers, at least, if not increasing.

Mr. Mabane.

1276. What is a Mutoscope?—That is a penny in the slot machine. They are the things that used to be on piers and those kinds of places. We have eight of them and we have made about £2,600 profit.

Chairman.] Are there any other questions? May I take it that this Account is approved. (*Agreed.*)

(Mr. Bradley withdrew.)

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[Continued.]

CLASS VI.

VOTE 7.

OFFICE OF COMMISSIONERS OF CROWN LANDS.

(Mr. C. L. Stocks, C.B., called in and examined.)

(On this Account no questions were asked.)

CROWN LANDS ABSTRACT ACCOUNTS, 1936.

Chairman.

1277. White Paper, Crown Lands Abstract Accounts, 1936. Turn please to page 8, the Comptroller and Auditor General's Report. The first paragraph is statistical so perhaps we need not dwell upon that. Paragraph 2: in this, Mr. Stocks, there is a reference by the Comptroller and Auditor General to an exceptionally large remission of £7,250. Could you give us some explanation as to why that exceptionally large remission should have been made?—(Mr. Stocks.) That was a very special case of an important tenant in Regent Street who had a very unusual thing, a rack rent running for 80 years, which is very unusual in our experience. The rack rent, as events turned out, was very much too high, compared with current values. We stuck firm on the principle that, as regards ground rent, landlords as a rule do not abate ground rent; they leave it alone; but rack rents are different. This being a rack rent case and the rack rent being too high, he had had the premises entirely on his hands for about six years, and we agreed to remit £7,250 by £1,000 a year for seven years. We are going to re-consider the position again next year if the premises are still empty. It was giving him roughly one third off as a concession to enable him to obtain a tenant.

1278. Has it had any effect in letting the place?—He has not let it yet, I understand. He has had various approaches to it, but I do not think he has let it yet.

1279. Reading these two sub-paragraphs, one rather tends to stop a little over this question of arrears of rents. It seems to be coming up every year. Could you tell me what it increased by in the previous year? Have you the figures by you?—I have not the exact figures by me.

Sir Isidore Salmon.] £158,000 to £230,000.

Chairman.

1280. I am thinking of 1935 and 1936?—£213,000 at 31st March, 1936, and £256,000 on the 31st March last; but nearly all those arrears are Regent Street.

1281. Just a minute; we will go step by step. Can you give me the figures in the year 1935-6?—Between the 31st March, 1936, and the 31st March, 1937?

1282. Yes?—I have just given it to you. It is roughly £43,000.

Mr. Mabane.

1283. With respect, Mr. Stocks' figures do not agree with these figures?—That is at the date 31st March.

1284. There is not much difference between 31st March and 1st April. It is given here as £234,000 on the 1st April, 1936. You said there was £216,000 on the 31st March, 1936; that is an increase of £18,000 in one day?—(Sir Gilbert Upcott.) I think Mr. Stocks is comparing the figures at 31st March, 1936, with those at 31st March, 1937. (Mr. Stocks.) Yes.

1285. The Chairman asked for the figures from the 31st March, 1935, to the 31st March, 1936?—(Mr. Fraser.) It increased by £4,000 in the previous year. The previous report says "The arrears of rents and Royalties increased from £230,138 at 1st April, 1935, to £234,780 at 31st March, 1936".

1286. That is £4,000?—(Sir Gilbert Upcott.) I think you get a rather confusing picture if you lump Land Revenues and Mines all together, because the comparison between 1935 and 1936 is very much obscured by the fact that the arrears on Mines were reduced and the arrears on Land Revenues went up.

Chairman.

1287. I want, if possible, to get the arrears on rentals?—The arrears on Land Revenue rentals went up as follows: On the 31st March, 1935, they were

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[Continued.]

£200,000; on the 31st March, 1936, they were £213,000, and on the 31st March, 1937, they were £256,000. The London rental, of course, is within that and the increase in the London rental has been proportionately greater.

1288. The point I am driving at is this: This looks to me like a thing that is increasing progressively?—(Mr. Stocks.) That is why I turned to Regent Street as really it is almost entirely Regent Street; I can reassure the Committee on that. Regent Street did go up, but I am glad to say that I had a report this morning, as I wanted to see the position as it is actually up to date, and the arrears to day are £192,000 in Regent Street alone; but on that I would like to draw attention to the fact that £192,000, although it is a large sum, is not really a very alarming sum, because it does not amount to anything like half a year's rent in Regent Street. We get £500,000 a year in Regent Street, and the total arrear is therefore not half a year's rent. Nearly all of it, we have no doubt, is fully recoverable. Half of it is two large cases that I mentioned to the Committee before. We have now tackled those two large cases; one of them has reduced the £39,000, which was owing, to £26,000 to-day. In the other, which is a bigger one still, £66,000, we have a regular system now, under which, every quarter, we get the full rent plus a regular instalment of arrears fixed each quarter, so that gradually that thing will be paid off.

1289. I was rather afraid the regular system was the other way about, and that they were repudiating the rents?—I quite understand that point of view, but, as a matter of fact, though we have tackled those two cases and they are now going the right way, in the other cases we have given notice to everyone that unless a substantial payment off the arrears is received within a month we shall sue in the Courts for them.

1290. Let us leave the two main ones out. How many other concerns does it refer to?—There are 100 tenants in the street; 71 tenants are fully paid up to date. We are convinced that the street really is, considering the times we live in, a prosperous street still.

1291. So it seemed to me?—Seventy-one tenants are fully paid up to date, so there are 29 cases in arrear, most of which are small cases. Only in six cases does the debt amount to as much as £10,000. A number of those cases, we

think, have been deliberately built up into arrear on the lines of propaganda; that is our impression.

1292. Something like a rent strike?—Exactly. Now we have written these letters to say we shall sue unless we get a substantial sum within a month, I think we shall probably go steadily ahead.

1293. I am sorry to press this point, but frankly I am uneasy about it. Are you satisfied that the outlook now is such as to justify you in anticipating that this thing will be eliminated?—The arrears—most of them. There are one or two cases where we think that the tenants are quite honestly in difficulties and we may have a certain amount of difficulty in recovering.

1294. May I ask another question, please: There are tenants who are sub-tenants of the lessees from you, are there not?—Yes, that is so.

1295. It may very well be that the tenants themselves are paying the lessees but the lessees are not paying you?—Yes, we have faced that position. In the bigger case I mentioned, where the debt is £66,000, we wrote to say we proposed to recover from the sub-tenants, and, as a result, they or their mortgagees made this arrangement which we have now, by which every quarter we get the full rent plus an instalment of the arrears.

Chairman.] That is a little more hopeful, I think.

Sir Isidore Salmon.] Mr. Stocks, the figures that you have now given are much more satisfactory. I noticed that between 1934 and 1936 there had been an increase of arrears from £158,000 to £230,000, but now you have explained that you are gradually getting those arrears in, I do not wish to press the matter any further.

Mr. Mabane.

1296. You say the arrears in Regent Street at the present time are £192,000?—Yes.

1297. They were £229,000?—Not Regent Street.

1298. That is the figure you gave to the Chairman?—Last April they were £208,000 in Regent Street.

Mr. Benson.

1299. In discussing these Regent Street rents I think it would be very much simpler if the Committee had a statement of the arrears in detail (the

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[Continued.]

large amounts), with the actual rental on which the arrears arose; for instance, that £66,000; what period of time of arrears does it represent; is it six months or 12 months?—No, that case of £66,000 is the most serious arrear of all, amounting on the average to four years' rents.

1300. That means that the rental is about £16,000?—Yes, that is right. That is because there was a winding up of an estate and we were told for a long time the estate was not yet clear and we could not get any money, so we got into arrear with that.

1301. That seems a feeble excuse. Is that a ground rent?—Yes, a ground rent.

1302. I have never heard that the devolution of an estate led to an arrear of ground rent?—We should have taken more drastic action at the time, but we were involved in negotiations with the tenants on the ground rents, and we took a generous view. We did not want to take a case to the Courts while the negotiations were in progress.

1303. What was the security for the £16,000?—The sub-tenants alone produce far more than our ground rent, and we can call upon the sub-tenants for payment.

1304. Roughly how much? Is there a rack rent of double that amount on the property?—Do you mean what the sub-tenants pay to our tenants?

1305. Yes. Your tenant is the ground landlord?—We are the ground landlord. Our tenant pays ground rent to us; our tenant rents to sub-tenants. I can only say it is a big excess above the ground rent; as to exactly how much I am afraid I have not got the figures available.

1306. Then there is even less excuse for allowing the ground rent to run into arrears for three years?—It was policy, as I was explaining. We did not like to take any case to the Courts while we had all those negotiations with the tenants as to what was to be done with the ground rents.

Chairman.

1307. When you say "policy," it was your policy?—Yes; we did not want to embitter the tenants by taking drastic action.

1308. It was not any policy of the Government?—No.

Mr. Benson.

1309. What is the ground rent in the other case which you mentioned?—That is a very big rental. The arrears represent just about a year's rent.

1310. Did you build the buildings?—No. We let the ground to people who would take building leases. These lease holders all took building leases and built the buildings.

1311. So on your £66,000 you have an enormous security?—Yes, ample security.

Mr. Benson.] If these arrears do not decrease in future we might have a detailed list of the larger amounts.

Chairman.

1312. Even now we can ask for those?—Yes, I would gladly supply a list if I may leave out the names.

Mr. Benson.

1313. Yes, certainly?—With pleasure.

1314. It is rather a question of the annual rental in relation to the amount of the arrears?—There are only six cases where it is as much as £10,000 owing.

Mr. Benson.] It is a rather big sum.

Chairman.] It sounds big to me.

Mr. Benson.

1315. I should have thought any arrear over £1,000 was worth noting?—I will send in a list.

Mr. Lathan.

1316. I gather you said you were exercising influence on the sub-tenants in order to persuade the lessee to meet his or their responsibility?—No, we told the lessee that if he did not pay up his arrears quickly we would exercise our legal right to tell the sub-tenants that they must pay their rent direct to us; we have that right under law.

Mr. Benson.

1317. You have the even greater right that you can take possession of the building?—Yes, but we would rather get the rent; we do not want the building on our hands.

1318. Not if it produces an enormous rent?—We came to the conclusion that it would be better to go to the sub-tenant direct.

Mr. Benson.] That is taking charge of the building.

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[Continued.]

Mr. Lathan.

1319. That is part of the agreement, that you have a right to go to the sub-tenant?—Yes.

1320. Is it not part of your right to enter into possession or to invalidate the lease?—If necessary, but probably the mortgagees would come in first. All these buildings are mortgaged; probably the mortgagees would come in and pay us our ground rent, letting the building.

1321. Are the lessees people who erected the buildings and let them without occupying them?—A certain number of cases are people who did that; they invested in buildings.

1322. That encourages the feeling that they may be making their incomes out of the money that is owing to the Crown?—Yes, that is one of the objections to arrears.

1323. Therefore, we would be justified in putting pressure upon them?—Yes, and that is why we did, at last.

1324. I think my feeling is that it should be done a little more emphatically?—We are now free and can go ahead with it.

1325. On whom rests the responsibility of determining the remission to which reference is made here?—Not remission. Arrears, do you mean?

1326. In paragraph 2 you refer to a large remission of £7,250?—That is the case of the rack rent we have dealt with. That is a different case. We made the remission with the consent of the Treasury. We put the whole case up to the Treasury, who agreed.

1327. The Treasury were consulted?—Yes.

Mr. Mabane.

1328. It would appear to me that either the rents in Regent Street are too high or else your tenants are not discharging the obligations they should? Do you agree with that?—I think some of the tenants undoubtedly are not doing what they should and can do. I think that is clear.

1329. There are 29 in arrears, did you say?—Yes.

1330. Can you tell us what number out of the 29 fall within the category you have just suggested?—Who could pay without any doubt whatever?

1331. Yes?—I should think roughly half of them could pay without any doubt whatever.

1332. In the case of the other half that means that the rent is too high?—

No, I think that a good many of the other half can pay gradually; they could not pay it all off, but the first lot could probably pay their arrears straight off; they are quite powerful Companies, some of them—quite well-to-do people.

1333. That is to say they could, out of their resources, whether those resources were obtained from operating on the site or not?—Yes.

1334. So your reply really has no relevance to the matter of the issue as to whether the rentals are too high or not?—No.

1335. The figure I was quoting a short time ago was, I think, the figure given by Sir Gilbert, who told us the arrears on the 31st March, 1937, were £229,000?—Not in Regent Street. (Sir Gilbert Upcott.) The London rental. (Mr. Stocks.) That is Regent Street and any other part of London; Regent Street was £208,000 last April.

1336. There is a reduction there of £16,000, is there not?—Yes.

1337. Of that reduction, is £7,250 due to the remission here mentioned in paragraph 2?—I should think so; I think that would be included.

1338. Could you discover whether that is so?—I think that is undoubtedly so. We have taken account of any remission during the year as well as of payments.

1339. That makes the reduction £11,000?—Yes.

1340. Is any part of that £11,000 due to fresh arrangements with your tenants either by way of remission or alteration of the conditions?—Yes. In that case, the biggest debt of all, £66,000, the arrangements I mentioned, by which each quarter we get a full quarter's rent, plus an instalment of arrears, came into force about six months ago, and under it we have recovered £1,300 during the six months.

1341. I think you mistake me. The gross reduction of £16,000 is reduced to £11,000 approximately?—Yes.

1342. Or, rather, to £9,000 by the remission you have made to this tenant of £7,000?—Yes.

1343. You might, without making a remission, have made another arrangement with some other tenant to reduce the rental, which would not be a remission?—There is another case; I am giving you the figures up to to-day.

1344. Perhaps it will help you if I indicate what I am after?—I think I understand; there is another case where

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[Continued.]

we have also remitted, so that not only is there £7,000 to come off as the remission, but we have, under our recent concessions to the tenants in the street, made a substantial remission of, I think it is, about £10,000, so that also has to come off.

1345. That means to say that the arrears, far from being reduced, have increased by £1,000?—There have been four new cases, three of them quite small. It is very complicated.

1346. I think it is important that we should know whether a reduction in the amount of the arrears is a real reduction or a fictitious reduction?—Yes, quite.

1347. I think the figures you have given me reveal the fact that we should be misleading ourselves if we supposed that there had been any reduction in the arrears—any real reduction?—It is a complicated case, because you get new cases coming on and old cases reduced; but the real reductions effected are in those two cases I mentioned, in which we got £1,300 by that special arrangement each quarter, as well as getting the rent, and in the other we got £13,000.

1348. Quite clearly those reductions have been offset by some other arrears in other cases?—Yes, that happens.

1349. So there is a balance of nett increase in the arrears?—Yes, it goes like that. I could read from the notes I took down; in each of the last three years, we have either cleared the arrears off altogether, or reduced the amount in a number of cases: in the first year eight, the second nine, and the third six. But each year a few new cases have been added; that is why it is complicated; one small case in 1935, five small cases in 1936 and four cases, three small, in 1937, so you have these *per contras* all the time coming in; but the total, as a result of clearing off arrears and with remissions, has been reduced, as I say, by £16,000 since last April.

1350. I am correct in saying, am I not, that, in fact, there has been no real reduction in the arrears, but there has been a real increase, if we do not take into account fresh arrangements and remissions?—If you ignore remissions, yes, but one cannot exclude remissions.

1351. I can, for the purpose of the figure I want?—Yes, I quite agree; you can put it that way; I quite agree about that.

1352. I agree, and I think you will agree, that if you were to reduce everybody's rent by half, you would work off your arrears?—Yes.

1353. But it would not be a real reduction of arrears?—That is so.

1354. And, in so far as any reduction in the arrears shows, it is a reduction of that character?—On the total that is so, but if you take the individual cases, no; in a number of individual cases we have reduced the arrears.

1355. Is there any real prospect in your mind that that real increase in arrears is likely to be arrested and, if so, why?—The increases are very small. Take the last three years; there was one small case in the first year, five small cases in the next year—I mean really small cases.

Chairman.

1356. What do you mean by "small"?—Maximum usually £1,000; and four, three of which were quite small, this year; so the additions have been very small.

Mr. Mabane.

1357. Little drops of water?—It is rather like a betting matter, but I am prepared to bet that by this time next year there will be a substantial reduction. That is the best I can say of it. I have a detailed schedule, if it interests the Committee, of exactly how it has gone over the last four years, showing each case in detail; you will see how complicated it is. (*Sir Gilbert Upcott.*) The settlement (if it is a settlement) of the dispute which was going on, was only completed last month, and it is the next 12 months which will test the question whether there is going to be an effective reduction of these arrears.

Chairman.

1358. I think it might help the Committee if you would put in a statement, Mr. Stocks?—(Mr. Stocks.) Certainly.*

1359. I do not commit my colleagues at all, but I think we are more than interested in what this statement reveals?—Yes, I can send you a copy of my schedule.

1360. I make no adverse comment at all, but I was very much interested?—May I draw attention to this, that agricultural arrears, which were £54,000 in 1934, were £36,000 in 1935, £28,000

* See Appendix 6.

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[Continued.]

in 1936, and £23,000 last April, so they are going steadily in the right direction. *Chairman.*] Paragraph 3.

Sir Isidore Salmon.

1361. It is very satisfactory to hear what Mr. Stocks has just said regarding the reduction of arrears, but, if I understand it correctly, during the current financial year you have sixteen farms now in hand?—That was the number last April, but since then we have disposed of a number, and the position to date, which may be altered at the 25th March because certain changes happen then (we never know till the last moment) is that we have now 11 in hand, plus parts of two, so we still continue to go the right way. The acreage in hand which was as big as 12,700 is, at this moment, 4,740.

Sir Isidore Salmon.] That is very satisfactory.

Mr. Benson.

1362. I see that on farms in hand you make a profit in the year?—No; those figures are just income and expenditure—a mere fluke. (*Sir Gilbert Upcott.*) Receipts and payments. (*Mr. Stocks.*) That is all; it does not mean a profit.

1363. There was a similar fluke in the previous year?—Yes.

1364. Roughly the receipts were 10 per cent. more than the payments?—Yes, but when it comes to profits we make an annual return to the Treasury, but, by arrangement, we never give the results to this Committee, because that was gone into years ago and it was decided that it was not in the public interest.

Chairman.

1365. Page 2, Receipts and Payments: Capital Account. Could you tell me why it is that you have so large a balance held at the end of March, 1937?—That was merely because nearly all that money arrived on the 31st March.

1366. The other question I want to ask on that page is, how is the Cumberland Market Rehousing Scheme progressing?—Alas, it is suspended. We consulted the Ministry of Health, and they said that with prices still up 20 per cent., it was desirable that we should suspend it.

1367. As from what date?—I reported this year; we had just made the arrangement then and we still continue to suspend it.

1368. What do you mean by "this year"?—This time last year; we had arranged with the Ministry of Health that we would suspend after the completion of the building just being opened then. We have opened one building since and now the work is suspended.

Chairman.] Are there any questions on pages 2 and 3?

Sir Isidore Salmon.

1369. As regards Cumberland Market, the building you had under contract presumably is finished now?—Yes.

1370. In the meantime you are marking time?—That is it.

1371. Are you in a position that, when it is advisable to start rebuilding, your plans will all be ready to get a move on?—We are going to have the whole thing so that we can simply go straight off the mark directly the time comes.

Mr. Benson.

1372. On the receipts side on page 2 I see "Fines on renewal of Crown leases, £8,969" and on page 4 "Fines on renewal of Crown leases, £2,500". One is in Income Account and the other in Capital Account?—Yes, when the leases are over thirty years they have to go to the Capital Account, by law. Under thirty years they go to the Revenue Account.

1373. On page 5 again under "Payments", "Repairs and Improvements: New Buildings and Permanent Improvements" are in the Income Account. What is your distinction there between a Capital and Income Account payment?—Again by our Acts all repairs and improvements to buildings have to go to the Income Account.

Chairman.

1374. Page 3; on page 4, Mr. Stocks, would you tell us something about this note that you have at the bottom of the page, "Claims abandoned with Treasury approval: in respect of sales of cattle at Windsor, £875"?—That was a most unfortunate case. We keep a herd of cattle 200 strong, always in the Great Park, and from time to time naturally we renew them. We sell and then buy. We made careful inquiries about who was the best man to deal in Highland Cattle, as these are. There was a man recommended to us. We

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[Continued.]

had two transactions with him, in both of which he paid up without any question, and he was very highly recommended. We then had this transaction, and when we asked him for payment the clerk wrote to say he was ill and would not be back in the office for three months.

1375. What clerk?—His clerk. He wrote to say he was ill and would attend to the matter as soon as he returned; he was reminded and finally it was three months before he came back. When he came back he raised the question "I only bought because I thought I was going to sell to you". The question of set-off came in; there was a dispute about that; we felt doubtful about him, told our lawyer to write to him, and he wrote back to the lawyer and said "I am sorry; there is a lawsuit on; until it is settled I cannot pay you." Still, as he was a reliable man, recommended by very high quarters indeed, we had no doubts, and it was not until the autumn (the correspondence with our lawyer started in the summer) that it was reported to us that he had absconded and gone away, and he has never been heard of since; he has been made a bankrupt in his absence.

1376. You do not always sell on credit?—I understand always.

1377. Did you have references?—Yes, he had very good references, they were unimpeachable, they were from very well-known people, and we had already dealt with him twice before without question, so we did not doubt him.

1378. A very big sum?—He had paid altogether in the two cases as much as £1,000.

1379. What steps have you taken to recover?—He has been declared a bankrupt and there are no assets.

1380. What have you to say, Mr. Comptroller and Auditor General, about that?—(Sir Gilbert Upcott.) I have no information as to his credit-worthiness at all. It seems to me rather unfortunate, perhaps, as to the possibilities of recovery, that the representative of the Crown Lands at Windsor did not report the case to headquarters until six months after the debt became due? (Mr. Stocks.) You must remember on that, that that was because of all this

allegation about ill health. He was away from business for three months.

1381. That is half the time?—Yes, but as soon as he got back there was a dispute about a set-off. He said "I only bought on the understanding that you were going to take my stuff off me."

1382. Had that ever been mentioned at all?—Yes, there had been a proposal of that kind which had dropped through the year before.

1383. Did not that make you feel a little uneasy?—We have a very efficient officer indeed at Windsor, the Deputy Ranger; he is one of the most efficient men I know, and he never had any doubts about it.

Sir Isidore Salmon.

1384. He never called the attention of the head office to it until the end of six months?—The thing happened in the autumn. I do not think we heard about it till the spring, after four months.

1385. Do not you think some instruction should be given that when accounts are outstanding beyond a certain time the attention of the head office should be called to it?—Yes, I should say that is quite right, I agree. I will discuss that with our Windsor officer; I think that is so.

Mr. Benson.

1386. I should like to know whether you got a banker's reference in connection with this man?—I do not think there was any banker's reference.

1387. What type of reference was it that you obtained, a commercial reference?—People who had dealt with him in cattle and said they had found him very satisfactory. He had been a man very well-known; he was a member of the Factors' Society in Scotland, and, at first, he was a factor to two well-known estates; then he set up in business himself and it was from then he got into trouble. He had not got enough capital, apparently.

Chairman.] Pages 5, 6 and 7. May I take it that this Account is approved? (Agreed.)

(Mr. Stocks withdrew.)

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[Continued.]

CIVIL APPROPRIATION ACCOUNTS, 1936.

CLASS II.

VOTE II.

INDIA SERVICES.

Chairman.

1388. Civil Appropriation Accounts, 1936, page xi, Class II, Vote II, India Services, "Accounting Officer". That, I think, is merely a statement of the position in respect to the Accounting Officer?—(Sir Gilbert Upcott.) It is a formal report that the permanent head

of the Department has been made Accounting Officer.

1389. That is in accord with our previous decision, is it not?—Yes.

Chairman.] Page 85, Class II, Vote II, India Services. Are there any questions? May I take it that this Account is approved? (*Agreed.*)

CLASS III.

VOTE 2.

BROADMORE CRIMINAL LUNATIC ASYLUM.

Chairman.] Class III, Vote 2, Broadmoor Criminal Lunatic Asylum.

Sir Isidore Salmon.

1390. All I would like to ask on that is, is it not a fact that the expenses appear to be high and the number of prisoners seems to be less. Is there any special reason for it?—(Mr. Fraser.)

The number of prisoners is less, I suppose, because the country is getting better.

1391. What is the cause of the expenses going up?—The expenses are very moderate per head.

1392. You think it is quite reasonable?—It is only about £80 per head.

Chairman.] May I take it that this Account is approved? (*Agreed.*)

VOTE 8.

LAND REGISTRY.

VOTE 10.

LAW CHARGES.

(On these Accounts no questions were asked.)

CLASS IV.

VOTE 2.

BRITISH MUSEUM.

Chairman.

1393. Class IV, Vote 2, British Museum, page 165. How is that catalogue progressing, Mr. Fraser?—(Mr. Fraser.) At about the same pace as before.

1394. It is still progressing, then?—It is going to take a long time. (Sir

Gilbert Upcott.) It is at about the rate of five volumes a year at the present moment. It has not by any means reached its ambition of 10 volumes a year.

Chairman.] May I take it that this Account is approved? (*Agreed.*)

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[Continued.]

VOTE 3.

BRITISH MUSEUM (NATURAL HISTORY).

Chairman.] Pages 167 and 168, Class IV, Vote 3, British Museum (Natural History).

for improving the facilities at the Reading Room?—(Mr. *Fraser.*) I should have to inquire.

Mr. *Benson.*

1395. Are any steps in contemplation

Chairman.] May I take it that this Account is approved? (*Agreed.*)

VOTE 5.

LONDON MUSEUM.

VOTE 7.

NATIONAL MARITIME MUSEUM.

(On these Accounts no questions were asked.)

TREASURY MINUTE ON PARAGRAPHS 14 AND 15 OF THE SECOND REPORT OF THE COMMITTEE OF PUBLIC ACCOUNTS, 1937.

Chairman.] Treasury Minute, paragraphs 14 and 15, National Portrait Gallery; I think this is satisfactorily concluded.

Sir *Irving Aibery.*

1396. On paragraphs 14 and 15 I would like to ask a question: In this Minute it says "it is not permissible, even in such exceptional cases, to date an order for payment with any date other than that on which the authority for payment is, in fact, given." I do not know that I understand these transactions very well; are they something like a cheque? Would it in any case bear the date of issue and signature?—(Mr. *Brittain.*) The operation has two parts; in one you write out a payable order which you send to the payee; the other operation, and the real authority for the payment, is a schedule which the Department send to the Paymaster General which gives the number of that order, the payee, and the amount. That is the authority. The date of the authority on that schedule should be the date on which it is sent to the Paymaster General.

1397. I understand from this that on that order must be the date of the authority, but is there also a date on which the actual transaction goes through?—No; the rule is that the date at the head of the payable order and at the head of the schedule which goes to the Paymaster General should be the date on which that authority is sent to the Paymaster General. In other words, you could not date the order and the

schedule on the 31st March, when you are only sending it to the Paymaster General perhaps on the 20th April.

1398. But it might be authorised, might it not, on a different date from the date when it was actually sent?—No, the authority is not given until you actually make out the schedule and send that to the Paymaster General. (Sir *Gilbert Upcott.*) The payable order ought to be sent to the recipient on the same date as the authority for payment is sent to the Paymaster General.

1399. It is taken for granted that the transaction goes forward immediately, always on the same date as the authority?—Authority for payment should be sent to the Paymaster General on the same date as the payable order is sent to the recipient.

1400. Is that always done?—I think so. We should certainly question any case in which we found that it was not done.

1401. Would that always come to your notice?—Yes, it would be apparent, as the voucher would bear a different date from the date of the authority; the payable order returned is the voucher.

1402. I do not understand these transactions; I suppose it is my ignorance and I should seek information about it, and inform myself about it before I ask any more questions?—Where a Department gives authority for the payment to be made, that is not the authority to which we refer; the authority is the schedule sent by the Department to the Paymaster General; that is the

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[Continued.]

authority for payment. The Department by issuing an instruction may authorise the payment, but the authority referred to here is the schedule sent to the Paymaster General concurrently with the order being sent to the payee. (Mr. Fraser.) The authority for the purpose of financial control is different from that under the financial machinery. (Sir Gilbert Upcott.) The order may not be cashed for some time after that date.

Mr. Pethick-Lawrence.] It is as if you wrote to the bank and said: "I have to-day written a cheque to Mr. Jones for £4,374" and on the same day you wrote to Mr. Jones sending him a cheque for that amount. As I understand it, you write to the Paymaster General, just like your bank, saying that you have to-day sent a cheque to Mr. Jones, will he kindly honour it when it comes along; it is a check on the order when it comes along.

Sir Irving Albery.

1403. I do not understand how this wording safeguards the point we were getting at, and if Mr. Pethick-Lawrence

understands it and everybody else does, I do not wish to detain the Committee, but it is a mystery to me?—(Sir Gilbert Upcott.) Mr. Pethick-Lawrence has explained it exactly.

Mr. Lathan.

1404. A general question in relation to the premises occupied by the smaller museums. They are, I believe, occasionally used for purposes other than museum purposes, that is to say, they are used for the purpose of gatherings?—(Mr. Fraser.) Yes.

1405. Is the expenditure arising on such gatherings debited to the Hospitality Fund, or is it debited to the museum?—If there was any extra identifiable expenditure it would be charged to the same source as other Hospitality expenditure.

1406. For instance, Lancaster House has been used for receptions. Lancaster House would not be open in the evening or until the early morning, normally, therefore, there must be a considerable increase in the consumption of electricity?—That would be charged to the Hospitality Fund.

CIVIL APPROPRIATION ACCOUNTS, 1936.

CLASS IV.

VOTE 8.

NATIONAL PORTRAIT GALLERY.

Chairman.

1407. Page 176, Class IV, Vote 8, National Portrait Gallery?—(Mr. Fraser.) I would like to say we have abolished sub-head C. now in accordance with a suggestion made by the Committee last year. You will find it in

this account, but you will not find it in the 1938 account.

1408. This is the last time it appears?—I beg your pardon; you will find it in this year's account but not in the account of next year.

Chairman.] May I take it that this Account is approved? (Agreed.)

VOTE 9.

WALLACE COLLECTION.

(On this Account no questions were asked.)

(The witnesses withdrew.)

(Adjourned till Tuesday next at 2.30 p.m.)

TUESDAY, 1ST MARCH, 1938.

Members present:

MR. MORGAN JONES in the Chair.

Sir Irving Albery.	Mr. Pethick-Lawrence.
Sir Edmund Brocklebank.	Sir Assheton Pownall.
Mr. Culverwell.	Sir Isidore Salmon.
Mr. Mabane.	Sir Robert Smith.

Sir GILBERT UPCOTT, K.C.B., Mr. W. R. FRASER, and Mr. H. BRITAIN, called in and examined.

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CLASS V.

VOTE II.

COMMISSIONER FOR SPECIAL AREAS (ENGLAND AND WALES).

Sir THOMAS PHILLIPS, K.C.B., K.B.E., and Mr. F. N. TRIBE, C.B., C.B.E., called in and examined.

Chairman.

1409. Civil Appropriation Accounts, 1936, Ministry of Labour, page xvi, paragraph 32. The paragraph is on the question of the Commissioner for Special Areas, England and Wales. Will you please turn over to page xvii. The last sentence there makes reference to certain special cases. Would you tell us what those special cases are which the Comptroller and Auditor General has in mind there?—(Sir *Thomas Phillips*.) The safeguards to which the Comptroller and Auditor General refers have been applied quite strictly, I think, in all cases where the amount involved was considerable for the particular item, but there were a certain number of cases where it did not seem either necessary or appropriate that procedure of that sort should be applied to what were individually quite small items. With your permission perhaps Mr. Tribe could tell you more in detail exactly what happened.

1410. Please?—(Mr. *Tribe*.) I understand the two particular cases which the Comptroller and Auditor General has in mind are the Community Centre at North Shields and one or two nursery schools. The same principle, of course, would apply to a number of other small grants we have made out of the Grant in Aid to various social organisations such as Boys' Clubs. In the case of the Community Centre at North Shields the Y.M.C.A. and a body of Trustees at Tynemouth, called the Sir James Knott

Trustees, were primarily responsible for this scheme and were finding £28,000 out of a total estimated cost of about £45,000 and the Commissioner offered the balance. The Commissioner therefore put up only a minority of the total cost of the scheme and he was satisfied that the Trustees and those who were putting up the greater part of the money were of the intention that this Community Centre, when built, should be permanently used for the purpose for which it was erected and it did not seem necessary, or even desirable, to insert any particular conditions about the possible eventual disposal of the property, partly because if such conditions had been imposed it would have meant keeping in touch with the organisation for years, perhaps 20, 30 or 40 years hence. There would be no effective sanction if they had really transgressed the conditions, except the possibility of recourse to law and if one applied that principle to all the numerous organisations of this sort, like boys' clubs and girls' clubs and that type of small scheme which we are helping, it would have meant a pretty big organisation, which, in the Commissioner's view, would not have been really justified by the expenditure involved. The Nursery Schools were in very much the same position. There the Commissioner gives a grant to a body known as the Open Air Nurseries Organisation or Association, which finds the capital cost for Nursery Schools in different areas. Generally speaking the maintenance of

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[Continued.]

these schools is secured by a promise from the Board of Education that they will recognise the schools for maintenance. That being so, it was quite clear to the Commissioner that the schools would go on, their maintenance was effectively secured, they were controlled and built by a body whose sole object was the erection of these open-air nursery schools and there seemed no possible danger that these schools having been created would ever be used for any other purpose. That being so, in these cases where the expenditure was not really considerable and where there was no effective sanction if ultimately the buildings were disposed of for some other purpose, he did not consider it necessary to insert any conditions about the ultimate disposal.

1411. Let us take the Nursery School, first of all, Mr. Tribe. Suppose at some later date (I do not mean a distant date) a Government decided to develop the Nursery School system substantially and local authorities therefore came into this business on a much more widespread scale than is now the case, it might then very well happen, might it not, that a voluntary Nursery School might feel that its task was done. What then?—The assumption would be that the local authority would take over the voluntary Nursery School and continue to run it.

1412. It might or might not; it might say "We do not like that building; we do not think it is suitable, we think we want a more modern building,"—Yes. In that case the building would presumably be sold and the money would revert to the Open Air Nurseries Association, which, by its own Articles, could only use the money on purposes laid down in its Articles of Association.

1413. But the money that the Special Commissioner has invested has gone?—Yes, except in so far as it remains with the Association. It cannot be used ultimately for any very different purpose. (Sir Thomas Phillips): If I may say so it was regarded as a matter of degree. In general, this sort of restriction and security was taken but it was thought, rightly or wrongly, in this class of case that the trouble and expense of trying to follow up and enforce these conditions, should it be necessary to enforce them, was not worth while.

1414. Let us pass from that point to the Tyne Y.M.C.A.?—(Mr. Tribe): It is

a community centre organised by the Y.M.C.A., but controlled by a body of Trustees representing all social services in the area.

1415. Did I gather aright that the local people have put in £28,000 and you have put the rest?—Yes.

1416. That is a substantial sum, is it not?—Yes.

1417. At what point do you say it is big, and at what point do you say it is small?—I do not think I said it was exactly small. We put up a matter of £17,000, the difference. That is a substantial sum for a Community Centre. It is the largest the Commissioner has ever assisted. I only meant it was small in relation to our trading estates. (Sir Thomas Phillips.) Perhaps I made the reference to small items.

1418. I am not complaining at all, but it seems to me that you are providing a substantial proportion of the sum of money?—(Mr. Tribe): Yes.

1419. Suppose that centre suddenly fell into desuetude for some reason or other, what then?—The bodies who control it would presumably sell the building for any purpose they could and would receive the money. The bodies who control it would be limited to expending the money on objects of a similar purpose and, in this case, it is a local purpose in the Special Area.

1420. Is this a fair deduction from the replies you have given in regard to those two instances I have put to you, that for all practical purposes, once you have made a grant to A., B. or C. scheme, be it a Nursery School, Y.M.C.A., Community Centre or whatever it be, you say goodbye to it?—Yes, in cases where the Commissioner is reasonably satisfied of the permanence of the scheme, and where it appears to him inappropriate to impose conditions which could not be discharged at the time the grant was made, and where the constitution of the bodies affected limits the purposes to which the finance could be put.

1421. I am afraid it is rather hard for me to follow that?—I am sorry. The three main conditions I think the Commissioner must be satisfied about are, first of all, that the scheme is likely to be permanent. In the case of the Nursery Schools, the Board of Education have recognised them for grant. Secondly, that it really is not possible

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to impose conditions which can be discharged at the time the grant is made. All we could say was that if such a thing happens in the future such and such a thing shall happen; but you cannot make it a condition on the spot that such and such an obligation must be fulfilled. Thirdly, that the constitution of the body to whom the grant is made is of such a nature that, even though the particular building is sold, the proceeds of the sale must be used for some similar purpose. (Sir *Gilbert Upcott*): In the great majority of cases there are effective safeguards. These are only a small minority of the cases. I do not suggest that they are of substantial importance but I thought it necessary to mention them because they do qualify the generality of the condition.

1422. I will not press it any further?—(Mr. *Tribe*.) In the case of certain other bodies like Social Settlements, where there is a Deed of Trust drawn up when the settlement is started, we insist that in the Deed of Trust there should be inserted clauses which do guarantee the purpose of the settlement and that any funds given to it should be used for that purpose in perpetuity.

1423. I think it would be more convenient for us to take the next paragraph as well with this; it is all the Commissioner's work. Paragraph 33, "Grants for Hospitals". Will you explain this to us, Mr. *Tribe* or Sir *Thomas Phillips*?—(Sir *Thomas Phillips*.) Do you mean the second part?

1424. Explain the system of grants for Hospitals to us?—Mr. *Tribe* had perhaps better do that. (Mr. *Tribe*.) Hospitals are of two kinds, hospitals controlled by local authorities and those controlled by voluntary bodies. This paragraph refers to the first, hospitals controlled by local authorities. In many cases those authorities are the County Councils. In the case of England and Wales, Parliament decided that no whole County should be included in the Special Areas. No whole County was classified as a Special Area. Only parts of the County. It therefore meant that if the Commissioner were to decide that in pursuance of his statutory functions of encouraging the social improvement of the areas he was to give assistance to the development of the Hospital system it was inevitable that unless he devoted his funds solely to voluntary hospitals or went out of his way to set

up hospitals himself, he would have to work through the existing controlling bodies which, in the case of large hospitals owned by local authorities, were often the County Councils. His primary consideration all along has been the provision of social services for the social improvement of the Special Areas. If the County Council was the authority responsible for the hospitals, he considered what proportion of the user of the hospital would be to the benefit of the Special Areas. He never gave a grant to the County Council in excess of the proportion of anticipated user by persons coming from the Special Areas. Further, he limited his grant to the County Council, as to local authorities in general, in accordance with their financial position. In no case, therefore, did his grant exceed the proportionate user by Special Area people but it was necessary, if the services were to be rendered, that we should give assistance to County Councils for this purpose. I think, if I may say so, it would be wrong to assume from that that any profit has in any way accrued to those parts of the County which are not in the Special Areas, because we do not normally give anything approximating to 100 per cent. grants and, further, Parliament has limited the powers of the Commissioner to giving grants in respect of works. We cannot therefore give any grants in respect of maintenance. Therefore the maintenance of these additional hospitals will fall in perpetuity on the County rates and will therefore be spread equally over the Special Area and non-Special Area parts of the County.

1425. The maintenance?—Yes. Further, some of our activities have probably definitely increased the rate burden of those parts of the County which are not in the Special Areas. Take, for instance, Durham County Council and their Land Settlement Schemes. There the Durham County Council have to contribute a certain portion of the cost of the Land Settlement Schemes, but the schemes themselves are confined entirely to men from the Special Areas; that means that the general County rate has to bear part of the burden of a service which it established simply and solely for the Special Areas at the Commissioner's instigation. In so far as the Commissioner has instigated County services

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[Continued.]

generally in the interests of the Special Areas I think there is no doubt that the result has been rather to increase than to relieve the general rate burden of the County.

1426. Of the County?—Yes, including non-Special Areas as well as Special Areas.

1427. You mean both?—Yes.

1428. Therefore, to that degree, in so far as it affects the rate of the whole County, it is a benefit to the non-Special Area?—No, not a benefit; rather the contrary, because we do not give 100 per cent. grants, nor do we give anything for maintenance. In so far as the County has to put up its own money to meet either the capital cost or the cost of maintenance, it has to levy a general County rate which falls on the non-Special Areas as well as on the Special Areas.

1429. I suppose that is quite true, but suppose we cut you out for a moment, and forget your existence: A County has to erect a hospital; it will cost £X, towards which all will have to contribute. You come along and say: "Out of these funds we will provide £Y"; does not that mean that there is a consequential saving?—Yes, if you admit your first statement that the County has to provide the hospital. I am afraid our bitter experience in these areas is that, although Local Authorities ought to have provided money for these social services for many years past, they simply have not had the money to do so, and, therefore, have not done it. If it had not been for the Commissioner coming along, these hospitals would never have been provided at all.

Chairman.] I think you are right there. I think that is quite true.

Sir Irving Albery.

1430. I only wanted to ask one question on the previous paragraph. Would there have been any difficulty, in making these grants, in making the condition that, if the purpose for which the grant was made was at any time not being carried out, it could have been treated as a loan without interest, repayable if the purpose was changed?—I think it might have been done. The question was whether it was worth doing in a number of these cases. Of course the Commissioner has the power to make the grant outright or he could have made a loan. That

would have meant keeping in touch with a large number of organisations, mostly rather small, with a view to seeing that the condition of the loan was satisfied. The two particular cases mentioned, are, of course, fairly substantial, but we have done dozens (almost hundreds) of cases of little grants of £20 and £30, to enable, say, the Boy Scouts to buy a small tin hut; when it is reduced to that level it seems almost absurd. It is a question of where the line should be drawn. I think, probably, especially in view of what you have said, if we were giving this grant to the Community Centre at North Shields again, we should have inserted some condition.

Sir Isidore Salmon.

1431. Would you kindly explain with regard to paragraph 32, so far as the maintenance is concerned of either the Nursery Schools or the Community Centre, do you take any responsibility for the maintenance, or are the voluntary persons to whom you make the grant wholly responsible for maintenance?—The voluntary people who put up the scheme are responsible for maintenance. The Commissioner does not make a grant unless he is satisfied that the maintenance will be forthcoming. In the case of Social Settlements it may be that the Commissioner has said that for the first two years he may be prepared to give a small grant for maintenance to tide them over their initial period, but he has not offered any grant for maintenance after March, 1939, when the Acts are due to expire. He has not given any grant for capital cost unless he was satisfied that the maintenance would be forthcoming.

1432. As regards the grant for the Hospitals, you have dealt very fully with the case of local authorities. What happens in the case of voluntary bodies?—On the particular point raised by the Comptroller and Auditor General?

1433. I notice that: "The commitments of the Commissioner for England and Wales at 30th September, 1937, include approximately £1,780,000 for grants to local authorities and voluntary bodies towards capital expenditure on the erection or extension of hospitals"?—Yes.

1434. How much of this figure have you contributed to voluntary bodies?—As regards the item shown on the account of the Grants for Works of

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Public Utility, in the account under discussion, of that £383,000, £13,900 was for bodies other than local authorities. In the case of hospitals since then we have offered one or two fairly substantial grants for voluntary hospitals, but, on the whole, we have offered more money to local authorities' hospitals than to voluntary hospitals.

1435. In that figure that is before us, dealing purely with the account that is before us, £1,780,000 grants for hospitals, could you say roughly what was the total sum that you have given to voluntary hospitals?—(Sir Thomas Phillips.) These, of course, are commitments.

Chairman.

1436. Can you give it?—(Mr. Tribe.) Roughly speaking, the voluntary hospitals at present represent about £500,000 out of the total commitments of £2,280,000 up to the latest date.

1437. We shall get mixed up with our figures. That is not out of the £1,780,000, is it, Mr. Tribe?—I do not quite know where the £1,780,000 comes from.

1438. Sir Isidore is looking at paragraph 33?—I am sorry. That is up to the 30th September, 1937. As at the end of September, the figures are given in Command Paper No. 5595. The Commissioner's commitments then in respect of Local Authority Hospitals were £1,400,000 and voluntary hospitals £300,000.

Sir Isidore Salmon.

1439. As regards the voluntary hospitals, would the whole of that £300,000 be given towards capital account or is some of that £300,000 for maintenance grant?—I think it is all for capital account.

1440. All for capital account?—Yes.

1441. What happens for the maintenance, because as a rule one finds, when one is interested in hospitals, it is one thing to extend your hospital, the next thing is to be able to maintain the improvements that you have provided?—There again the Commissioner has not offered a grant unless he was satisfied that maintenance would be forthcoming. They have had to be content with the offer of assistance to the capital account.

1442. But in practice, have you found that the maintenance figure is forthcoming?—Of course it is too early to

say yet. In practice we have found that there is a reasonable prospect of its being forthcoming.

1443. Do I understand that your total commitments for hospitals, both voluntary and local authority, exceed the figure of £2,000,000 odd which you mentioned just now?—The figure given here up to 30th September was £1,780,000. Since then the latest figure I have got up to the end of February was £2,280,000.

1444. That includes the figure you have already mentioned of £1,780,000?—Yes.

Chairman.

1445. Did I understand, Mr. Tribe, from your answer to Sir Isidore, that you actually give nothing at all in respect of maintenance?—Nothing at all.

1446. But, in practice, does it not come to this, that an area which is very much distressed, when it has added a new wing to a hospital, is faced with a heavier burden than ever?—Yes, I quite agree, but Parliament decided that the Commissioner could not give grants to local authorities except in respect of works.

1447. Then we cannot argue it; if Parliament has said so it is the last word of wisdom on the point. Shall we turn then to the Vote, page 223. We shall have the details of this Vote on later pages. Page 223 is the summary of the Vote. Will you turn to pages 224 and 225? I do not know to whom I am to address this, but it looks to me as if you have drawn only about half of the money provided; is not that so, Sir Thomas?—(Sir Thomas Phillips.) Yes; you will find that on page 223 too, sub-head D.1.

1448. Yes, but we are taking the details now on pages 224 and 225?—I think the broad explanation of that is that, whereas commitments were entered into, actual payments did not materialise within the period to which the account relates. It does not mean at all that the money will not be spent later on. In fact, the commitments subsequently entered into are much greater, but it so happened that, for various reasons, bills were not sent in by the various bodies so as to allow payment to be made within the year.

1449. I was rather wondering whether there was some more profound explanation than that, if I may say so. If you

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look at the Special Areas Fund, for instance, there is £1,714,871 paid, is there not, at the bottom on the right-hand side?—Yes, that is right.

1450. I think there was £3,000,000 put in, was there not, in 1936?—£3,000,000. (Sir Gilbert Upcott.) That is on the left-hand side. (Sir Thomas Phillips.) Yes.

1451. Am I not right (I am speaking now outside our year of account, it is true) that in 1937 you put another £3,500,000 in?—(Mr. Fraser.) Yes.

1452. The question that arises is this; I do not mind it being there at all so long as it is being spent. Are you spending it?—(Sir Thomas Phillips.) This year, as you see, we did not spend it. The amount spent was £1,300,000 less than the estimate and that money, in the case of this particular account, remains in the account; it is not surrendered. In subsequent years the accounts have caught up much more with the commitments, and I think I can say that in the current year we are spending the estimate.

1453. There will not be very much left—no balance?—We shall be spending up to the estimate. Of course, more money can be put in by vote.

1454. But what I was driving at—forgive me for putting it in this blunt way—is that I was wondering whether you were putting a lot of stuff into the shop window, so to speak, and very few customers coming to take the stuff out?—No. The customers have promised to buy. (Mr. Fraser.) The balance on the 31st March is now getting less every year.

1455. Every year?—Yes, so the shop window is getting more in accordance with the facts every year.

Sir Isidore Salmon.

1456. On Mr. Fraser's observation, if you look at the Special Areas Fund marked B, on page 225, I notice that the balance on the 1st April, 1936, is £1,286,000 and when you look on the other side you find the balance on 31st March, 1937, is £2,263,000?—Yes, but I was speaking of what has happened since then; the balance at the end of this financial year will be very much less indeed.

Chairman.

1457. I thought you said it went down each year?—A reduction in the balance in the last two years.

1458. You did not mean that the balance was less every succeeding year?—It went up one year but the total balance now has got down to very small proportions.

1459. I want to ask a question or two upon the details of the thing. Have you anything to say upon the question of expenditure upon works of public utility. There is £383,000. Have you any observations or explanations to give of that expenditure, Mr. Tribe?—(Mr. Tribe.) Yes, sir, that £383,000, as you will see, includes £369,000 to local authorities and about £14,000 to other bodies. When Sir Malcolm Stewart was first appointed, he issued a circular to local authorities indicating that he would be prepared to make grants towards the cost of two main classes of schemes, one, the improvement of sites in such a manner as to bring increased economic or industrial value to the locality and, secondly, broadly speaking, what you may term public health services. Applications from local authorities came in fairly rapidly. In the case of health services, which constitute the largest item here, he worked very closely with the Ministry of Health who certify in each case that the work in question is urgently necessary on grounds of public health. Unless that certificate is forthcoming the Commissioner has not made grants for health services. He varies the rate of grant to the local authorities in accordance with the financial needs of the authority, after again consulting the Ministry of Health about the financial position of the authority. The items mentioned here come under a number of different headings. The biggest item of all, because it was one that could be put in hand quickest, was sewerage and sewage disposal. This sum includes £205,000 for sewerage and sewage disposal, because he found, when he was appointed, that many of the sewerage schemes in the Special Areas had got very much out of date and were urgently needing repair. The second biggest item of this is clearance and improvement of sites. After that it includes hospitals, water supplies, baths, maternity and child welfare centres, and

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a number of miscellaneous grants. All those were carried out by local authorities under the terms of the circular I mentioned. In some cases other bodies have been assisted in similar types of work with direct grants from the Commissioner. For instance on site clearance the Commissioner has entrusted a certain amount of work to the Tyne Improvement Commissioners, a statutory body not operating for profit on the Tyne. As already mentioned, he has given £5,000 in this account to voluntary hospitals; a small sum of £936 to one of these Nursery Schools; two open air baths which have been constructed by bodies other than local authorities.

1460. Was that last one, the voluntary body that provided open air baths, a business concern or what?—No, one was a Miners' Welfare Institute and the other was a body not operating for profit at Brynmawr.

1461. I know it. Will you give us some little explanation of the agricultural schemes on which you have spent £633,000 odd?—Yes.

1462. You did explain this last year?—Yes, I explained it at length.

1463. Is there anything new to report on it?—No; the scheme has been progressing. Since last year the total magnitude of the scheme in principle has been somewhat increased, but it has been going rather slowly, more slowly really than had been anticipated and we have not yet got people settled on much more than half the total number of schemes that have been approved in principle. The main thing to report, I think, since last year, is the increasing cost of the scheme owing to two factors; one is the rise in the cost of materials, which is inevitable and the second, more disconcerting, is the increasing difficulty that the bodies operating these schemes are finding in training the men for the life of an independent smallholder. The training costs are going up. They are finding that it is necessary to employ more people, wardens and sub-wardens, to train people and try to turn them away from the idea of having lived on a regular weekly income, whether it be a wage or unemployment benefit or assistance, into the life of an independent capitalist, as a smallholder is. That is proving more and more difficult, and I am afraid that it involves increases in the cost of the scheme. Therefore, the figures I gave last year would

have to be raised somewhat. The figures vary from scheme to scheme, but I am afraid that it will be necessary to put up the figure I gave of £1,250 for Land Settlement Associations schemes per family to at least £1,500 on present figures. It makes the whole scheme more and more expensive. I think that is the main thing that has happened during the year.

1464. There is one thing I do not understand, Durham Castle Preservation Fund. How does this come under your jurisdiction?—Durham Castle, as no doubt you know, stands on a high piece of land almost entirely surrounded by the River Wear. It is a very old castle and it has been in great danger of falling into the Wear. Those who have been interested in the preservation of the castle, have, in recent years, spent about £100,000 in trying to prop it up. They found increasing difficulty in a poor area like Durham in raising voluntary funds, and in 1936 they came to Sir Malcolm Stewart and said they were desperately in need of another £20,000 to complete the work. They pointed out that Durham Castle occupies almost a unique position in the social and cultural life in Durham. It is, as you know, the Castle in which the Durham University is housed, and it is, in a way, the centre of the cultural life of the whole community. He felt, therefore, that had a certain degree of value from the point of view of the social improvement of the area, but, further than that, he discovered, partly by personal investigation and visiting the hotels at Durham, that, during the summer, Durham is visited by large numbers of visitors, many from abroad and many from other parts of this country, who come to Durham primarily with a view of seeing the castle and the cathedral. These people spend a lot of money in the area and it has always been part of Sir Malcolm's view that a development of the tourist industry was certainly one of the means which he might take to improve the industrial outlook of the areas. Therefore he felt that this scheme had double value, both from the point of view of industrial development and of social improvement, and he offered to give £10,000 if the organisers of the fund would raise the remaining £10,000, and this £4,000 is part of an

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advance made during the year in question. By now, voluntary funds amounting to over £9,000 have been contributed and we have contributed similarly.

1465. We have got a very good castle in Caerphilly too?—I think we have helped to improve the approaches to that castle, though not the castle itself.

Chairman.] It seems a little unusual, but there it is.

Sir Assheton Pownall.

1466. Is it possible to say yet whether these smallholdings and group holdings and farms are likely to be put on an economic basis by the people who are running them?—You will remember at the last meeting I promised to submit a memorandum showing what proportion of the expenditure on these schemes was a loss; we put in a memorandum, which was printed and circulated, showing that approximately, of an expenditure of £1,250, some £450 was a dead loss; that the rest would be remunerative in the sense that the State would get an income on the money. Since then I am afraid the £450 would have to be raised; as I was saying just now it is difficult to give an exact figure but I am afraid at the present time the dead loss of settling one family certainly would not be less than £500.

1467. Would it not be £250 more, the difference between £1,250 and £1,500?—No, because the increased cost of feeding stuffs and poultry and the general items that come under the head of working capital, is covered by partly a loan and partly a gift from the Commissioner. The original idea was to advance £260 for working capital of which £130 was an outright gift and the balance to be repaid over a number of years free of interest. We have kept that £130 as a free gift, and the increased cost is represented by the balance which is a loan repayable, so the increased cost of materials will be repaid and will eventually fall upon the settlers. On the other hand, the increased cost of training, which I mentioned, will be part of the dead loss to the State.

1468. This sum does not bear interest, but is repayable. Is it too early yet to say what is the prospect of the great majority of these being repaid?—I think it is too early. Only a comparatively small number have now gone off their

training. For the first 18 months they are in training and are in receipt of Unemployment Assistance, and only a small number of those have gone off. Some are doing quite well and will undoubtedly repay. Others are not doing so well. I think it is impossible at this stage to form any estimate of what proportion of these settlers will be failures and what proportion will be successes.

1469. That is as regards (a): Smallholdings. Does it apply also to the other two, co-operative farms and group holdings?—Group holdings are only part-time occupations. There the repayments are being made and I think there will be no difficulty in getting most of those repayments. On those schemes we expect to be repaid something like only one-fifth of the actual advance, which is something like £20 a head. It is quite a small thing. I think we shall be repaid the proportion that is due. Co-operative farms are much larger things. They are run in Wales under the aegis of the Welsh Land Settlement Society. One has just completed its first year of working, and it has proved quite successful. I think there is no doubt that the co-operative farms ought to be in a position to pay their proper interest to the Welsh Land Settlement Society, and through them to the Commissioner. I think the prospects here are decidedly bright, as far as one can judge at present.

1470. There is one other heading: "Allotments—£7,000"?—These allotment grants are grants we give really for three different forms of assistance: One is grants to Local Authorities and Allotment Associations towards the cost of fencing, drainage and water supply on new allotments. That is an outright gift which it not returned to us at all. Secondly, capital contributions to Local Authorities towards the acquisition of land for allotments to offset the losses arising out of the low rentals that can be charged. Generally speaking, the Local Authorities have to obtain land which has approximately a building value instead of an agricultural value, and they can charge only very low rents for the allotments. We have, therefore, capitalised the anticipated loss, and made that as an outright grant. There again nothing will revert to us. The third system is a more ambitious scheme which we have rather instigated in the North-east. Various Local Authorities

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up there have started rather large allotments and we have agreed that they should be equipped with small glass houses and a tool shed. These almost approximate in a way to the group holdings, but they are administered by the Local Authority, and there we have made the Local Authority a grant based on the proportion of the anticipated loss, so that there will be nothing to come back to the Commissioner on that either.

Chairman.

1471. I am sorry; I should have asked you (because I am sure my colleagues will be interested in it) if you will say a few things about the "Advances on loan to:—(a) Trading Estate Companies; (b) North Eastern Housing Association, Limited; (c) Cumberland Training Trust"?—Yes. The Trading Estate Companies shall I take first?

1472. Yes?—At the time of this Account there were two Trading Estate Companies in existence, one in the North-east and one in South Wales. Since then the Commissioner has established a similar Company, although it is not called a Trading Estate Company, in West Cumberland. The way in which these Companies are financed is by way of loan out of the Special Areas Fund. The loan is secured by a debenture on all the assets of the Company. The arrangement with the Company is that they do not pay any interest at all on the loan for the first five years, so as to enable them to get going. After that, they have agreed that they will pay 4 per cent. interest on the moneys advanced to them, but there is a proviso in the Agreement that less than 4 per cent. or possibly nothing may be paid in any year if the Company represent to the Commissioner that they are unable to pay any interest on the loan, and if the Commissioner is satisfied that that really is the position. The Commissioner controls the general development of the Estate by means of a scheme which they submit to him, but he leaves the detailed administration entirely in the hands of the Local Boards of Directors. These Local Boards of Directors are people of standing in the area who give their services free. The Company, of course, is not run for profit, and on each Board there is a Director appointed directly by the Treasury.

1473. What is the Cumberland Training Trust?—The Cumberland Training Trust is really a very small scheme of small holdings, I think 10, at a place called Fletchertown. This did not come under our general agricultural schemes, but the Commissioner agreed to purchase the land, to give the Company a loan towards the cost of draining it, and a grant outright of £400 for the erection of piggeries. The loan here is a loan which is repayable with interest over 21 years.

Sir Robert Smith.

1474. I do not know whether any reference was made to "Grants to Schemes of Voluntary Work: Amenities Schemes"—about half way down page 224—£19,000. Reference was made to the Durham Castle Preservation Fund. Surely Amenities Schemes would almost have covered the Durham Castle Preservation Fund? Is not that an Amenity Scheme?—The important word here is "Voluntary,"—"Voluntary Work:—Amenities Schemes." Durham Castle repair is a fairly technical job and is being carried out by paid labour. These other Schemes referred to under this heading are Schemes which are put forward to the Commissioner by local bodies of unemployed men who get together and say they would like to improve the amenities of their own area. They agree to undertake the work without any pay. They, of course, continue to receive their Unemployment Assistance or Benefit, as the case may be. The Commissioner in approved cases agrees to provide the men with the necessary equipment of tools; he gives them an outfit of clothing and provides them with a mid-day meal; we also provide a certain amount of supervision of the work. With that, the men get together and carry out some local amenity, such as laying out a playing field or paddling pool for the children. There is quite a large number of these schemes going on up and down the country. The initiative lies entirely with bodies of local unemployed men; the Commissioner has not forced the movement; it is a movement which has originated with the unemployed, and they have really done wonders in many places with improving amenities, such as laying out playing fields, and so on.

1475. Who is responsible for inaugurating the Durham Castle scheme?—I think a body of Trustees operating under

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Durham University, who are the owners of the Castle.

1476. They are quite different?—Yes.

1477. In the £19,000 there is no work of the same nature as keeping up an old castle? Say there is a castle in the place, and they are working beside it; there is nothing of the same nature there?—I do not know of any, but there might be.

1478. The same heading seemed to cover both classes of work?—Yes.

1479. With regard to the Miscellaneous Grants—£8,595, is that made up of small amounts, or what is the largest individual amount there?—£2,600 of that is for certain schemes which have been organised by Lady Headlam in Durham.

1480. Would it shorten the point if I say that my point is that there is nothing of the nature of Durham Castle in that?—That is so. The details are: Employment in Rural Industries—£2,600; National Birthday Trust, £2,000 for providing foodstuffs and medical dressings for expectant mothers; one is a grant of £1,120 for Youth Hostels; and another £862 for Fairbridge Farm schools; £588 for the National Federation of Women's Institutes, which provide classes in simple cookery and food values to housewives in Durham, and £550 for a scheme for decoration of houses.

1481. You say Fairbridge Farm?—They maintain in this country certain schools to which they bring boys off the streets and maintain them in this country for a short time before they send them abroad, and we give them a grant towards the cost of maintaining children from the Special Areas pending migration abroad.

1482. With regard to the Durham Castle Scheme, seeing you are giving a 50 per cent. grant, do you make any condition as to the form of labour to be employed in doing the work? How long will the work take to do?—It has been going on about 15 months; it is nearing completion.

1483. It is not a thing that would employ a certain class of labour for a certain limited time?—We ask them, so far as possible, to give preference to local unemployed, and they are doing so. There are one or two skilled people. Groining the foundations is rather technical.

1484. Mainly they are unemployed?—They told me last time I was there they are largely taken from unemployed labourers in the area.

Sir Irving Albery.

1485. With reference to the Accounts, it does not seem to me to be quite clear from the Accounts that there is any marked distinction between the grants which have been made and will not be recovered and grants which it is hoped to recover?—(Sir Thomas Phillips.) Loans, do you mean?

1486. Some of them perhaps can hardly be called loans. Take, for instance, grants in respect of agricultural schemes; there is a note to it: "Includes grants for acquisition of capital assets secured to the Commissioner". In the same way in your description of the grants for the Land Settlement Schemes, certain amounts are repayable and certain amounts are not repayable. It is only a suggestion, but it seems to me that, from an accounting point of view, it would be better if these were accounted for separately. We should be able, for instance, at a later date to see how much in fact has been recovered of what was lent on the condition of recovery?—(Mr. Tribe.) Yes, I think that will appear, because all the recoveries received by the Commissioner have to be paid into the Special Areas Fund. Our difficulty was this, if I may explain it, that, whereas the money is a loan to a smallholder, the Commissioner did not wish, for reasons which will be appreciated, to have direct dealings with these two or three thousand smallholders. He therefore proceeded on the basis of making a grant to the body concerned, whether it was the Land Settlement Association or a County Council. That body, out of the grant they had received from the Commissioner, made loans to the settlers and the settlers repay it to them. The grant, of course, is on condition that the grant-aided body will endeavour to recover these loans and, if they do, will pay them back to the Commissioner.

1487. It does not seem to me to alter the case I was trying to make, much, because if you make a grant of £10,000 to a body on condition that £6,000 of it is spent on certain purposes and £4,000 of it is to be a loan, I do not see why even then it should not be treated in that way. When one looks at all these

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grants all the way down, a large proportion of the money is a definite grant which you do not hope to recover?—Yes.

1488. There is a considerable amount in all kinds of different categories which is not a grant; you have acquired property or the person who gets it undertakes eventually to repay, and it seems to me, from an accounting point of view, that those ought to be differently dealt with. It is only a suggestion. May I ask the Treasury if they have any view on that?—(Mr. Fraser.) I think we would like to consider that point. It is a new one to us. (Sir Thomas Phillips.) I think we could undertake to look at this in the light of what has been said and see if it is possible to distinguish in the way suggested. (Sir Gilbert Upcott.) I think I may have to come into the picture too, because I am not quite sure whether I could certify the Account if I was not in a position to know how far loans were being recovered or not. Mr. Tribe was explaining that these loans are not made by the Commissioner but by bodies to whom the Commissioner makes grants and I do not audit their accounts.

1489. But they are made to the bodies on the same conditions?—The bodies account to the Commissioner.

1490. The condition on which the money is granted to this body is that such a proportion is a loan and such a proportion is not?—I do not know in quite what form it is proposed to alter the accounts, but these bodies account to the Commissioner and I do not audit their accounts. (Mr. Fraser.) I gather the Committee want some information as to how much has gone out irrecoverably and how much may be expected back.

Chairman.] That is the idea, I take it.

Sir Irving Albery.

1491. If I may put it into words, it seems to me in the ordinary way that you deal with money in that way. If it is spent, it is spent and it goes into one account, but if you have not parted with it irrecoverably, but have lent it in some form, that you keep in a different account?—(Sir Gilbert Upcott.) This account shows quite distinctly the difference between grants and loans made by the Commissioner.

Chairman.] They will look at it; shall we leave it like that, Sir Irving?

Sir Irving Albery.] Yes.

Sir Isidore Salmon

1492. I noticed in the report of the Special Areas Commissioner that is published, Command Paper 5595, you show a summary of estimated commitments, including expenditure up to the 30th September 1937 of £12,900,000, but in making that statement would it be possible for you to tell us what are your further commitments?—(Sir Thomas Phillips.) These are the commitments up to September, 1937. You wish to know what are the commitments since that date?

1493. Yes?—(Mr. Tribe.) The Commissioner's present commitments are £14,817,000. I might say on the point that was raised at the beginning of this meeting the rate of expenditure of the Commissioner rose very considerably after March 1937 and between March 1937 and December 1937 the Commissioner's expenditure actually exceeded the increase in his commitments, which shows that we have now reached a stage at which expenditure has caught up commitments and is even exceeding it.

Chairman.

1494. Would that be mainly due to commitments in connection with the trading estates and buildings and all that kind of thing?—Partly trading estates, partly housing; there is a lot of money going into housing and hospitals and that kind of thing.

Sir Isidore Salmon.

1495. You were speaking with regard to smallholdings and said that your anticipated figure of £1,250 has been exceeded by your experience. Did you, before you went into the scheme or arrived at an estimate, have any regard to the experience and experiments of the Ministry of Agriculture, both in England and Scotland, with similar things over a period of years?—We have worked very closely in touch with the Ministry of Agriculture in England. They have actually seconded one of their officers on to my staff and he is in daily touch with the Ministry of Agriculture; we have had the advice and assistance of the Ministry of Agriculture throughout.

Sir Isidore Salmon.] You do know the unhappy position in which—

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Chairman.] I think we are now getting to matters of policy, are we not?

Sir Isidore Salmon.

1496. I do not want to touch policy. I want to call attention to this: When you arrived at your figure of £1,250 did you have before you the cost that was incurred both by the Ministry of Agriculture of England and of Scotland?—I do not think we had of Scotland. We certainly had of England, and our scheme was framed in such a way as to try to avoid some of the pitfalls into which earlier schemes had fallen.

1497. In which, unfortunately, you have been unsuccessful?—I should not like to say that.

Sir Assheton Pownall.] It is too early to say.

Sir Isidore Salmon.

1498. Speaking of agriculture you are dealing with afforestation at the present time, are you not?—Not financially. Sir Malcolm Stewart under his powers made representations to the Forestry Commission and asked that they should undertake an afforestation programme in proximity to the Special Areas and they agreed to do so, but it is borne on their Vote.

Chairman.] May I take it that this Account is approved? (*Agreed.*)

(*Mr. Tribe withdrew.*)

VOTE 8.

MINISTRY OF LABOUR.

Chairman.

1499. Page xiv, Class V, Vote 8, Ministry of Labour, paragraph 27. I think paragraph 27 is mainly narrational. Paragraph 28, "Contribution to the Unemployment Fund under Section 21 of the Unemployment Insurance Act, 1935." There is a sum of £392,000 mentioned in the last line, Sir Thomas. How does that sum, in respect of payments, compare with the estimate?—(*Sir Thomas Phillips.*) That is the amount of the contributions in respect of the agricultural scheme.

1500. Yes?—The estimate that we made of the number of persons likely to become insured under the Agricultural scheme was not reached, in fact. The numbers actually becoming insured were substantially less and therefore this figure was substantially less.

1501. Could you say how many you actually estimated for as coming under the scheme?—Our original estimate was 750,000 I think.

1502. How many actually are there of the insured agricultural population?—The original estimate was 750,000 without the private gardener. The number becoming insured was about 600,000, again without the private gardener, and we had about 100,000, or rather more, private gardeners added, so that the actual figures are rather more than 700,000 persons now.

1503. Paragraph 29, "Training of Unemployed Men." In this case you provided £1,450,000 and actually spent £634,000. Would you tell us why there is that difference?—(*Sir Gilbert Upcott.*): £634,000 was the expenditure in 1935; they expended £968,000 in 1936.

1504. I beg your pardon, that is quite right. What is the number of men trained as compared with what you expected, Sir Thomas?—(*Sir Thomas Phillips.*): I do not know that. I can get that figure for you; but the explanation can be put most simply in this way. We anticipated opening four new training centres and ten instructional centres at various dates during the year to which these figures relate. The numbers coming forward for training, however, were a good deal less than our anticipations and it was decided not to cancel the proposals but to postpone them, so that only one out of the four training centres was actually opened during the year and only three of the ten instructional centres. Most of them were opened later, but during the year they were not opened and of this saving of nearly £500,000, £270,000 was a capital saving, the remainder, of course, being maintenance.

1505. Are you satisfied that full use is being made of the facilities provided?—Yes; we have continual difficulty, particularly as regards the instructional centres, in keeping the centres full. It

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is easier to keep them full in the summer, naturally, than in the autumn and winter. You will understand that the recruitment is entirely voluntary; there is no compulsion.

1506. The second sub-paragraph refers to an accounting arrangement. I presume this matter is settled now?—(Sir Gilbert Upcott.) It was discussed last year and this records that it has been settled. (Sir Thomas Phillips.) That has been settled.

Chairman.] Are there any further questions on those paragraphs?

Sir Isidore Salmon.] Sir Thomas, having regard to the fact that there is more employment in the country, was it wise to enter into a capital expenditure and necessarily a maintenance expenditure on erecting four new centres and ten instructional centres?

Chairman.

1507. That was decided by the House?—At the time when these estimates were framed it was thought to be very necessary to expand the training system both as regards the instructional centres and training centres. When we got nearer the time we found that we were probably not going to be able to fill them at the time when they would have been ready according to programme, therefore we postponed some of them—we tapered out the programme over a longer period.

Sir Isidore Salmon.

1508. But you did not stop building? You went on building?—It is not so much building; it is a question of acquiring various sites.

1509. Very well, acquiring?—We deliberately took a longer time in acquiring the various sites and equipping them.

1510. One can quite understand that, when you originally estimated, you could only look ahead, and you might quite easily make a mistake, but having found by experience that you did not see any immediate need for them, was it necessary when you acquired the land to go on with the building of new centres?—We have since opened practically all those centres. They were not abandoned, they were only delayed.

1511. Now you have opened them, as you very rightly say, you have great difficulty in the instructional centres in filling them?—Yes.

1512. Will that mean that you will be running them at a much greater cost per person that you are handling than if you were running them at full tilt?—It necessarily means some addition to the cost per head.

Sir Isidore Salmon.] We shall have an opportunity of discussing your increased cost in a moment, so I will not touch it at this juncture.

Chairman.] Turn to page 213, Class V, Vote 8, Ministry of Labour. The summary is on page 213.

Sir Isidore Salmon.

1513. On administration your total expenditure shows an increase roughly of £240,000 odd on last year?—Yes.

1514. Is that really justified having regard to the fact that the total number of persons unemployed is so many less?—The reason for the increase in the cost of administration as compared with the year before is due to such causes as the increase in the insured population; there were certain improvements in the grading and establishment of staff: there was another thing which caused a certain amount of additional cost, in that certain members of the temporary staff were made permanent, thereby reducing the possibility of transfer from one place to another and of getting the staff precisely in the spot in which it was required. There was, of course, a substantial item in respect of agricultural insurance which was a net addition. But I should like to say, broadly, that for some years past there has been an annual increase in this administrative cost. You have to remember that it is not confined to the payment of unemployment benefit. It covers practically the whole cost of administering the employment exchanges and therefore it is very directly related to the total number of insured persons rather than to so many of them as may be drawing benefit. If you look at it from that point of view you will see that the cost, although it has gone up, has not gone up more than in proportion to the increase in the insured population.

1515. But, Sir Thomas, is it fair to say that employment and training is not included in this increase?—This does not include any charge in respect of training, but it does include the whole cost practically of the administration of the Employment Exchanges. The whole

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[Continued.]

of the salaries of all the officers employed at the Exchanges are charged to this.

1516. It always included them; there is nothing new about that?—No.

1517. The point I am trying to make is this (I want to be perfectly fair to the Department). You notice under sub-heads J to P you have the heading of "Employment and Training". I would like to know this, are the administrative staff employed in employment and training included in sub-heads A to F, "Administration"?—Certainly. (Sir Gilbert Upcott.) Central administration.

1518. Purely central administration, not local administration?—(Sir Thomas Phillips.) The whole of the staff of the Department are included under sub-head A, except the persons actually at the training centres.

1519. The teachers at the training centres, if you might call them such, are an extra charge and come under sub-heads J to P?—Yes, or sub-head M.

1520. Or sub-head M as the case may be?—Yes.

1521. You feel (because, after all, your Vote is a very large figure under sub-head A to F, "Administration") that, due regard being paid to the amount of work you have, the number of staff is not unduly large?—In my remarks I was thinking rather of the amount charged to the Unemployment Fund. Perhaps I was wrong.

1522. I am taking it from a bigger aspect; I am taking it for the whole Department?—We have thought it right in past years to improve the work both as regards the scales of salary of the staff and various other things which were intended to enable the work to be done more satisfactorily and efficiently and that has necessarily put up the cost.

1523. Therefore it does not mean necessarily that you have increased the number of units, but you have rather tried to improve the quality of the material that you are dealing with?—Yes. There has, of course, been an addition to the work in various respects too.

1524. Under sub-head M you have "Training of Unemployed Men" and there you have spent considerably less than your grant?—(Sir Gilbert Upcott.) That was the expenditure referred to in my report, paragraph 29.

1525. That, as I understand it, is primarily due to the fact that you had not the number of applicants?—(Sir Thomas Phillips.) The reason for this particular reduction was that we did not open the centres which we intended to open, and that was due to our anticipation that we should not be able to fill them in that year if we had opened them.

1526. Do you think it would be wise, or have you explored the idea that, whilst you may have those buildings necessary for training, it would be more economical and yet be equally efficient, if you closed them and kept them there for emergency rather than opening them for the sake of opening them?—As I say, in these cases we did not acquire them until later. We postponed the acquisition. We did, in fact, close one or two instructional centres where the numbers had fallen, and it was cheaper and better to close them rather than to continue. It must, of course, be a balance, when you have got an overall deficit in numbers, whether it is best to spread them over the whole number or to close one or two so as to make the others less incomplete. We bear both those things in mind.

1527. I suppose if employment were to go up and unemployment were to go down and these centres were not necessary in certain parts of the country, you would then consider the idea of concentrating rather than keeping them all open?—Yes, certainly.

Chairman.

1528. Can you tell me what is the address of that Boys' Hostel at Highgate?—I do not know whether I have the actual address. It is run by the Young Men's Christian Association. (Sir Gilbert Upcott.) It is in Hornsey Lane.

Mr. Culverwell.

1529. I want to ask a question on sub-head C, "Incidental Expenses". On the films, I think you told us last year that you have just made two films and you could not give us any opinion as to the results and publicity, and so on, that had accrued from them. Can you tell me now what has happened about them?—(Sir Thomas Phillips.) As a matter of fact, during the period covered by this account we did not make the additional films that we had intended making. That accounts for part of that saving.

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[Continued.]

1530. No? But I thought you were asked the year before regarding the expenditure on films and you informed us that it was a new venture on your part and that you could not assess the results of it. I see you have reduced your expenditure on the production of films. I wanted to know whether they had been a success or not, because you were unable to tell us the year before?—We still use the films that we have. We have three of the longer ones; one entitled "Workers and Jobs" and another "On the Way to Work", that is in connection with the training centres; and, finally, one for juveniles. I have some figures here showing that the first of those was exhibited in 141 cinemas to approximately half a million people. The second one has been shown 590 times to an approximate audience of 200,000 and the third one has been shown 440 times (this was not to the public but to parents and children) to 1,500 parents and nearly 19,000 juveniles. That is the extent to which those have been shown.

1531. When you say "shown" are they leased to cinemas or shown in private?—The first two are shown in public at a small payment by the cinemas in the ordinary way. The third one was shown in a semi-private way to parents and children and we think that they are serving a very useful purpose.

1532. Are you going on with them?—We have in mind to make some others, but they are not covered by the accounts that we have here.

Mr. Culverwell.] I did not know whether there was any reason (as you could not tell us last year because you had not had enough experience) for reducing your expenditure.

Chairman.] Page 217.

Sir Isidore Salmon.

1533. I notice under sub-head O, "Grant in Aid of the National Council of Social Service," that although last year you spent in round figures £75,000, in the year under review you asked for £150,000 and only spent £105,000. The explanation is, as I understand it, that it is due to the decrease in grants owing to improved employment?—Yes, that is the reason. The National Council did not expend the money and so did not require the grant to that extent.

1534. Do you give them a grant on any special scale?—The terms of the grants are that they should be applied to certain specified objects. There are arrangements under which applications come forward and are considered by a Committee of the Council on which we are represented and the money spent depends naturally on the need and the extent to which applications are received. (Sir Gilbert Upcott.) The Council got more money from the Commissioner for the Special Areas; they got an increased grant in the year under review for their work in the Special Areas.

Mr. Culverwell.

1535. Page 219, £1,108 16s. 4d. "Loans to Facilitate the Removal of Workers and their Dependants Not Wholly Recovered". Are those given when you transfer from a depressed area, or when you assist in transference?—(Sir Thomas Phillips.) Those would be the advances made to assist workers to move with their families from a distressed area to some other place where they are going to get work. A certain amount is given as a grant and the remainder as a loan and, in general, we do manage to recover.

1536. That is what I wanted to know really, whether there was a large proportion that you did not get back?—No, it is not, I think, a considerable amount, but some is not recovered for the sort of reason stated here; the debtor is dead; gone abroad; joined the Forces; cannot be traced; becomes unemployed; and that sort of reason.

1537. But in the great majority of cases you get the money back?—Yes.

Sir Irving Albery.

1538. On page 218 under (6) "Grant from the Unemployment Fund," the estimate was exceeded, yet, if one looks at sub-heads L.2 and M, the expenditure was in each case less than granted for reasons given in the note. I was wondering why, if the expenditure was less for the reasons stated, the actual grant received from the Unemployment Fund was bigger?—I do not know that I can answer that completely, but the grant from the Unemployment Fund to the centres covers both training centres and juvenile instructional centres, and, in the case of the training centres and instructional centres, whether a grant is made from the Fund, depends on whether the man is entitled to benefit.

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[Continued.]

If he has exhausted his benefit he does not get a grant from the Fund. That is not a charge on the Fund, so that this particular item relates to the number of such persons who went into training centres and I can only suppose that it happened that the figures were close to the estimate in that particular class of case.

1539. In other words, that those persons who were entitled to a grant from the Fund were available for training—their numbers did not decline, but that the numbers that did decline were mainly among those who were not entitled to a grant?—The numbers, at any rate, were close to the estimate.

1540. It seemed rather curious, looking at the two, because of what it says under sub-head M. "The number of men in training was substantially less than anticipated"—(Sir *Gilbert Upcott*): I think that the substantial reason for the receipts being in excess of the estimate was that in the year under review it was decided to include in recoveries overhead charges which had not been previously included.

Chairman.

1541. Page 219. Will you give us an explanation of that £50 4s. 10d. under 2. "Improper charges included in the accounts of a domestic training centre conducted by the Central Committee on Women's Training and Employment"; what are these improper charges?—(Sir *Thomas Phillips*.) This related to a Domestic Training Centre run by the Women's Central Committee. It was found that the Superintendent of that Centre had made charges for supplies of goods and certain other charges also for payment of wages which were not supported by receipts and, in fact, were apparently fraudulent. She was prosecuted. (Sir *Gilbert Upcott*.) They were not only not supported by receipts, they were supported by fictitious receipts. (Sir *Thomas Phillips*.) I should call them unsupported if they were supported by fictitious receipts. At any

rate, it was thought proper to prosecute the Superintendent. She was convicted and fined, and, of course, dismissed.

Mr. Culverwell.

1542. Could you explain a little further the £75 15s. 10d. reimbursement to the Y.W.C.A.?—That was a case where we had made arrangements to open this hostel for girls at Redditch which was to be run by the Y.W.C.A. For various reasons, owing to difficulties in acquiring possession of the premises, the opening was delayed. Meanwhile, the Y.W.C.A., in order to be ready, had engaged two members of the staff in good faith and, I think, with our knowledge.

1543. I understand that, but what rather surprised me was that it does not say "taking possession", but "difficulties in connection with the acquisition of premises." It seems rather queer to engage your staff before you had even acquired your premises?—It was the legal difficulty of actually concluding the examination of the deeds and so forth and actually taking possession; it was an unexpected delay.

Sir Robert Smith.

1544. What is the total value of the stores, tools, and equipment on which there is a deficiency of £212? I notice the note at the bottom of page 219. Have you any idea of the total value of your equipment?—It would be very considerable because they include a large number of expensive tools.

Sir Robert Smith.] That is what I wanted.

Chairman.] At various centres, not at one centre?

Sir Robert Smith.] Was this loss at one centre £212 10s.?

Chairman.

1545. "The centres," it says?—That is a total. (Mr. *Fraser*.) The collection of centres.

Chairman.] May I take it that this Account is approved? (*Agreed.*)

VOTE 10.

GRANTS IN RESPECT OF EMPLOYMENT SCHEMES.

Chairman.] Page 222, Class V, Vote 10, "Grants in Respect of Employment Schemes". Are there any questions?

Sir Irving Albery.

1546. I am afraid I do not understand what it means, "Grants in Respect of

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[Continued.]

Loan Charges". What does that mean briefly?—(Sir Thomas Phillips.) This account relates to works which were undertaken on the faith of a grant approved by the Unemployment Grants Committee some years ago. The general system was that they should be financed by a loan repayable over a number of years and the assistance took the form of a proportion of the annual interest.

1547. That is what I wanted; the £4,100,000 is all interest?—And sinking fund.

Sir Robert Smith.

1548. Is Scotland the only country that makes repayment?—The recoveries are from Scotland; there are none from anywhere else.—(Sir Gilbert Upcott.) That was the case the Committee discussed two years ago.

Sir Robert Smith.] I noticed there was one of £3,717 from Scotland and none from England, so Scotland pays up better than anywhere else.

Chairman.] Page 222; may I take it the Account is approved? (Agreed.)

UNEMPLOYMENT FUND ACCOUNTS, 1936.

Chairman.

1549. Now we take the White Paper: "Unemployment Fund Accounts, 1936", page 9, the Report of the Comptroller and Auditor General. I wonder if I could ask you, Sir Thomas, to explain shortly the principle upon which the distribution between these various Accounts is made? There are three of them: There is the Unemployment Insurance Account; then there is the Transitional Payments Account, and now there are the General and Agricultural Accounts?—(Sir Thomas Phillips.) Yes.

1550. Could you give us shortly the general principles on which the distribution is done?—Perhaps it would be simplest if I dealt first with the third one, the Transitional Payments Account. That is temporary, and I think appears for the last time in this particular Paper. It arises from the fact that before the institution of Unemployment Assistance, what were called transitional payments were made out of the Fund and repaid to the Fund by the Exchequer. Until the second appointed day under the Unemployment Assistance Scheme, the same principle was continued in relation to allowances, and the figures you have here are merely the amounts paid out of the Fund under that head during the year, and on the other side the reimbursement by the Exchequer. That came to an end at the end of this period and will not appear again. As regards the other parts, the Paper is divided into what is called the General Account and the Agricultural Account, the General Account being the Scheme which was in operation before agriculture became insured. When agriculture was insured it was decided to keep its finances separate, and therefore there is a separate Account under which all the money received in respect of agriculture is accounted for

separately, and all the money paid. That you will find on pages 4 and 5, whereas what used to be the main scheme is now called the General Account.

1551. Turn please to page 10: Could you tell me whether what is called the Beveridge Report has been made yet, Sir Thomas?—The Report for the end of December last has just been made. It was due to be made before the end of February.

1552. On paragraph 4, could you tell us briefly what this is, and whether this anomaly has now been removed?—The reference here is to the case of a man in the Forces who forfeited pay for some reason such as a period of absence. The question arose whether he was on discharge to be credited with a contribution in the normal way in respect of those periods. The Minister was advised that under the law as it then stood it was legally necessary that he should be so credited.

1553. Did you say "on discharge"?—Yes; when a man is discharged from the Forces he is credited with contributions—substantially one contribution for each week of his service; that is what it amounts to. The question was: Does that apply to a week during which he was not entitled to pay? The legal answer given to us was "Yes," under the law as it then stood.

1554. In other words, supposing a fellow deserts from the Forces for a time and is therefore not entitled to pay, can you credit him for the time he is a deserter; is that it?—Yes; there might be a case of that sort, but under the Act passed a few weeks ago, that was altered; certain improvements were made in these grants, but,

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[Continued.]

as one of the changes, it was definitely laid down that a contribution is not to be credited for a period during which a man was not entitled to pay.

1555. On paragraph 5 I have no question; then paragraph 6: Could you tell me, on that figure of £217,086, how the sum paid out compares with the expectation?—In Agriculture? It is a good deal lower than our anticipation. I do not know that I have got the exact figure here. You have to remember that it was the early part of the working of the Scheme. Under the Agricultural Scheme the rights of a claimant to benefit are proportionate to the number of contributions he has paid, and, therefore, in the early days nobody has the right to any considerable number of weeks of benefit. That would be one reason why at the start the amount of benefit paid would be less than what it would be with the same amount of unemployment later on.

1556. I suppose actually you did not really have anything very definite to go on as to how many insured persons there would be under this Act?—We found that at any rate, as regards the number, it was considerably less than we had estimated. As regards the extent of unemployment, there was very little information that we could get, and up to the present it has turned out to be a good deal less than was estimated.

1557. Paragraph 7: On this business may I take it that the Treasury sanction has been now obtained for this expenditure?—(Mr. Fraser.) Yes. (Sir Thomas Phillips.) Yes.

Sir Robert Smith.

1558. I merely wanted to ask: I notice that the cost of administration has been assessed at one-eighth of the net income from contributions, resulting in a charge of £147,349. That was a recommendation of the Unemployment Insurance Statutory Committee?—Yes.

1559. Does that meet all your costs of running or not?—We have not assessed it very accurately. It probably is at any rate not more than it would cost to run the Scheme.

1560. It is not too high?—I do not think it is an excessive charge.

1561. You have nothing that shows yet whether it is or not?—No. The arrangement is that as recommended by the Statutory Committee we should make this charge, that is, a charge of one-eighth for five years, and then see whether that is an appropriate charge.

47855

Sir Irving Albery.

1562. Mine was the same point, Sir Thomas. I was wondering if you can say at all on what basis the Committee recommended that, because it is not very much short of double the rate for the other Fund. The Administration Expenses of the bigger Fund—of course, I dare say being bigger makes some difference—are a very much less percentage?—You have to remember that the contribution for the agricultural scheme is just half the contribution for the main Scheme, and, therefore, to get the same charge per head, you have to have double the percentage for the Agricultural Scheme. I will put it in this way, that, taking the year 1937-38, the cost per head of insured population of administration for the General Scheme was 6s. 10d. You divide the whole cost by the population. For the Agricultural Scheme it was 6s. 6d.; although it is a much higher proportion of the income, it is 6s. 6d. per member in the Agricultural Scheme as compared with 6s. 10d. per member under the Main Scheme; so I do not think we are treating the Scheme unfairly.

1563. On one hand you are paying out £33,000,000 on the one Scheme and £216,000 on the other Scheme?—Yes. If you have a scheme with a comparatively low contribution income and benefit expenditure, it costs just as much in administration to pay out 10s. as 20s., but I quite agree it becomes high in proportion.

1564. You think it does not make any difference to the cost of administering the Scheme if there is a very large amount paid out to a very large number of people in the one and a comparatively small amount paid out to a comparatively small number of people in the other?—No. The Agricultural Scheme is necessarily expensive in administration because it is scattered all over the country. We have to have relatively expensive small offices in all sorts of places if we are to give the service that is proper. I quite agree that, compared with the total amount of the benefits, it is high.

Chairman.

1565. Pages 2 and 3, Unemployment Fund: General Account; pages 4 and 5, Agricultural Account; pages 6 and 7, Transitional Payments Account. Page 8: Statement of Balances. Could I ask you, Sir Thomas, how does the balance stand now?—At the end of last week the

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[Continued.]

balance in hand for both Accounts was £63,012,000.

Sir *Irving Albery*.

1566. On page 3, there is one item: "Travelling Expenses of Insured Contributors"; is that mainly on account of men who have had to go to a distance to try for employment?—Not usually to try: the arrangement is that, when a man gets a job at a distance, if he is insured, the Unemployment Fund pays

outright half the excess of the fare over 4s.

1567. What happens when he does not get the job after all?—This is a case where he gets the job, before he starts.

1568. I know of cases where a man has been sent and eventually he has not got it?—Then the money is theoretically recoverable. It depends upon the circumstances.

Chairman.] May I take it the Account is approved? (*Agreed.*)

CIVIL APPROPRIATION ACCOUNTS, 1936.

CLASS V.

VOTE 9.

UNEMPLOYMENT ALLOWANCES.

Chairman.

1569. Class V, Vote 9, page 221 of the Civil Appropriation Accounts: "Unemployment Allowances." There is a paragraph on this matter, paragraph 30. This is the last year that we shall have this appearing in the Account, is it not?—(*Sir Gilbert Upcott.*) Yes. It is formally recording its disappearance. (*Sir Thomas Phillips.*) Yes.

1570. Paragraph 31, the Revised Regulations: In what way is the increase in the scale rates regulated? Is it left, for instance, to the discretion of a Local Officer, or does the Board itself take a hand in the business and give the Local Officers instructions?—Would not that rather be a question for the Accounting Officer to the Board?

1571. You would prefer to postpone it, would you?—Just as you please.

1572. Very well; we can put it to Mr. Reid when he comes along?—I think he would be able to answer that point satisfactorily.

1573. I will keep this open so that I may ask Mr. Reid a question upon it?—Yes.

1574. Page 221: Unemployment Allowances: Are there any questions?—(*Sir Gilbert Upcott.*) The paragraph is

Chairman.] We will take the Unemployment Assistance Board.

VOTE 12.

UNEMPLOYMENT ASSISTANCE BOARD.

Mr. G. T. REID, C.B., called in and examined.

Chairman.

1577. You heard my question on that previous paragraph, paragraph 31?—(*Mr. Reid.*) I did, Sir.

1578. Could you tell me whether the question of the increase in the scale rates is a matter that is left to the discretion

written on this Vote, for which Sir Thomas Phillips accounts, because payment is made out of it. (*Sir Thomas Phillips.*) Yes, but I think last year the Accounting Officer to the Board did explain another point of that sort for the convenience of the Committee.

1575. Do you mind waiting for a minute while I take the next Vote, in case we desire to put a question to you on the point?—Certainly.

Chairman.] I will not put this Vote until the next witness comes.

Sir *Irving Albery*.

1576. In the Note it says: "The saving is due to the applications for allowances being less in number than anticipated, partially offset by an increase in the average rate of payment." I wondered if you could give us any idea, Sir Thomas, of the percentage of increase in the rate of payment?—The estimated average weekly rate was 23s. 5d. It actually turned out to be 24s.; that is the difference there. The weekly number of claimants turned out to be 599,000, as compared with an estimate of 690,000—that is 91,000 less. There were 91,000 fewer people, but they got 7d. per head more.

of the Local Officers, or does the Board itself take a hand? Do they limit or do they direct the Local Officer in any way?—The scale rates are laid down in the Regulations which have been approved by both Houses of Parliament. The Regulations which are set out in

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Mr. G. T. REID, C.B.

[Continued.]

Statutory Rules and Orders 1424 lay down scales and certain rules by which the allowances to persons who are entitled under the Act should be computed. It is true that in addition to the specific figures and the definite rules, there are certain clauses which give the Officers discretion to adjust the result according to the special circumstances of the case.

1579. The Officers in this case being the Local Officers of the Board?—The Local Officers of the Board. (Sir *Gilbert Upcott.*) That is referred to in the next sentence of my paragraph. It is in the sentence beginning: "They also continue the former provision." That is where the elasticity arises.

1580. Is that exercised, do you know, Mr. Reid, to any considerable extent?—(Mr. *Reid.*) Indeed, yes. Of course, it would not be right to leave the Committee with the idea that it is an entirely uncontrolled discretion. It is part of the function of the Board by means of instructions, written and verbal, to see that the discretion is exercised by the Local Officers reasonably and along certain lines and with reference to certain broad principles.

1581. You say along certain lines and on certain broad principles; could you tell me what the line of demarcation is and where you do draw the line between the increases in the scale rates under the Regulations and this discretionary adjustment that may be made by your Local Officers?—The circumstances differ very much. It is always difficult to generalise about special circumstances, because they

(Sir *Thomas Phillips withdrew.*)

Chairman.

1583. Page 226, Class V, Vote 12, "Unemployment Assistance Board." Could you give us the total cost of administration?—(Mr. *Reid.*) Yes; the total cost, including the provision made in the Account which you have just passed, is £4,387,000 for this year 1936-37.

1584. What was the figure Sir Ernest Strohenger gave last year?—He gave £4,099,000.

1585. Are there any further questions on page 226? Then page 228: Will you tell us what this item is: "Miscellaneous Receipts"?—That is quite a small thing. It is mainly receipts from members of the staff for the use of the telephone.

(*The witnesses withdrew.*)

(*Adjourned till Thursday at 2.30 p.m.*)

are special, but supposing one takes a case: You have got a scale rate laid down here for a man living in lodgings of 15s., but there is provision that that 15s. may be adjusted upwards or downwards, according to circumstances. The Board have given a general direction to the Officers that they should exercise that discretion pretty freely in the case of elderly men, men living alone over 55 years of age, and all the Officers take a favourable view, so to speak, of this case. That is what I mean by guided or controlled discretion. In certain matters of that kind, the Board will give directions to the Officers as to how the discretion should be exercised.

1582. Take, shall we say, a matter which is the subject of much controversy in some of these areas, as I happen to know—the increase in the cost of living, for instance: how would you deal with that?—That was another matter in regard to which the Board gave general directions to their Officers that, in certain circumstances and unless there were considerations which led them in a particular case to a contrary conclusion, they were to add something to the normal allowance to meet the additional burden due to the cost of living and to the oncoming of winter. (Sir *Gilbert Upcott.*) That was not in the year under review. (Mr. *Reid.*) No, it was done this year, by the exercise of discretion.

Chairman.] Are there any questions on that point? We can now pass on, but first let me dispose of page 221, Class V, Vote 9. May I take it that this Account is approved? (*Agreed.*)

Sir Irving Albery.

1586. Is that done in other Departments?—You mean the £220 6s. 1d.?

1587. Yes?—Yes; the Miscellaneous Items of Receipt, derived mainly from staff in payment of private telephone calls. (Sir *Gilbert Upcott.*) It is an item which, in the case of the ordinary Vote, would appear as an Appropriation-in-Aid, and in this Account it appears on the Receipts Side.

1588. How big is your staff?—(Mr. *Reid.*) Approximately 7,000.

Sir Robert Smith.] You expected 100 per cent. less.

Chairman.] Are there any further questions? May I take it the Account is approved? (*Agreed.*)

THURSDAY, 3RD MARCH, 1938.

Members present:—

Mr. MORGAN JONES in the Chair.

Sir Irving Albery.
Mr. Benson.
Sir Edmund Brocklebank.
Mr. Culverwell.
Mr. Lathan.
Mr. Mabane.

Mr. Peat.
Sir Assheton Pownall.
Sir Eugene Ramsden.
Mr. Wilfrid Roberts.
Sir Isidore Salmon.
Sir Robert Smith.

Sir GILBERT UPCOTT, K.C.B., Mr. W. R. FRASER, and Mr. H. BRITAIN called in and examined.

TREASURY MINUTE ON PARAGRAPHS 6 TO 8 OF THE FIRST REPORT OF THE COMMITTEE OF PUBLIC ACCOUNTS, 1937.

Sir ADAIR HORE, K.B.E., C.B., and Mr. R. A. LEDGARD, O.B.E., called in and examined.

Chairman.

1589. Ministry of Pensions Accounts. Turn please to the Treasury Minute dated November 8th, 1937, on the first Report of the Public Accounts Committee, 1937. Have you anything to say upon this matter for the Treasury?—(Mr. Fraser.) No, Sir, not at the moment.

1590. May I take it from this Note that the Treasury, if there were any serious expectation of a Supplementary Estimate being necessary, would present one?—Yes.

Chairman.] Are there any questions on the Minute?

CIVIL APPROPRIATION ACCOUNTS, 1936.

CLASS VIII.

VOTE 2.

MINISTRY OF PENSIONS.

Chairman.

1591. Turn to page xxvii of the Comptroller and Auditor General's Report, paragraph 55. This paragraph, Sir Adair, refers to a Pensioners' Savings Scheme. I believe it is a new venture?—(Sir Adair Hore.) Yes.

1592. Would you just give us a brief explanation of it?—It really is a development of a scheme which the Ministry started with Treasury approval about 8 or 10 years ago, by which we undertook to invest portions of the allowances payable for orphan children in such a way that when they reached the age of from 18 to 21, we could, on the advice of the local War Pensions Committee, either hand them the balance of the money or apply it in any way for their advantage. That has proved a very great advantage for the children. We then developed the same idea 2 years ago, or 1½ years ago, for disability pensioners themselves, on the ground

that as the children grew up and ceased to be of dependent age (and in fact many of them came to be earners) it would be worth the while of men who were in receipt of good wages and were at work (as the majority of disability pensioners are, I believe) to save money against their later age. We undertook, if they liked to leave the money with us instead of drawing it, to save anything up to 5s. a week in National Savings Certificates, or we would invest it in the Post Office Savings Bank or a Trustee Savings Bank as they might desire. That is briefly what has happened. At the end of the financial year which you are reviewing, the sum standing to the credit of pensioners in the fund was, I think, £45,000. I may say that the scheme was launched in August, 1936. It was at the holiday season and therefore was passed over to some extent because people wanted to spend their money in other ways. But, in fact, it grew steadily until, as I say, in March

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Sir ADAIR HORE, K.B.E., C.B., and
Mr. R. A. LEDGARD, O.B.E.

[Continued.]

the amount saved amounted to £45,000; that is the net amount after allowing for withdrawals which had taken place in the interval. Men had begun to save and found a better object at Christmas time to spend it on and withdrew certain amounts, but the net amount at that date was £45,000. I may say in passing that at Christmas last the net amount saved, after discounting withdrawals, was £104,000 for round about 10,000 pensioners.

1593. They are able to withdraw as they please, are they?—No, we discourage the use of the scheme as a Savings Bank, that is to say a bank account on which they can draw as and when they like, because, of course, that would add, if we allowed it, considerably to the cost of administration; but the object contemplated is that they shall save what they think they can spare week by week and let that accumulate so that at the age of 60 or 65 they shall have a substantial sum which they can devote to the purchase of a house, or setting up a boy in business, or, if they like, buying an annuity for themselves.

Chairman.

1594. Withdrawal in cases of absolute necessity is not forbidden, I take it?—No, in one or two cases they have withdrawn small sums, one I saw only last week drew about £5, and he said "Your scheme is admirable because it has enabled me to get a divorce."

1595. Do you get many withdrawals of that sort?—All sorts of reasons.

1596. Is the cost of administration heavy?—No; I have tried hard to get at some sort of figure, but it is extraordinarily difficult, because, although there is a small section of staff, about say a dozen, engaged in the accounting of this (and after all the accounting is fairly considerable, because of the deposits in the Post Office and the purchase of Saving Certificates and so on) the same Section deals entirely with the routine work of pensions administration for that group and after all you have got 10,000 of them. Of course, whatever the cost may be it is definitely set off by the saving to the Post Office, both on Post Office Savings Bank and National Savings Certificates, because we deal with them in lump sums; instead of their keeping an individual account, we keep the individual

account for each pensioner. They merely deal with the lump sums we put in their hands for the purchase of Savings Certificates or whatever it may be.

1597. Are you contemplating issuing accounts to the beneficiaries?—We tell every man who likes to apply, whenever he likes to apply, how much stands to his credit and we automatically pay that out if he dies, to his estate.

1598. I do not quite know how it could be done, nor indeed do I suggest it might be even desirable, but would you contemplate at some time issuing an account to Parliament to show how that stands, in a separate way?—We had not contemplated that that should be done, but it could be done perfectly easily no doubt. I may add that, as safeguarding the thing, it is under the supervision of a Board of Supervision consisting of an eminent accountant, Sir Harry Peat, who is Chairman, a representative of the British Legion, a representative of the accounting side of the Ministry, Mr. Ledgard, and of the English Legion—the British Legion at home and in Scotland separately. They see the accounts every month with the exact amount standing to the credit of the men and the exact processes of the fund in the interval since their last meeting, and they have been into the actual detailed accounting arrangements of the Pension Issue Office, which deals with each pensioner's case, and they are satisfied. But I have no doubt that if it were thought desirable at any time to present a review of the thing to Parliament that could be easily arranged.

Sir Isidore Salmon.

1599. I think everyone would agree that it is an excellent scheme. I notice the numbers are 7,849 during the year 1936. What has it grown to now in numbers?—Round about 10,000; there have been about 1,100 withdrawals, that is to say, cancellation of any further saving, apart from people who have drawn odd amounts, and the actual net figure was round about 10,000.

1600. How does the 10,000 compare with the whole number of pensioners you have: what is the percentage roughly?—You may take 10,000 on 430,000. I cannot work it out in my head at the moment, I am not a good mathematician, but that is the proportion.

3 March, 1938.]

Sir ADAIR HORE, K.B.E., C.B., and
Mr. R. A. LEDGARD, O.B.E.

[Continued.]

1601. You are hoping that it is going to grow?—It is growing, it grows every week, every day, in fact.

1602. How is it brought to the notice of pensioners?—We issued, through the Post Office, a leaflet showing the advantages of the scheme, how it would work, and what they could do and we enclosed further copies of that with each man's Pension Book together with a notice telling him "Look at this scheme. If you want to save you need not fear that your pension will be affected in any way, because the branch which looks after your savings has nothing whatever to do with the award of your pension, and in any case the pension is assessed according to disability and not according to what you can save out of it."

1603. How often do you make those statements to the pensioners?—Only when the book is issued, that is to say, up to now once a year. But, of course, the issue of Pension Books is carried on over the whole year in order that 450,000 books shall not be issued at the same time.

1604. In effect, the pensioner has notice of the scheme once a year?—Yes, that is so.

Sir Robert Smith.

1605. It is quite within your authority to set up this scheme, is it, because I think it must be admitted that although you may be able to prove that by your action another Department saves, it is a cost on your Department is it not?—It is a cost on the Department, as all benefits are a cost on the Department for the Disabled Ex-Service Men.

1606. Parliament has to provide money for that administrative cost?—Yes.

1607. Under what authority is that done; that is what I want to know. You are quite certain that you have power? It is an extra charge to your Pensions Department otherwise than was contemplated by Parliament, is it not?—No, sir. The Treasury, of course, gave us approval to the scheme as a scheme for the benefit of ex-service men, like any other provision that is made about the warrants. Every extra benefit conferred does involve a certain amount of expenditure, in clerking, and so on.

1608. Yes, that is what I mean. Are the Treasury satisfied that there is a

Statutory authority for doing this thing?—(Mr. Fraser.) I think this is quite within the general powers of the Ministry of Pensions under their Act.

Mr. Lathan.

1609. What is the purpose of the scheme? Is it to enable a pensioner to save against the period when his disability would be reduced or ceased?—No, it is to enable him to save against the period when his old age will perhaps prevent his working capacity being as good as it was and he may desire a lump sum behind him which he can convert either into an annuity for himself or his wife possibly or apply to the purchase of a house.

1610. The scheme applies more particularly to those who are partially disabled, I suppose?—It applies to the whole lot. There are plenty of men who are technically disabled under a warrant and who get a total disability pension but who are working.

1611. The need for a man who is totally disabled to save out of his disablement grant does not seem to me to be very apparent?—The British Legion will give you examples. There is one man who is a telephone operator, who is getting a disability pension and who is earning full wages.

1612. It is a little unusual, is it not?—No; Parliament decided, on the advice of the Government of the day, that physical disablement should be taken as the basis for assessment of disablement, as the only way in which you can get the like disablement compensation for men disabled in the like degree. It may be that a man's occupation is such that his particular disablement does not affect his earning capacity. I have men in the office who get 100 per cent. disablement pension and they are getting full pay as clerks; you find plenty of such cases. (Mr. Fraser.) There is a very large proportion of such people in the Civil Service as a whole. (Sir Adair Hore.) Yes.

Sir Eugene Ramsden.

1613. Has any calculation been made as to the maximum benefit that any beneficiary could possibly receive at the age of 65?—Yes; we calculated that at 5s. a week, from the age of 45, suppose he invested it for 20 years, he would get between £300 and £400.

1614. That would be really the maximum?—Yes.

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[Continued.]

Chairman.

1615. That is at 5s. a week?—Yes.
1616. One of these people who is working whole time might be able to save a lot?—Of course, that is with accumulated interest.

Sir Eugene Ramsden.

1617. Compound interest?—Yes.
1618. Five shillings is the maximum deduction that you make?—In fifteen years at five shillings a week starting at 45 he would have £240, in 20 years it would be round about £300.

1619. 5s. is the maximum deduction that you make, is it?—Yes, except for the Savings Bank; he can put more in the Savings Bank, but for his National Savings Certificates that is all he can do.

Chairman.

1620. Let us get that clear; is your reply to Sir Eugene that he can only put 5s. a week into this?—No. For instance there are some men, both officers and men, who invest the whole of their pension quite naturally. A telephone operator, as mentioned just now, does not need to keep his pension; he puts it by. He can only put 5s. a week into the National Savings Certificates, but he can put more into the Savings Bank, as he can do at any time if he goes into a Post Office and pays it across the counter.

Sir Eugene Ramsden.

1621. That is quite different from what I understood at first.—(Mr. Fraser.) The reason for the limit on the National Savings Certificates is that there is a limit of 500 on any one individual holding of Savings Certificates, and this provision in this scheme is a reflection of that.

Chairman.

1622. He can, if he likes, ask you to look after 10s. a week for him, or anything.—(Sir Adair Hore.) Yes, certainly, but he can only put 5s. a week into the National Savings Certificates.

Sir Eugene Ramsden.

1623. The rest would go into something else.—He can put it into the Post Office Savings Bank or a Trustee Savings Bank.

1624. From your point of view it does not matter whether it is 1s. or more. It does not cost you any more, does it?—No.

47855

Chairman.

1625. Turn please to page 434, Class VIII, Vote 2. The summary is on page 434. On page 435 you usually give us an estimate as to the cost of administration. Could you give us that to-day?—The cost of administration there—the actual expenditure was £717,000.

1626. I do not mean that way; you give it in a different way—so much per £1?—I beg your pardon, yes. It is 4·23d. per £1 of benefit expenditure. I have had a statement drawn out to carry out your suggestion at my hearing last year, in which you asked that we should show in parallel form the cost of administration as against the progress of the work. Perhaps I may hand it in.

1627. Thank you so much.—I have had some copies done in case other members would like them. (*Statement was handed in.*)*

1628. It is a slight increase, is it not?—Yes, a very slight increase.

1629. What is that attributable to? I suppose you cannot very well reduce the staff commensurate with the reduction of work?—That is the difficulty. Our difficulty is that to begin with our Ministry is not a normal department. You have a higher percentage of staff who are disabled ex-service men. 33 per cent. of the male staff of the Ministry are disabled ex-service men, that is to say they are pensioners, as compared with, I think, 13 per cent., which is the average of the public service. Of course, inevitably that slows down the work to some extent. You can see that reflected in the return that is made to Parliament every year of the extent of absence owing to sickness in the public service. There you see that the disabled ex-service man's record is quite naturally (and it will be more so as he grows older) higher than the average of the non ex-service man. Then again a difficulty that has affected the Ministry of Pensions in particular is that for some years after 1921, until in fact, a year ago, the volume of work was declining very rapidly. That meant, of course, that redundant staff was dispersed as best we could and largely absorbed by other departments or passed into business. But necessarily there comes a point at which you cannot disperse the staff equally with the pace at which your work is declining. It has another consequence, and that is that a larger proportion of the staff of the

* See Appendix 7.

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[Continued.]

Ministry are older men. The average age of the Ministry's Staff is older than that of other departments. I had figures got out in the last few days as far as I could. The average age of the male staff of the Ministry is 49. I took another office, the Post Office, as a large one, and the average age there is 41. The plain fact is that whereas in an ordinary normal office you are getting an outflow at one end by age and an inflow by recruitment of staff, you are not getting that in the Ministry of Pensions and you are not likely to get it for a great many years. I do not know that I can add to that.

1630. I will take the whole Vote, up to page 437. Could you tell us on Item 4, page 437, what your Ministry has to do with the administration of the Unemployment Insurance Acts. There is £1,700 there?—A sum of £1,700 is paid to my department in connection with the custody of archives at Hollinwood where what I may call the dead case papers are kept.

1631. A sort of rent that they pay you?—Yes; they keep a number of their files of old cases there—cases that are not currently in use. There are miles and miles of them if you were ever disposed to go and see them in the corridors.

Chairman.] We will go as far as page 437.

Sir Isidore Salmon.

1632. First of all I should like to thank you for the paper that you have submitted, which is very illuminating and which answers a lot of questions which one would have asked you otherwise?—It is a useful conspectus of the whole thing.

1633. The point I would like to ask is, how is it that you spent some £4,771 for the education of certain children of exceptional ability—that is on page 437, where you say that you would have paid it out of the King's Fund had the money not been hypothecated for some other purpose?—Yes.

1634. Was not the King's Fund really set up for this particular purpose?—The history of the thing is that the King's Fund, of course, was established about 1918 under the patronage of King George V and was devoted at the outset mainly to the disabled ex-service men and their reinstatement in civil life. Then that particular object was taken over by the State and the balance of it,

amounting to some £100,000, was devoted to assisting cases of distress generally. Within the past ten years Ministers of Pensions saw that the children who were growing then of an age to appreciate and to benefit from secondary education were not able to get it and they thought they might as well be helped out of the King's Fund, instead of the money being distributed in setting up men in small businesses. In the process of grants from the King's Fund, the practice has always been, where a grant was made in respect of education which was likely to run for two or three years, to hypothecate the whole amount which would be allotted to a particular child for grant, with the result that, after a certain time, it was found that the whole amount remaining in the Fund for education had been hypothecated. Rather than that that service, which had been of enormous benefit to the children, should fail, the Treasury were approached and were asked to assist by means of a Grant-in-Aid. The £4,770 represents the payment for that year out of public funds for that service. It would be in supplement of what came from the King's Fund.

1635. What is the meaning of the receipts from Ministry Institutions, the sale of produce. What produce do you sell?—In a good many of the Ministry Institutions there are vegetables, flowers, work done in the wards and in the instructional shops in the way of small tables and basket work and that sort of thing, and those are sold privately. They do not come into the market.

1636. You pay for the material or seeds and the proceeds go to the credit of the department?—Yes, that is it.

Sir Robert Smith.

1637. On this paper you handed in, Sir Adair, I notice you say that the cost per £ of benefit has risen from 4.13d. to 4.23d.?—Yes.

1638. In arriving at your 4.23d., have you taken into account the interest from the Fund you have just been talking about, this Pensions Fund, because you are doing the work for that?—No, it is not taken into account.

1639. That would rather reduce that figure, would it not?—The interest goes to the benefit of the men.

1640. But you are having the administrative cost of managing that?—Yes, but we undertake the administrative cost

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[Continued.]

of management; we do not charge it to the pensioner.

1641. I thought this was merely to show us what the administrative cost was of the Ministry of Pensions?—I see your point.

1642. With regard to the 4.23d. ought you not, in arriving at the amount you are distributing, to take the interest of the 10,000 depositors into account?—I doubt if it would make very much difference; I have not the figures.

1643. It is a point. To make your account correct, it ought to be taken in because it is a service of the Ministry of Pensions?—Yes, I would like time to consider that. It is rather a technical point.

1644. I just wanted to put it to you; it might make a difference?—I do not think the interest would amount to very much at this date, certainly not for 1936-37; it was very small.

1645. It was only that I thought I ought to point that out to you?—Yes.

Mr. Lathan.

1646. With regard to this expenditure on children of exceptional ability, how are their claims determined and by whom?—They come through the local War Pensions Committee in all cases; the local War Pensions Committee and the Chief Area Officer of the Ministry in the locality consult the local education authority, and where they are satisfied that the child is one of unusual ability they put it up to the Special Grants Committee, a body which has types of educational experts on it from the Board of Education and so on, and their voting carries the day.

1647. That arrangement appears to me to be very satisfactory?—It has worked very well and has produced extraordinarily good results. I had a case only last week put up to me of a boy we had helped from the start and he had ended up by being a B.Sc. with an appointment in a laboratory, and in a number of cases of that sort the children have done extraordinarily well.

1648. It is open to a local body to initiate applications?—Yes.

Mr. Wilfrid Roberts.

1649. In column 5 of this statement I see there is an increase in the number of applications?—Yes.

1650. That includes reviews of "over seven years" cases. Could you indicate whether the increase of claims

happens to be due to the number of "over seven years" cases being reviewed, or whether there is a tendency for new applications to be made now?—My impression is that if there is much discussion in your House or in the Press about pensions the inflow of claims gets bigger. That is really the truth. I think at the present time, bar that accident, the number of claims would be gradually being reduced; it would be gradually lower; very slowly lower, but gradually lower. After all the door is wide open and a man can come and make his claim and can state to us the grounds on which he thinks the claim is good. If there is much talk about fresh benefits or the possibility of fresh benefits for disabled ex-service men, naturally more people will try their strength, so to speak.

1651. Is that additional number of claims fresh claims?—Yes.

1652. It is fresh claims and not the coincidence of the review of "over seven years" cases?—No, it has nothing to do with that. The seven years limit expired years ago.

1653. What does that note mean?—"Includes 'over seven years' cases," it means that there are other cases, for instance, claims by widows and claims by dependants. The applications include all applications of any class of claimant for a pension. Not more than about 2,000 would be claims from men claiming to be disabled by their war service. There would be another 2,000 or 3,000 widows, another 2,000 or 3,000 from dependants and parents of deceased men.

Sir Edmund Brocklebank.

1654. On this paper I notice, with reference to columns 3 and 4, that the number in column 3 is always about 25 per cent. more than that in column 4. You receive many more letters than you despatch?—I am afraid that is not unnatural. I should mention that column 3, of course, includes the life certificates for which we do not write but which we simply enclose with the pension book; they would be forms that would automatically come up. A man would get them from the area office or the Ministry in the ordinary way and they would simply come up at certain intervals.

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[Continued.]

Mr. Culverwell.

1655. Did not you say that there were about 10,000 men availing themselves of the Savings scheme?—Yes.

1656. Does that compare with a total of 440,000?—430,000.

1657. How do you get that figure? Is not the number of beneficiaries the figure?—No, the number of beneficiaries includes, for instance, the wife of a man who is disabled; if he was married before discharge, she would come in for an allowance; she is a beneficiary but not a pensioner because the pension goes to him. Similarly, with the children.

1658. Could you tell me what is the "funerals of men, £10,000"?—We give a grant of £7 10s. to the relatives or representatives of an ex-service man who dies of something which can be certified as his war disability or from war service. Alternatively, the relatives, if they prefer, can come to us and say "Will you contract for the funeral yourselves" and we do that.

Sir Assheton Pownall.

1659. You mentioned, Sir Adair, I think, that the average age of the pensions staff was 49. To bring the average as high as that there must be a good many men well into the fifties, presumably?—Yes, there are.

1660. Shortly you will have quite a lot of resignations from age from your 2,628 in the course of a relatively few years?—In a few years time?

1661. Yes?—Unfortunately our position is that there is a uniformity of what I may call advanced age in the forties and fifties, but in a comparatively short time there will be a very considerable number going.

1662. What are you doing about recruitment? You do not require men now, but in about eight years time you will require a considerable number?—That is one of the difficulties. We are trying to get younger men in where vacancies occur, but where the volume of the junior work is sliding down it is very difficult to have that volume of recruitment; there is slight recruitment going on but not anything like as much as in a normal department.

1663. You have in mind the fact that in six, seven or eight years the peak of retirement comes?—Yes.

1664. You will then lose two-thirds of your elder staff in eight or ten years?—No; take, for instance, the grade of Principal Clerk, Executive Grade. Their

average age, if I remember rightly, is about 52. Under that you have the Higher Executive Grade whose average age is about 46, so you have a gradual stepping up, but the general level is on the high side.

1665. You are obviously bearing that in mind?—We are bearing that in mind and providing, as far as we can, that there shall be no failure in the higher branches to carry on the important work.

Chairman.

1666. I asked a question on Item 4 and you explained that the £1,700 was in respect, chiefly, of keeping archives of other departments?—Yes.

1667. If you look at your note A you say the expenditure there was £1,193?—(Sir Gilbert Upcott.) That is not expenditure. That is the cost of services rendered without payment.

1668. That is a different thing; that is services for keeping the archives?—That is the cost of services to other departments using the Registry where no charge is made in cash.

1669. On page 438 there is quite a series of individual cases about which I want to ask questions?—(Sir Adair Hore.) Yes.

1670. Take No. 17. Will you give us a little explanation of this £1,304; I rather gather that it has run over several previous years, judging from the column in which it is found?—Yes. The pensioner obtained the alternative pension on the ground that he declared that he was not employed; it subsequently transpired that he had been continuously employed in the Inland Revenue since 28th February, 1921.

1671. I suppose that was quite unavoidable, was it?—It was unavoidable except to the extent that, of course, you could set officers to enquire and investigate every man's case, where the man says he is not earning. This claim was made very early, when the volume of work was very high and we saw no reason at the time to dispute the statement. The cases are investigated from time to time, as you know, and a form of declaration for the purpose of special identification which contains particulars of this kind, is now taken round by our officers to the man's house, in order to be sure, as far as possible, that what he says is correct, but in those days it was quite impossible to do it.

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[Continued.]

Sir Assheton Pownall.

1672. Could not he be prosecuted in a case of that sort?—Proceedings were taken against the pensioner at the South Western Police Court in July, 1935, but after an adjournment the magistrate dismissed the charge, not being fully satisfied that there was intent to defraud. The magistrate's discretion was widely exercised.

Chairman.

1673. No. 24 on page 439—I am taking one or two at random?—The widow claimed to be a widow of the deceased husband, separated from 1905, and she obtained a widow's pension. It subsequently transpired that the deceased soldier was not her separated husband and was quite unknown to her. The woman acted in good faith (how she did I do not know) and authority was obtained to continue the pension for two months to enable her to adjust her circumstances. The man in respect of whom she had claimed had exactly the same name as the man she was living with, W. J. Thomas, and lived in the same place. It is very odd. The woman based her claim for pension on information as to the death of her supposed husband in action which was supplied by her father-in-law.

1674. The person was killed at the front?—A person was killed at the front but not actually her separated husband.

1675. News came of a W. J. Thomas who was killed?—Yes, and the two were identified; they were both named W. J. Thomas.

Sir Assheton Pownall.

1676. In the same village?—In the same village.

Chairman.

1677. There are several Thomases in the same village in Wales. No. 18 seems to be a pretty formidable sum?—Yes. The woman failed to disclose that she had remarried and so obtained a widow's pension. She was prosecuted in 1936 when the case was discovered, found guilty, and sentenced to 3 months imprisonment, but the magistrates had regard to the fact that the woman is now almost blind and has been suffering from eye disease since her childhood.

Chairman.] I have no further questions on these items.

Sir Isidore Salmon.

1678. On page 441 "The value of stocks on hand at 31st March, 1937, was £85,325, and issues were made during the year to the estimated value of £38,126": what sort of stocks does this figure cover?—Stocks in the hospitals mainly of drugs, dressings, furniture, ex-ray apparatus and equipment of various sorts.

1679. The point I was rather querying was the desirability of having such a large stock in hand when, in fact, it lasts you over 12 months. You have a very large stock in hand having regard to how often you issue it. You have stocks to the value of £85,000 and only issue stock to the value of £38,000?—Yes, but we are not always renewing the stock. If you take the whole equipment of a hospital, we have stock in hand at 1st April, 1936, to the value of £34,000 of furniture and equipment, £16,000 bedding and linen and so on.

1680. But when you have issued it to a hospital do you consider that that is stock in hand or issued?—I do not quite follow.

1681. When one talks of stock one assumes that it is a bulk stock and that directly you issue it you have reduced your stock. It was in that sense that I was asking?—Perhaps Mr. Ledgard can explain that more clearly. (Mr. Ledgard.) You are referring more particularly to the consumable stores of foods and drugs?

1682. There is only one figure on page 441?—That includes everything.

1683. When you say that includes everything, does that include stock in bulk, or does it include the stock that you have for various places in current use?—It includes stock generally located in the Institutions.

1684. For current use?—Yes.

1685. So you take the stock every year of what stock you have in each Institution?—More frequently than every year; we are constantly taking stock and valuing it, there is a constant check.

Sir Eugene Ramsden.

1686. With regard to Item 31 you see "Remarriage gratuity of £6 10s. set off against over-issue." Exactly what does that mean?—(Sir Adair Hore.) By means of false statements on the life certificate a pensioner obtained payment of dependents' pension

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[Continued.]

after her remarriage. When a dependent who has obtained a pension in the earlier years after the war remarries, the pension, of course, ceases and she gets a gratuity on remarriage. Her pension is never renewed.

1687. If she had remarried and announced that fact to the Ministry of Pensions she would have been entitled to the £6 10s.?—Yes, she would have got that, but instead of that she never told us of her remarriage.

1688. Do you think you are really justified in bringing in this sum and the next one as an offset?—(Sir Gilbert Upcott.) It is correctly noted in the account.

1689. Yes, but it seems to me to be rather curious that you should bring in in this case £6 10s. or £19 10s. in the next one. You set that off against the over-issue but why do you do that?—(Sir Adair Hore.) Because she owed the State the money; she had falsely obtained a continuance of pension to which she was not entitled of £267. We, so to speak, escheated and set off against that fraudulent debt the amount of £6 10s., the only amount we had in hand still to pay her.

Sir Eugene Ramsden.] I follow what you mean.

Chairman.] Sir Isidore Salmon is a little dissatisfied with the answer which was given to the previous questions he addressed to you. Do you mind putting the point again?

Sir Isidore Salmon.

1690. The point I do not quite understand is the wording: it is the value of stocks on hand at 31st March, £85,000. Issues were made during the year to the estimated value of £38,000. Do you mean to say that you have issued £38,000 of stores? Then what does the £85,000 mean? It cannot mean the value of stores that you already have in hand?—(Mr. Ledgard.) Yes; we started with so much stock at the beginning and we issued so much during the year and we had so much of the stock left at the end of the year.

1691. Then would it be correct to say that the £85,000 ought to be plus £38,000 that you issued. You had a value of £85,000 and you had further issued during the year £38,000 worth. That is how it reads; I do not know if you intend it to read that way?—(Mr. Brittain.) It should have been reversed.

1692. It is a little confusing to understand it?—(Sir Adair Hore.) It should have been reversed.

Chairman.

1693. How should it have read?—I think the more clear thing would have been to say what was the value of the stocks at the beginning of the financial year, what were issued and then what were left; that may be put right next time.

Mr. Mabane.

1694. On this document, columns 5 and 6, would it be possible to say what number of those 6,588 applications were new applications and of the new applications how many claims were accepted. I notice column 5 is a comprehensive figure?—You have it in the next column, 1408 accepted.

1695. What proportion of the applications are new applications?—They are all new.

1696. The note says that it includes new, revised and appeals and first awards, and so on?—The point is this: a case, for instance, of a late claim for disablement comes in and may be accepted straight away. On the other hand we may say to a man "there is not sufficient evidence to admit this case." He goes away and perhaps gets sufficient evidence and puts it in again. That does not count as two, it counts as one in the year.

1697. I asked the question because I could not quite square it with the figure given in the House the other night, when the figure was that 30 per cent. of new applications were accepted?—It was not 30 per cent. of new applications. The question asked was how many claims to pensions have been made and how many pensions have been increased, that is 30 per cent., but these are claims for pension by a person who has not got one. They are not claims for increase of pension by a person who has got one.

1698. The figure of 30 per cent. represents both?—Both. On the other hand the figure of claims for new pensions given in the House the other day (this is a little irrelevant if I may say so) did not include what this first column includes, namely widows claims. It was only claims for disablement.

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[Continued.]

Mr. Mabane.] I wanted to understand the figure.

Chairman.] May I take it that this Account is approved? (Agreed.)

(Sir Adair Hore and Mr. Ledgard withdrew.)

Chairman.] The King's Fund, page 442, Class VIII, Vote 2. Are there any questions? May I take it that this Account is approved? (Agreed.)

CLASS I.

VOTE 16.

NATIONAL DEBT OFFICE.

Mr. M. F. HEADLAM, C.B., C.M.G., called in and examined.

Chairman.

1699. National Debt Office, page vi, paragraph 9 of the Comptroller and Auditor General's Report. Sir Gilbert, have you anything to add in regard to paragraph 9?—(Sir Gilbert Upcott.) Only to say that this paragraph is in a slightly new form this year. It used to be an omnibus statement that all the accounts had been examined and were satisfactory, but I thought it desirable to make it clear that those accounts mentioned are separately laid before the Committee with my Report and are considered independently by the Committee. I have no question to raise on any of the others.

Chairman.] Turn to page 28, Class I, Vote 16, National Debt Office. Are there any questions on this Account?

Sir Isidore Salmon.

1700. I suppose it is fair to say, Mr. Headlam, that your department now is

practically on an even keel so far as staff and work are concerned?—(Mr. Headlam.) If you leave out what we used to call the Allied Services it is, but if you take the services for Housing, and so on, put in this gross and net cost of Government Departments return you will see that our costs are about £41,000 as opposed to this £27,000 gross which occurs on this page, but for all practical purposes, if you leave out those Allied Services we do get in Appropriations in Aid very nearly what we spend in the ordinary work of the office.

1701. The actual total amount of money spent by your Department is higher than appears on this paper in front of us; is that your suggestion?—That is so, if you take into account the cost of fuel, housing, light and all the rest of it (what we used to call Allied Services) but only on those terms.

Chairman.] May I take it that this Account is approved? (Agreed.)

VOTE 10.

FRIENDLY SOCIETIES' DEFICIENCY.

(On this Account no questions were asked.)

LOCAL LOANS FUND ACCOUNTS, 1936.

Chairman.

1702. White Paper, Local Loans Fund Accounts, Page 10, where the Comptroller and Auditor General's Report is to be found. Paragraphs 1 and 2 are narrative. In paragraph 3, Mr. Headlam, there is a figure of £350,000. This is a new receipt, is it not?—(Mr. Headlam.) Yes.

1703. Is it a continuing receipt?—We hope so; there is an item in the estimates for this year purporting to be the amount we are to be allowed out of extra receipts from, I believe, tariffs from the Irish Free State; but whether it continues or not, I cannot tell you.

1704. I do not suppose you have any sort of settlement to announce, have you, Mr. Fraser?—(Mr. Fraser.) No, not at the moment.

Chairman.] Are there any questions?

Sir Asheton Pownall.

1705. I have a question on the annuity payable. I think we have had figures given to us before showing that we are gradually catching up the lag that there was owing to our having taken six months or a year to put our duties into force. I think it arises on this. Have you any figures to show to

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[Continued.]

what extent that deficit is being worked off?—(Mr. *Headlam*.) Which page is that?

1706. Page 10, "Annuity Payable by the Irish Free State," with regard to our receipts from customs?—We have had five years arrears of instalments of this at £600,000 a year, making £3,000,000. Then we had this £350,000 issued and that leaves a shortage on the Local Loans Fund of £2,650,000. (Sir *Gilbert Upcott*.) I think, if Mr. *Headlam* will forgive me, that Sir *Assheton*'s question was addressed to the receipts from the Irish Free State duties; that is for the Treasury. (Mr. *Fraser*.) It is usual for me at this time of the year to put in a statement.

1707. You will be doing that in the ordinary way? It will be particularly interesting at the present time, of course?—The only question is whether you want it printed this year. By the time it came to be published there may be a settlement, in which case one would not want to put out a paper talking about default.

1708. Perhaps we can consider that in a week or two when we know whether there is a likelihood of there being an agreement come to, but, unless there is an agreement come to, quite frankly I want to see the figures?—(Mr. *Fraser*.) We will hand in the statement. (*Statement was handed in.*)

Mr. *Lathan*.

1709. Is it fair to assume that this figure of £2,650,000 indicates the net loss arising from the non-remittance by the Irish Free State of their payment under the annuities?—(Sir *Gilbert Upcott*.) The net loss to the Local Loans Fund.

Mr. *Lathan*.] But against that there would be something else to be set off?

Sir *Assheton Pownall*.

1710. The receipts from Customs duties?—This paragraph refers to the net loss to the Local Loans Fund which is a self supporting entity. (Mr. *Fraser*.) There is a special payment, allotted out of the receipts, to the Local Loans Fund. (Mr. *Headlam*.) This £600,000 a year which was to be paid to the Local Loans Fund in itself involved the waiver of a sum calculated to be about £2,000,000.

Mr. *Benson*.

1711. I should like to know where one can obtain the details of the original

loans; I do not seem to be able to trace it in the Report of the Public Works Loan Board.—In this account for the year 1926 you will get a full account of it.

1712. In the annual report of the Public Works Loan Board I can find no trace, nor does it appear in the Table giving the totals of outstanding loans?—On page 2 "in respect of Annuity from the Irish Free State" you will find an asterisk. (Sir *Gilbert Upcott*.) If you are referring to the Irish Local Loans they were settled in return for an annuity of £600,000 a year. (Mr. *Fraser*.) That is explained on page 12 of the Local Loans Account, 1926.

1713. That is taken out of the Local Loans Fund Account?—No. In the Local Loans Fund Capital Account there is an asset representing the value of the claim.

1714. That is the £6,500,000, is it?—The figure deemed to be included in the account?—Yes.

Sir *Isidore Salmon*.

1715. Paragraph 4, "Premature Repayment of Loans". What induces the Commissioners to waive in a large majority of the cases the premiums designed to avoid loss to the Local Loans Funds?—(Mr. *Headlam*.) I think I must ask the Treasury to deal with that. (Mr. *Fraser*.) That was discussed at very great length last year and I explained the principles on which the Public Works Loan Board, in consultation with the Treasury, act in making these remissions.

1716. I do not want to trouble you to go over that again. I had forgotten that for the moment, but could you briefly say what it is without going into too much detail?—Broadly speaking, the premium is waived in cases where the local authority itself is forced back into possession of the money without premium from the people who were lent the money, but where it is a mere financial convenience to somebody to pay, we do not normally waive the premium.

1717. You have had £1,000,000 more paid in the year under review than in the year previously; is that right?—Yes.

1718. Is that growing?—No, it is not growing at the moment. The increase in the year covered by this account was mainly due to the fact that in June, 1936, we made a new concession, in

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Mr. M. F. HEADLAM, C.B., C.M.G.

[Continued.]

agreement with the representatives of the local authorities, and the largest chunk of that fell in this year, but the figures which we have got for premature repayments after the end of the financial year 1937 show that it has not gone on in the same proportion. Broadly speaking, the premature repayments are not coming in faster than expected and are not costing us more than expected.

Mr. Benson.

1719. On the question of premature repayments could the Treasury let me have the total amount of premiums borne on the various Votes separated out under those headings?—I think that you will find that in the Annual Report of the Public Works Loan Board.

1720. It does not give the total amount so far borne; it only gives the amount for the year. Could I have the total amounts under the three headings, local authorities, agricultural credits and the other heading?—Over a period of years?

1721. The total amount up till now.—Certainly.

1722. I do not want you to go back into the eighties.—Those that have been actually borne on the Votes?

Mr. Benson.] Borne on Votes since the war.

Sir Irving Albery.

1723. Is there any broad principle applied in arriving at the premium to be paid on these repayments?—Yes, that is laid down in the Treasury Minute of 1933, I think. It is based on the present value of the Annuity payments remaining to be paid.

Chairman.] Are there any other questions?

Sir Assheton Pownall.

1724. On this statement that has been handed in by the Treasury I am not quite sure whether Mr. Headlam or the Treasury will answer, but I see in the year 1936-7 the default was £580,000 more than the amount of the receipts, and, on the right hand side it is shown that £559,000 extra was coming in in additional duties, almost exactly balancing. Is that the case, because it is a very happy coincidence, if it is so?—It is nothing more than a coincidence; the duties which are referred to in the top right hand corner were not special duties.

1725. They are import duties?—They are the ordinary import duties and have always been excluded from these calculations.

1726. So that really one ought to leave them right out of the calculation, and even with these extra duties we are still running at a loss, as it were, of close on £600,000 a year, as compared with what we maintain we ought to receive?—It is a loss in a sense, but, on the other hand, part of the default does not fall on the Exchequer because part of it refers to sinking fund on two of the land loans on which there is not an Exchequer guarantee.

1727. On the sinking fund it is the holders who are standing the racket?—Yes.

1728. That is entirely news to me?—The sinking fund is in suspense.

1729. Therefore the holders are not getting the benefit of this money accruing to them?—The holders are to a large extent the National Debt Commissioners.

Sir Assheton Pownall.] It is as broad as it is long from that point of view.

Mr. Lathan.] This statement helps in the direction of the question I was raising a moment ago, but I would like to be clear. Do I understand that the total default by the Irish Free State is £28,685,173, that the revenue derivable from special duties is £23,818,000 and that there have been payments from the Exchequer of £22,321,000, so that we are, in effect, on the wrong side, to put it into colloquial language, to the extent of about £1,500,000 in the dispute between ourselves and the Irish Free State?

Mr. Mabane.

1730. £5,000,000?—The extent of the default is greater than the amount of that default which causes a charge on the Exchequer, because, in the case of a certain part of the default, the payment is simply not made by anybody.

Mr. Lathan.

1731. The Exchequer makes a payment of £22,321,000 but they derive from special duties £23,818,000?—Yes.

1732. The difference between that £23,000,000 and the £28,000,000 is the measure of our loss is it not?—It is the measure of the extent to which the total default has not been made good.

1733. That is a loss, is it not; it is something we ought to have, but which

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[Continued.]

we did not get?—(Mr. *Brittain*.) The loss of the country as a whole but not necessarily a loss to the Exchequer.

Sir *Assheton Pownall*.

1734. Is this difference of £6,000,000 the sinking funds which have gone short to the extent of £6,000,000?—(Mr. *Fraser*.) Yes.

1735. The difference between £28,000,000 and the £22,000,000?—And the Local Loans Fund which has gone short to a certain extent and the sinking funds have gone short.

1736. If Local Loans Fund goes short, who is the loser?—It is a constructive or hypothetical loss; if the Local Loans Fund ceased to be able to pay interest, then the Exchequer guarantee would come in and the Consolidated Fund guarantee would come in.

Chairman.] Are there any further questions on this paper?

Mr. *Wilfrid Roberts*.

1737. To make this perfectly clear to myself, as to the difference between the amount raised by the special duties and the actual payments by the Exchequer, where does that difference between the £23,818,000 and the £22,321,000 go to?—It goes into the Exchequer.

1738. That just goes into the Exchequer?—Yes.

1739. But that could be used for sinking fund to make up the Local Loans Fund for instance. It could be used towards the £6,000,000 which is deficient in the sinking fund?—There is no claim on the Exchequer at present in respect of that sinking fund. (Mr. *Brittain*.) The surplus has arisen mostly in past years and is past and done with. You could not get it out now unless you went to Parliament; you could not apply that £1,500,000 now to any of these sinking funds without a Vote of Parliament because the money has been received in the Exchequer in past years and surrendered.

Sir *Assheton Pownall*.

1740. We are actually £1,500,000 up on balance on these figures which is an extraordinary position?—The Exchequer is, on balance.

Mr. *Benson*.

1741. Why did the Exchequer take the £1,500,000 when these funds were in default and, in addition, there is apparently another £500,000. Why has

the Exchequer taken these sums into the general account and not allocated it?—(Mr. *Fraser*.) Each year has to be looked at by itself. The surplus of one year cannot be set off against the deficiency in another year. It has to go into the Exchequer.

1742. That surplus of £2,000,000 has accumulated over a period of years when the whole of the various sinking funds were met in full?—No, there is no Exchequer guarantee of certain of the sinking funds, therefore there is no claim on the Exchequer when Ireland ceased to pay that particular sinking fund.

1743. The Exchequer merely meets whatever payment is guaranteed?—Yes.

1744. And takes the balance?—If any.

Chairman.

1745. Are there any further questions? Turn to page 2. On page 2 there is a figure of £107,711, the third figure in the Capital Account. How much is paid by the borrowers themselves of that £107,000?—Only about one-third; about £75,000 comes off Votes.

Sir *Irving Albery*.

1746. I do not understand that?—I am looking at the Public Works Loan Board Report, where it is dealt with. Page 14 of the Public Works Loan Board Report for the year in question explains that of this £107,711 premiums £73,000 represents the amount of the premiums made good from the Votes of other departments, £1,278 in respect of repayments in respect of sales of houses by public utility societies, the premiums being paid out of the Vote of the Ministry of Health, £70,000 agricultural credits England and £1,450 agricultural credits Scotland.

Chairman.

1747. You enforce the premiums to a very small extent upon individual borrowers I gather?—To a very small extent.

1748. On page 3, the first item is £16,000,000, advances to Public Works Loan Commissioners. On the other side we have "Principal of Loans repaid" a total of £11,296,000. How is the advance to the Public Works Loan Commissioners made up? How is that balance provided?—(Mr. *Headlam*.) We had to sell securities to make that up. You will observe that the next item is "Cash Proceeds of Securities Sold or Paid Off." That includes a very large amount of Treasury Bills which is

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[Continued.]

not, of course, the amount of Treasury Bills at any time but the turning over of Treasury Bills during the year. (Sir Gilbert Upcott.) Part of the money is provided by surplus income. (Mr. Fraser.) In so far as the Local Loans Fund requires more cash it is partly provided by surplus income and partly by the sale of securities which are part of the assets of the Fund and which you will find recorded on page 5, under "Investments."

1749. On page 3, can you tell us why the surplus income is considerably higher than in the previous year?—(Mr. Headlam.) If you remember, last year we took into the main fund the assets

of the Surplus Income Account certain securities; the interest on those securities swells the surplus. (Sir Gilbert Upcott.) There were also the receipts from the Irish Free State duties. (Mr. Headlam.) And the £350,000 Irish Free State money. (Mr. Fraser.) There was also larger business done in the year than in the year before.

Mr. Benson.

1750. That would hardly have time to affect the surplus income, if you are on an annuity basis?—You would get a certain amount.

Chairman.] Are there any questions on pages 2 to 11? May I take it that these Accounts are approved? (Agreed.)

SINKING FUNDS ACCOUNT, 1936.

Chairman.

1751. Turn, please, to the next White Paper, Sinking Funds Account, 1936, pages 2, 3 and 4. Was there a surplus of income over expenditure in 1936?—(Mr. Headlam.) Yes. (Mr. Fraser.) 1936-7. (Mr. Headlam.) The whole £7,561,000. (Mr. Fraser.) No, not the last financial year.

1752. I mean the beginning of 1936?—(Sir Gilbert Upcott.) 1936-7, you said.

1753. 1936-7, I mean?—Mr. Headlam would not be aware of that. (Mr. Headlam.) I gave you the figure for the year preceding this. (Mr. Fraser.) In the last financial year that finished there was a deficit after taking into account the large payment of Sinking Fund. It was only a technical deficit. (Sir Gilbert Upcott.) You will see that, when you take the Public Income and Expenditure Account on Treasury day.

Sir Isidore Salmon.

1754. Page 2. In dealing with the old Sinking Fund is it correct to say that the balance last year that was available for Sinking Fund was £2,600,000 compared with the figures here?—(Mr. Headlam.) The old Sinking Fund?

1755. Yes?—The amount of it?

1756. The amount of £2,600,000 was available?—(Mr. Fraser.) £2,900,000. (Mr. Headlam.) £2,940,000.

Mr. Benson.] Could Sir Isidore tell us where that £2,600,000 is?

Sir Isidore Salmon.

1757. I was referring to the balance available this year compared with that available last year; last year it was £2,600,000, against the figure that is

available in the year we are discussing.—(Sir Gilbert Upcott.) No; with regard to the figure of £2,600,000 to which you are referring, I think you refer to the free balance on the new Sinking Fund. (Mr. Fraser.) Yes, that is right. (Sir Gilbert Upcott.) The old Sinking Fund in the year was £7½ millions.

Chairman.] Pages 2, 3 and 4.

Mr. Benson.

1758. On (g), I am not quite clear what this Account means. On the left-hand side there is £119 millions under "Securities". Are those securities received during the year?—(Mr. Headlam.) No; they are the accumulated amount of securities handed over in payment of Death Duties. (Sir Gilbert Upcott.) There were no securities received during the year.

1759. On the other side what is the £117 millions; is that what you have left? Have you sold £119 millions?—(Mr. Headlam.) These securities which are handed over for Death Duties are liable to drawing just like the securities in the open market, and the sum is reduced by that amount.

1760. You have to retain them?—We have to retain them until the end of 1976, when the whole thing comes to an end.

1761. You cannot sell them on the open market?—No.

1762. Suppose you receive a certain sum for Death Duties in this Account, how would that enter into the taxation Accounts, into the annual balance of the year?—We have not received any for a very long time.

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[Continued.]

1763. You received £119 millions?—In the past. (Mr. Fraser.) The £119 millions has accumulated ever since 1919.

1764. Is that something that has been entirely held outside the Annual Accounts, or has the Annual Account received credit for it?—(Mr. Headlam.) We buy them in effect from the Inland Revenue, to whom they are handed over.

1765. Where do you get the money from?—From the Sinking Fund.

1766. What you do is to use the old and new Sinking Funds and, if there is anything left after the Special Sinking Funds have been satisfied, you then invest that in these 4 per cent. Victory Bonds?—It is not worth anybody's while to hand over these things at their present price in Death Duty. (Sir Gilbert Upcott.) They do not invest in them; they only take them when they are tendered for Death Duties, and they are only tendered when they stand at a low price.

1767. I was wondering what was the mechanism to bring the value of such tendered securities into the Annual Balance Sheet. They are used really to set against any Sinking Fund surplus?—(Mr. Headlam.) They appear in the Finance Accounts to be set against the National Debt.

1768. I know ultimately, but, if you receive, say, £100,000 worth of Victory Bonds surrendered for Death Duties, how is that £100,000 transferred into the National Balance Sheet?—(Sir Gilbert Upcott.) We do not have a National Balance Sheet.

1769. The National Income Account for the year. How does the Chancellor get hold of it?—(Mr. Fraser.) It comes out of Sinking Fund.

Sir Irving Albery.] I was wondering if the question whether the Sinking Fund deficit was really a real one or a technical one would not be a very proper thing for this Committee to consider.

Chairman.] Will you put the question again?

Sir Irving Albery.] I thought you suggested that there was a question as to whether the deficit on the Sinking Fund last year was a technical one or a real one.

Chairman.] Yes; but the best place to argue that, I think, is on the floor of the House of Commons, is not it?

Sir Irving Albery.] It might be proper for the consideration of this Committee. (Sir Gilbert Upcott.) If it arises at all, it arises on the Public Income and Expenditure Account which you will take on Treasury day.

Sir Isidore Salmon.

1770. On the other side, in the year under review, the Exchequer did take £5,750,000 of it?—(Mr. Headlam.) I think you must ask the Treasury about that.

1771. They did?—(Mr. Fraser.) It is a fact.

Chairman.

1772. I have been trying to pursue this point for some years. I discover now that the sum has been disposed of?—Yes.

Chairman.] Are there any more questions? May I take it this Account is approved? (Agreed.)

IRISH LAND PURCHASE FUND ACCOUNTS, 1936.

Chairman.

1773. The next item is "Irish Land Purchase Fund Accounts, 1936"; on page 15 is the Comptroller and Auditor General's Report. The first two paragraphs, I think, are statistical, are they not? Paragraph 3: How was this £350,000 referred to in this paragraph applied?—(Mr. Headlam.) I think it is included in the Income Account, page 8. You will see a note in the last column at the top of the Income Account. The note says that this sum of £4,027,000 includes £2,000,000 odd "received from Parliamentary Votes to make good the

insufficiency of the Income Account to meet the dividends due" and the sum of £350,000.

Chairman.] Any further questions on this Paper?

Mr. Benson.] I should like to call attention to page 5. Mr Headlam tells us that he has arranged these Accounts in order that the finance may be readily appreciated. I think the Committee should be very grateful to him.

Chairman.] Your gratitude will be recorded, Mr. Benson.

3 March, 1938.]

Mr. M. F. HEADLAM, C.B., C.M.G.

[Continued.]

Sir Isidore Salmon.

1774. Last year, I understood Mr. Headlam to say, although the Comptroller and Auditor General disagreed, that he thought this Account was coming to an end?—(Sir Gilbert Upcott.)

(Mr. Headlam withdrew.)

Not this one. (Mr. Brittain.) A particular Vote. (Sir Gilbert Upcott.) Not the Account of the Irish Land Purchase Fund.

Chairman.] May I take it that this Account is approved? (Agreed.)

CIVIL APPROPRIATION ACCOUNTS, 1936.

CLASS III.

VOTE 20.

LAND PURCHASE COMMISSION, NORTHERN IRELAND.

Chairman.

1775. Land Purchase Commission, Northern Ireland, page 148, Class III, Vote 20: Could you explain what that last item I.I. is: "Arrears of Improvement Annuities"?—(Mr. Brittain.) Under the Irish Land Acts, the old Irish Land Commission, and later the Land Purchase Commission, Northern Ireland, were allowed to advance moneys to tenant purchasers in order to improve the holdings that they had bought, and the repayment of those advances is amalgamated with the repayment of the original purchase annuity. At the time when this Account was closed, the Land Pur-

chase Commission were due to pay over to the National Debt Office the full amount of those additional annuities, but the Ministry of Northern Ireland, who act as their agents for the collection of the annuities, had not been able to collect the whole lot. There was a small balance of about £4 out of about £90. It is a trivial thing altogether. (Sir Gilbert Upcott.) It is usually done by means of a Suspense Account, and it is only done in this way because it is a winding-up.

Chairman.] Are there any questions on the Account? May I take it the Account is approved? (Agreed.)

LAND PURCHASE COMMISSION, NORTHERN IRELAND, ACCOUNTS, 1936.

Chairman.

1776. Now we take the White Paper, page 13, Comptroller and Auditor General's Report. That is narrational, I think. You say that this is the final Account, do you not, Sir Gilbert? This is the last time this Account will appear?—(Sir Gilbert Upcott.) Under this name. Most of it will appear under another name.

1777. I dare say it will.—(Mr. Fraser.) A Supreme Court Account.

Chairman.] Are there any questions?

Sir Isidore Salmon.

1778. As regards the amount of money that has been transferred to the Accountant General of the Supreme Court, will that mean that he has the disposal of that under certain conditions, and that there is no further liability to this country?—(Mr. Brittain.) That is not voted moneys, mostly. It represents charges on properties, and that sort of thing, which are placed under the control of the Court for the moment,

pending settlement of various claims on it. It is not so much voted moneys as securities, and that sort of thing, which have arisen out of the old transactions of the Land Purchase Commission. (Sir Gilbert Upcott.) There will be an Account in future, but it will be under a different name. (Mr. Brittain.) Yes. (Sir Gilbert Upcott.) It is a question of distributing this money.

1779. What is the object, if you are going to re-hash this up again under a different name? Is it to embody a larger Account into one Account?—It is merely a winding-up.

Mr. Lathan.

1780. Winding-up the Commission?—(Mr. Brittain.) The greater part of land purchase activity in Northern Ireland has come to an end now. There were certain remanet services which remained, which have been largely transferred to the Supreme Court and others to the Ministry of Finance in Northern Ireland.

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[Continued.]

Sir *Isidore Salmon*.

1781. That is quite clear. I understood you to say there would be a new Account?—The Supreme Court of Northern Ireland will go on producing an Account, which will cover largely

the transactions which have been covered by this Account. They will have to do so because the services continue for a good many years.

Chairman.] May I take it this Account is approved? (*Agreed.*)

CIVIL APPROPRIATION ACCOUNTS, 1936.

CLASS III.

VOTE 19.

SUPREME COURT OF JUDICATURE, ETC., NORTHERN IRELAND.

Chairman.

1782. Civil Appropriation Accounts, page xii, paragraph 23. I must ask the Comptroller and Auditor General if he will explain the points that arise from this paragraph?—(*Sir Gilbert Upcott.*) There are really two matters mentioned in this paragraph. As the Committee will remember, when the Government of Northern Ireland was set up, certain functions of Government were transferred to the Government of Northern Ireland, and other functions were reserved and administered by the Government in this country, and they are called Reserved Services. When my Department first audited the funds of the Supreme Court in Northern Ireland, which is a Reserved Service, we found that certain receipts from Lunacy Fee stamps were being paid over to the Exchequer of Northern Ireland, and, on enquiry, we were informed that these receipts were classified as fee stamps, and, as stamps are transferred revenue, they were properly payable to the Government of Northern Ireland. Recently it came to my notice that the Treasury regarded the administration of lunacy matters in Northern Ireland as a Reserved Service, and it seemed to me strange that, as to one part of the service, it should be regarded as a Reserved Service, and, as to another part, as a Transferred Service. I, therefore, asked the Treasury what they thought the position was, and they informed me that they regard the whole service as a reserved matter and that they accordingly propose to take up with the Ministry of Finance of Northern Ireland the proper method of accounting for the receipts from these fee stamps. There is another matter which arises at the same time, that, whereas in England the administration of lunacy is paid for out of voted moneys and all receipts are brought into account to the Exchequer

in the ordinary way, there is in Northern Ireland, I think as a historical survival from rather ancient times, a fund called the Lunacy Fund, which has certain cash receipts connected with lunacy administration paid into it and from which part of the expenses of lunacy administration are paid, whereas other expenses are paid from the Vote. That is not in accordance with what we now consider the best modern practice, and I think, as you will see from the last sub-paragraph of my paragraph, that the Treasury are now considering whether the arrangement should be modernised. Those are the two points which I have raised in this paragraph.

1783. Thank you, Sir Gilbert. Would the Treasury like to tell us what the position really is?—(*Mr. Brittain.*) On the first question, which only relates to a matter of £100 or £200, the small fee stamps, we are still considering how we should account for them, as the Comptroller and Auditor General says. It involved ancient history and we want to be quite sure of our legal position; that will be settled quite soon. On the second and larger question about the future of the Lunacy Fund, we hope to get into touch with the authorities in Northern Ireland, the Lord Chief Justice and others in Northern Ireland, very shortly now, probably within a month or so, in order to discuss with them what changes, if any, should be made.

Mr. Lathan.

1784. Did I understand you to say that there is some legal doubt as to whether we are entitled to the income in respect of lunacy administration?—No; there was a legal question as to the disposal of the small fee stamp receipts which the Comptroller and Auditor General spoke about, namely, whether they should go into our Exchequer or into this Lunacy Fund.

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[Continued.]

1785. That is what I referred to. The position as stated by the Comptroller and Auditor General seems to be that in Northern Ireland they regard expenditure to be our responsibility, but income to be theirs?—As a matter of fact, the disposal of these receipts does not affect our pockets at all, because, whichever way we deal with it, Northern Ireland gets the benefit of it. (Sir Gilbert Upcott.) It is a very complicated arrangement, but, in point of fact, although we administer the Reserved Services, ultimately Northern Ireland does pay for them, because we deduct the cost of them from the money we pay over to Northern Ireland as their share of the revenue.

1786. My impression is that the position is not as you have stated it in regard to the whole of the Northern Ireland services, but that a considerable responsibility still rests on this country?—(Mr. Fraser.) A considerable financial responsibility in respect of Northern Ireland as a whole.

1787. Yes?—(Mr. Brittain.) For Imperial Services like Defence, and so forth.

Chairman.

1788. I think, without going into the matter further, I may say on behalf of the Committee that we regard it as very desirable that the arrangement in Northern Ireland should be put on the same footing as that in England?—We appreciate that.

1789. I suppose we shall hear a little more about this next year, shall we?—Yes.

Chairman.] Let us turn to page 146, Class III, Vote 19, Supreme Court of Judicature, etc., Northern Ireland. Are there any questions?

(The witnesses withdrew.)

(Adjourned till Tuesday next at 2.30 p.m.)

Mr. Benson.

1790. Is this a Reserved Service, or is it only a temporarily Reserved Service? Is there not a process of transfer of Judicature to Northern Ireland going on, as the older Judges die off?—I do not speak as an expert on that, but I think this is reserved until Parliament otherwise determine. (Mr. Fraser.) It is a Reserved Service under the Government of Ireland Act, 1920.

Chairman.

1791. Permanently?—Yes.

Mr. Benson.

1792. Is it anything below the Supreme Court that is gradually being transferred?—(Sir Gilbert Upcott.) Yes, the Lower Courts. It is in the preceding Vote for Northern Ireland Services that certain services are gradually being transferred.

Sir Isidore Salmon.

1793. Is it a fact that the expenditure on the one hand on this account is met by receipts on the other hand, and that it does not cost the country anything?—(Mr. Brittain.) The net cost of this is recovered from Northern Ireland by means of a deduction from her share of the Reserved taxes.

Mr. Benson.

1794. But do not we increase her share of the Reserved taxes so that she spends roughly what she wants and then we deduct afterwards?—I do not recognise that as a statement of the position. (Sir Gilbert Upcott.) You may be thinking of the Imperial contribution, which is fixed by the Joint Exchequer Board.

Chairman.] May I take it that this Account is approved? *(Agreed.)*

TUESDAY, 8TH MARCH, 1938

Members present:

Mr. MORGAN JONES in the Chair.

<p>Sir Irving Albery. Mr. Benson. Sir Edmund Brocklebank. Mr. Culverwell. Mr. Mabane. Mr. Peat.</p>	<p>Mr. Pethick-Lawrence. Sir Assheton Pownall. Sir Eugene Ramsden. Mr. Wilfrid Roberts. Sir Isidore Salmon. Sir Robert Smith.</p>
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Sir GILBERT UPCOTT, K.C.B., Mr. W. R. FRASER, and Mr. H. BRITAIN called in and examined.

CIVIL APPROPRIATION ACCOUNTS, 1936.

CLASS VI.

VOTE 4.

DEPARTMENT OF OVERSEAS TRADE.

Mr. T. ST. Q. HILL, C.M.G., O.B.E., called in and examined.

Chairman.

1795. Page xix, paragraph 38, Department of Overseas Trade, Civil Appropriation Accounts, 1936. I think the best thing to do would be to ask the Comptroller and Auditor General if he has some explanation to offer as to what arises from this paragraph?—(Sir *Gilbert Upcott.*) I have reported this case, Sir, because it is of a type to which much attention has been paid by the Public Accounts Committee in the past. If the case had arisen in a straightforward Civil Service Department, a gratuity of this kind could not have been granted under the existing rules, unless specifically voted by Parliament. The Imperial Institute is a body which is financed partly by Grants-in-Aid out of Votes of Parliament and partly by contributions from Dominions and Colonies and other sources. The background of history which I should like very briefly to mention, is that in early years the Public Accounts Committee took exception to the exercise by the Treasury of any discretion in awarding pensions or gratuities, other than on regulated terms, such as, for the Civil Service, are contained in the Superannuation Acts. Eventually, after much discussion, with particular reference to the cases of special gratuities paid upon retirement, the Treasury agreed that no special gratuity should

be paid in connection with the retirement of an officer unless explicit provision has been made for it in the Estimate and the money has been voted for it in Parliament. Such rules have not been considered by this Committee to apply solely to the Civil Service pure and simple, because in 1923 the Public Accounts Committee commented adversely upon an award from the General Lighthouse Fund which, although within the legal powers of the Board of Trade, which administers the General Lighthouse Fund, was contrary to Treasury practice under the Superannuation Acts. The Committee and the Treasury of that day agreed that uniformity of practice was necessary and desirable. This particular case is of an officer who held an important technical post in the public service. I have not mentioned it in my paragraph, but perhaps I may as well say that it was that of Chief Inspector of Mines. In 1920 he resigned that position and became Chairman of a body called the Imperial Mineral Resources Bureau which was intended to collect information about the mineral resources of the British Empire. That body has subsequently been amalgamated with the Imperial Institute. When he resigned in 1920 he did so in such a way as to give up any claim to his pension for his

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previous service, because he only took his appointment as Chairman of the Imperial Mineral Resources Bureau as a part time appointment and he had freedom to engage in private practice in his technical capacity. He received as Chairman of the Imperial Mineral Resources Bureau a salary of £1,500 a year for his part time services, of which half was specifically voted in the Estimates as an addition to the ordinary Grant-in-Aid of the Bureau. The Bureau was financed in a rather similar manner to that in which the Imperial Institute is financed now. In 1925, when the Bureau was amalgamated with the Imperial Institute, he became Chairman of the Advisory Committee on Mineral Resources of the Imperial Institute and received a salary of £1,000 per year, also for part time service, of which half was similarly shown in the Estimates as an addition to the regular Grant-in-Aid of the Institute. Then, in 1935, the arrangements were reconsidered with the result that the paid office of Chairman, which he held, was discontinued and his service as such was terminated. It is in those circumstances that the Board of Governors have awarded this special gratuity to him. As I made clear in my paragraph I do not suggest in any way that it was contrary to the power of the Governors to make this award. They had made the Compassionate Fund Scheme and, having made it, they have power to alter it, but I do suggest that the award is analogous to the awards which, in Civil Service and similar cases, this Committee, with the assent of the Treasury, have said should not be made without the specific knowledge of Parliament. For that reason I thought it necessary to mention it in my report to Parliament.

1796. Thank you, Sir Gilbert. Mr. Hill, I take it that at this particular time you were not yourself Accounting Officer?—(Mr. Hill.) No.

1797. But you will no doubt be willing to offer to the Committee some reasons for the giving of this special grant. Would you be so good?—Yes.

Sir Irving Albery.] On a point of order, may I ask one question: shall we have an opportunity of asking the Comptroller and Auditor General for any further explanation of the statement he has just made?

Chairman.] If you want a further elucidation you may ask it now, if you will.

Sir Irving Albery.

1798. There is one question which I should like to ask, which does not seem quite clear to me. I understood Sir Gilbert to say that what the Governors have done is strictly within their legal powers. I also understood him to say that in a somewhat similar case this Committee had disapproved the action taken?—(Sir Gilbert Upcott.) The point which I was putting is this: the Governors have made this scheme of pensions and gratuities. Having made the scheme, as they are the authority which makes the scheme, they are the authority which has the power to alter or depart from the scheme. That is so. But what I went on to say was that in a case (that of the General Lighthouse Fund) in which the Board of Trade made a grant which was within their legal powers but contrary to the general practice of the Civil Service, this Committee took exception to that grant on the ground that the matter was not concluded by the question of technical powers: the question was what the practice ought to be within those powers. Powers can be exercised subject to certain discretions, and the Committee have said in the past that the fact that in a particular case the powers were technically there was not a sufficient reason for using the powers, if the case was a departure from general practice.

1799. I think I understand now?—(Mr. Hill.) As has been explained to the Committee, the amount of the award was within the discretion of the Board of Governors, and the Treasury, who are represented on the Board of Governors, and the Department of Overseas Trade, who are also represented on the Board, considered that the proposed award was equitable, in view of Sir Richard Redmayne's sixteen years' service with the Institute and the Imperial Mineral Resources Bureau, which had been incorporated in the Institute, and in view of the fact that his employment, which he might have expected to continue longer, although his age was, in fact, seventy, was being terminated on account of a change of policy, the change being that the Chairmen should in future be unpaid persons rather than servants of the Institute. Thus there was a saving of Sir Richard Redmayne's whole salary, which amounted to £1,000 a year. Further, that Sir Richard Redmayne had given up pensionable

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employment, which had been of considerable duration, in the Civil Service in order to take up this employment, which it was very desirable in the public interests that he should take. Whilst it is clear that the pension in respect of Civil Service employment was explicitly given up in total at the time when he took his new employment, it is also clear that the salary of the new employment, which at first was £1,500 a year, with a right to private practice, and later became £1,000 a year, did not compensate him for that surrender and, in fact, the salary was actually a good deal below his Civil Service remuneration.

Chairman.

1800. Mr. Hill, this gentleman gave up his post in 1920 or 1921?—1920. (Mr. Fraser.) About 1920.

1801. I take it that he then said to himself "I will take the risk"?—(Mr. Hill.) I presume he must have done so.

1802. Having taken the risk it seems to me that he must take the consequences. Now the Board say "Sir Richard took an undue risk"?—In effect that was their opinion I presume.

1803. Therefore they say "Since Sir Richard backed the wrong horse, so to speak, in 1920, we think we ought to give him something in the way of a consolation prize"?—And in respect of his service to the Institute in the intervening years.

1804. Yes, but he was paid for that. That was a part time job; he knew that?—Yes.

1805. For the other part of his time he was free to engage in any private work that he might feel disposed to do?—Yes.

1806. And it is no fault of the Board or anybody else that Sir Richard perhaps, for ought I know, may not have been able to get as much of the private work in his private time as he anticipated?—I am afraid I have no information on that.

1807. Of course not, but he might have had a good deal of private work?—That is possible.

1808. Before we pass on to asking questions, might I ask the Treasury if they have anything to say on this matter?—(Mr. Fraser.) The Treasury have not much to add to what Mr. Hill has already said. There is no doubt that, if this case had been decided on strict Civil Service lines, a gratuity of as much as £1,500 would not have been

payable, but it is not clear that there was any obligation to decide it on strict Civil Service lines. I do not think the case is quite parallel with that of the General Lighthouse Fund to which Sir Gilbert Upcott referred, because the Funds of the Imperial Institute are not all provided from this country. Mr. Hill will correct me if that is wrong. (Mr. Hill.) That is true. (Mr. Fraser.) They are provided from a joint Fund provided not only by this country but by the Dominions and Colonies.

1809. Was his salary borne partly by the Colonies?—His salary was borne partly from the general funds, which, in their turn, are provided partly by a Grant-in-Aid from our Votes and partly from Colonial contributions.

1810. Have the Colonies been invited to express their approval or disapproval of this sum?—The Colonies have their representatives by means of Governors. This question perhaps Mr. Hill would answer better. My object was to point out that, in broad terms, there is a distinction between this kind of Institution and the General Lighthouse Fund, which is, I believe, under the complete control of the Board of Trade.

1811. May I press one point further? I gather from Sir Gilbert and Mr. Hill too that there was a representative of the Treasury on this Committee?—Yes.

1812. Did he, on behalf of the Treasury, approve of this proposal?—Yes.

1813. Therefore the Treasury, I take it, must have known that this was being done in a way that is not on the Civil Service basis, anyway?—Yes. My first point was that the case is not quite parallel with that of the General Lighthouse Fund to which Sir Gilbert referred. The next point is, of course, that one must remember that this officer had a substantial position in the Civil Service and would, in fact, have had the chance of getting a pension of something like £500 a year with a lump sum of £1,235, if he had so chosen in 1920.

1814. Yes, but he did not choose?—You have already disposed to a certain extent of that argument, but when the Board of Governors came to look at the thing on the officer's retirement I think they were justified in looking at it by and large and deciding what it was right to give the officer, having regard to all his previous service to the State, remembering also that the change which

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took place in 1920 was not entirely in his own interests, but also in the public interests. It was not as though he as going out completely into private employment.

1815. I must not give my opinion until we have discussed this matter, but it seems to me to be a very singular decision?—Thirdly, the point which Mr. Hill already made was that he retired from the Imperial Institute, not at his own option, but before he had reason to think he would have had to retire.

1816. He was 70?—Yes, but I understand there were no retiring rules in respect of the position he then held.

Chairman.] They ask magistrates to leave at seventy, now.

Sir Isidore Salmon.

1817. At what period would he have been entitled to a pension, from the time he started in the Civil Service? He started at the Imperial Institute in 1920, but in what year would he have been entitled to his pension?—When he reached the age of 60.

1818. What year would that have been?—1925.

1819. Mr. Hill, is it a fact that the Officer in question gave more time than was anticipated to be necessary for the work that he was undertaking as Chairman of these two Committees?—(Mr. Hill): I do not think so. I have not seen any information to that effect.

Sir Irving Albery.

1820. I understood from what the Comptroller and Auditor General said that there was a time when the remuneration which he received, £1,500, was reduced, owing to some change, to £1,000 per annum?—Yes.

1821. Could we understand a little bit about that. Without knowing the details it sounds more as if he were entitled to some compensation then than perhaps he was at 70. Did I understand rightly that the employment for which he received £1,500 a year was terminated and he was given another employment at £1,000 a year in substitution for that?—(Mr. Fraser): Yes.

Chairman.] Yes, but part-time.

Sir Irving Albery.

1822. It was part time before?—He was Chairman of the Imperial Mineral Resources Bureau for five years and later became Chairman of the Advisory Committee on Minerals.

1823. They were both part-time employments, were they not?—(Mr. Hill): Yes.

Chairman.

1824. But he was not part-time up to 1920?—No, he was in Government service. (Mr. Fraser): Chief Inspector of Mines.

Sir Irving Albery.

1825. When that change was made, which reduced his remuneration by £500 a year, was any question of compensation for that reduction raised at the time either to take place then or at a subsequent date?—(Mr. Hill): I have no information that the question was raised. The reduction took place on the amalgamation of the Imperial Mineral Resources Bureau with the Imperial Institute.

Sir Irving Albery.] I would rather like to ask your guidance, Mr. Chairman: in discussing this matter are we really concerned mainly as to whether the action was in accordance with previous custom, different from what this Committee would have approved of, that is to say, in making the grant without reference to Parliament, or are we rather discussing whether it was, in fact, an equitable thing to do.

Chairman.] I think it is the first point, namely, as to whether this ought to be done without reference to Parliament?

Mr. Peat.

1826. I was going to say what I think Sir Irving had in mind. On that point I should like to ask Sir Gilbert to elucidate, as far as I am concerned anyhow, his opening statement by saying whether or not the Imperial Institute were within their rights in making this allowance, and if so, what is Parliament's exact standing in this matter? I do not really follow how they can have a perfect right to make an allowance like this which we, in our turn, have the right to criticise. The two do not seem to go very well together?—(Mr. Fraser): Parliament might make it a condition of future payments of Grants-in-Aid that certain practices which have in the past been followed should be altered, if Parliament thought it desirable. (Sir Gilbert Upcott): The payments out of the Grant-in-Aid voted by Parliament to this Institute are audited by me and I am therefore entitled and obliged, if I think it necessary, to report on them to Parliament. This Committee has a perfect right to question expenditure out of a

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Grant-in-Aid which is to be accounted for in this way. What I was making clear in my opening statement was, as indicated in my report, that I do not question the technical powers of the Board of Governors to make this payment. There is no suggestion that they were acting *ultra vires*; but the fact that a thing may be *intra vires* does not make it necessarily expedient to do it in that particular way.

1827. We are discussing whether this payment should have been made on the facts of the case, not whether they have the right to make it?—I am suggesting that on the analogy of the previous opinions expressed by the Committee and accepted by the Treasury, this is a grant which, in my opinion, should be made known to this Committee. I have not ventured to express a precise opinion as to whether the Department or the Treasury should have actually sought the previous assent of Parliament. I think that is a matter for the Committee to consider. I considered my duty to be fulfilled when I reported it to Parliament and to this Committee. (Mr. Fraser.) There is one other point the Committee might like to bear in mind and that is that it is not only in this respect that the Pensions Scheme of the Institute is different from that of the Civil Service; it might be found that in a good many respects it is not so favourable.

Chairman.

1828. That may be a fact, but it does not affect this particular issue?—I was only endeavouring to contest the suggestion that the Civil Service rules ought always to be applied automatically in the Institute and that if they are not there is *ex hypothesi* something wrong. I do not think that follows.

Sir Robert Smith.] I take it, Sir Gilbert, that it is entirely the question of amount. If a smaller pension had been granted it would probably have been all right.

Chairman.] It is not a pension.

Sir Robert Smith.

1829. Gratuity?—(Sir Gilbert Upcott.) The officer had no claim to either pension or gratuity.

1830. It was a compassionate gratuity. Do I gather that there might have been a figure which you would not have objected to, or would you say any figure at all should be questioned by

this Committee?—That is a rather hypothetical question. If it had been merely £10—

Sir Robert Smith.] I do not mean a merely nominal figure.

Sir Isidore Salmon.

1831. Is it so hypothetical? I thought you said in your opening remarks that you had regard to the amount. I do not think it is so hypothetical, if I understood what you said correctly?—I do not think I made any reference to that. I was discussing the question of principle.

Sir Robert Smith.

1832. I understood from what you said that if they had followed the principle which is adopted in the Civil Service you would not have had anything to say. Is that not a question of amount too? If the Civil Service plan had been adopted, surely there are certain amounts that would have been given then as a gratuity probably?—He would not have been technically eligible for any grant under the Superannuation Acts because he did not give his whole time to the public service during his last 15 years of service. If he had been eligible the grant would have been about £200. (Mr. Fraser.) £287 I think.

1833. Surely we must either consider him as being in the Civil Service or out of it. We cannot entirely deal with this matter on Civil Service principles if he was entirely outside the Civil Service?—If this had been a Civil Service post he would have been very much better treated, because he would have gone on being pensionable and got a pension not of £463, but a very much greater one plus a lump sum.

Chairman.

1834. But in 1920 he elected to give up those prospects, Mr. Fraser?—Yes.

Sir Robert Smith.

1835. Mention has been made of the Civil Service. It seems to me that in dealing with this question we have to leave out the Civil Service altogether and what I want to understand is whether we have really power to deal with the point at all?—(Sir Gilbert Upcott.) If I may say so, this Committee has full power to follow up the expenditure out of the Grant-in-Aid. (Mr. Fraser.) We should not suggest

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that the Committee have not any power. We should welcome their guidance. (Sir *Gilbert Upcott*.) It is the rule of the Institute itself that a compassionate gratuity is not payable unless the officer has given his whole time to his office. This was an exception, not merely from the rules of the Civil Service, but from their own rules which are based on those of the Civil Service.

Sir *Robert Smith*.] I understand you to go further and say that if they had come to Parliament and informed Parliament that they were doing so, it would have been all right.

Chairman.] I do not know that Sir Gilbert can say that; you can never tell.

Sir *Robert Smith*.] I gathered that that was his suggestion.

Sir *Irving Albery*.

1836. Sir Gilbert referred to their own rules and I gathered that what they have done is contrary to the rules which existed. He also said that they had power to alter their arrangements; are we to understand that they have altered their rules on account of this?—They suspended their rules for this particular case.

1837. In other words they have broken their rules?—Yes, they departed from them.

Mr. *Benson*.

1838. I do not quite understand why the Treasury agreed to this. The explanation put forward by their representative upon it is that it was not solely Parliamentary money that maintained the Institute?—(Mr. *Fraser*.) The Treasury is represented on the Board of Governors.

1839. I know they are; therefore the Treasury, representing Parliamentary money, should, it seems to me, have been bound by the Treasury practice and should have opposed the grant?—I do not think it was the duty of the Treasury to oppose anything which was not in strict accord with Civil Service practice.

1840. So far as I can gather, if it is not parallel with the General Lighthouse Fund case, it is sufficiently close to indicate the line that the Treasury should have taken. The mere fact that there are other sources of income to the Institute does not seem to me to be an adequate reason for abrogating a very healthy rule?—That, of course, proceeds

on the assumption that the Civil Service Superannuation rule should be applied in a particular instance where it is to the detriment of an officer belonging to a staff to whom, generally speaking, those rules do not apply. It may be right that the Imperial Institute staff should be brought under the Civil Service rules by analogy, but at present of course the rules are different. For instance there is a contributory pension scheme instead of a non-contributory one; there are quite a lot of differences.

1841. Is there any fundamental difference between the Institute and the Lighthouse Fund?—(Sir *Gilbert Upcott*.) The General Lighthouse Fund has precisely the same provisions as the Civil Service as regards superannuation and gratuities. The Imperial Institute has a contributory pensions scheme which is different from the Civil Service scheme, more like the Federated Universities Pensions Scheme, but it has, for non-pensionable officers, a compassionate scheme which is in terms the same as that of the Civil Service scheme. It is that scheme from which the Governors departed in this particular case. (Mr. *Fraser*.) All I am suggesting is that this Committee should not assume that the Civil Service scheme should apply in all its rigidity to a case like this where the conditions of recruitment, employment and pension are not the same.

Mr. *Benson*.] On the other hand, the condition of employment of Sir Richard Redmayne was not the same. He was only part time.

Chairman.

1842. His service was not the same as the normal service of the Imperial Institute?—No. There must be in a concern like that some cases which have to be decided on their individual merits and all I can say is that the Board of Governors, on which the Treasury was represented, took a certain view of the matter.

Mr. *Benson*.] On that, as the Comptroller and Auditor General audits this fund and as this fund comes before us, are we expected to lay down some guidance on this matter?

Chairman.] He has brought it to our attention. It is for us to determine later whether we shall take special note of it when we come to our Report. That is the position, Mr. Benson.

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Mr. Wilfrid Roberts.

1843. I would like to be quite clear to what extent the normal practices and rules of the Board themselves were suspended in this case. Is it only that the person concerned was a part-time officer in the part-time service of the Board?—(Mr. Hill.) In two respects, so far as I understand it. One is that the officer in question was only employed part time and one of the conditions of the Compassionate Fund Scheme was that it should apply to persons who devoted their whole time to the Service; and, in another respect, that one section of the Compassionate Fund Scheme provides that the Governors, in deciding whether or not a gratuity should be granted and, in calculating the amount of such gratuity, will follow the practice of the Treasury in administering the Superannuation Acts. Those I think are the two respects in which the Governing Board departed from the Compassionate Fund Scheme in this instance.

1844. May similar cases arise?—I have not heard of any similar cases.

Chairman.] May they?

Mr. Wilfrid Roberts.

1845. Are there other part-time officers?—There are other part-time officers I believe.

Chairman.

1846. Are there? Could you say precisely?—I could not say precisely.

1847. I thought you had some doubt. Do you know, Sir Gilbert?—(Sir Gilbert Upcott.) No, I could not say precisely offhand; it could be ascertained.

Sir Eugene Ramsden.

1848. What is our proportion of the cost of the Imperial Institute in comparison with the other contributions that you receive from the Dominions and Colonies?—(Mr. Hill.) The United Kingdom contribution is £16,500 and the Colonial contribution is about £13,000. The total income is £43,000 of which in 1937 the Grant-in-Aid from the Department of Overseas Trade Vote was £16,600, self-governing Dominions contributed just under £2,000, Colonies and Protectorates £13,000 and there was interest on the Endowment Fund and certain other miscellaneous receipts and fees.

Mr. Benson.

1849. What is the origin of the Endowment Fund?—It is an endowment

which was in the possession of the Imperial Institute from its inception.

Sir Eugene Ramsden.

1850. That is money provided by this Government?—It produces about £5,000 a year.

1851. That money was provided originally by this Government, I take it?—I understand by public subscription.

1852. So that really the cost, so far as this country is concerned, of this special Grant amounts to about half, or just under half, of the total cost?—In respect of this special Grant?

1853. In respect of this special Grant?—The proportion from the United Kingdom is 16 into 43, that is to say, one-third.

Mr. Benson.

1854. Plus £5,000?—If you include the Endowment Fund.

Mr. Benson.] That is exactly half.

Sir Eugene Ramsden.

1855. Have there been any other cases where the Board of Governors have made grants, or have they ever considered it necessary to take action which was not strictly in accordance with their rules or, alternatively, in accordance with Civil Service practice?—(Mr. Hill.) I am not personally aware of any such cases but I should not like to say definitely "Yes" or "No".

1856. You do not know?—No, I do not know.

Mr. Pethick-Lawrence.

1857. May I put to the Treasury a question: am I right in thinking that this would be the position, that you considered that this was a case, which under all the circumstances, could be judged on its merits, and on its merits the Treasury concurred in the view that this Superannuation Grant should be given. Is that the position?—(Mr. Fraser.) Yes.

1858. Further than that, I take it that what this Committee would be entitled to do and which it would be for this Committee to consider, is one of three courses, either to take the view that in no circumstances should this sort of bodies, that are on the fringe of the Civil Service, behave any differently from the Civil Service; they should treat their superannuation and pensions precisely as the Civil Service would; or we could take the view that such bodies were entitled to deal differently from what the Civil Service do, but that we

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disapproved on its merits of this particular grant; or, thirdly, that we support the action that was taken. Do I take it that that is a fair representation of our three alternatives?—I think so.

Chairman.

1859. Sir Gilbert, have you anything further to say upon this point?—(Sir Gilbert Upcott.) I want to make it clear that I am not desiring to express any judgment on the merits of this particular grant. The view I took was that the circumstances of this Institute, receiving, as it does, a large proportion of its income out of moneys provided by Parliament, are such that I thought Parliament should be aware of the grant, seeing that if it had been a straightforward Civil Service case this Committee would have insisted that the grant should not have been made without receiving the previous assent of Parliament. What I considered it my duty to do was to report the facts of the case to Parliament. It is not necessary for me in so doing to express any opinion whether it was right or whether it was wrong.

1860. I think that if you had ventured an opinion there might be a chance for some dissent upon the point, but I think you were quite right, none the less, in bringing it to the attention of the Committee. Would you answer me one question more: has this gentleman's salary been borne on the account as part of the account normally, or has it been borne separately? What has happened to his salary?—(Mr. Hill.) During his service with the Institute?

1861. Yes?—Borne on the accounts of the Imperial Institute. (Sir Gilbert Upcott.) I think I explained in my earlier statement that for the period from 1920 to 1925 and from 1925 to 1931 half the salary was specifically shown in the estimates as an addition to the Grant-in-Aid. (Mr. Fraser.) Yes. (Mr. Brittain.) Subsequently it was merged in the Grant-in-Aid. (Sir Gilbert Upcott.) Subsequently it was merged in the Grant-in-Aid. It was apparently considered necessary or desirable to draw the specific attention of Parliament to the fact that this post existed and was being grant-aided out of moneys provided by Parliament.

Chairman.] That has no special bearing upon this particular point. Are there any further questions? Shall we turn to page 262, Class VI, Vote 4, Department of Overseas Trade?

Sir Isidore Salmon.

1862. On page 262 I notice that your total expenditure is up by £22,000 on last year? Is that consequent on having more staff because you anticipated participating in a larger number of Exhibitions? That is under sub-head A.1?—(Mr. Hill.) Under sub-head A.1, in respect of salaries, the increase is £4,859.

1863. The other expenditure may go under the heading of Contributions to Exhibitions. That is on the total expenditure compared with last year. I am making a comparison between the Civil Appropriation Account of this year and last year. The only point I was going to ask you was, I was taking the total expenditure but you do not seem to have it handy?—No.

1864. It does not matter. May we take the point on sub-head D, British Industries Fair?—British Industries Fair.

1865. On page 263 you apparently over-estimated the amount of space that you were going to let on that occasion; is that so?—That is so, yes.

1866. I suppose you find it very difficult to be fairly certain what spaces you will let. You can only give an estimate?—We can only give an estimate, yes.

1867. Have you found that the fair is just as popular now as it ever was from the point of view of people requiring space?—It seems to increase its popularity. It certainly has this year, 1938.

1868. As regards Exhibitions, I notice that under sub-head E you have here a figure down in connection with the Paris Exhibition?—Yes.

1869. Did you have to pay that before the whole account of the Paris Exhibition was settled up?—Yes, most of it will come in next year, but this was advance expenditure.

Mr. Mabane.

1870. With regard to sub-head A.3, your note here says: "Saving on provision for home and foreign telegrams (£456), offset by increase in cost of telephones (£163)". Therefore the amount you spent less than granted ought to be the difference between £456 and £163, whereas the £618 is an addition of those two items. If it is £456 offset by £163, it ought to be £456 minus £163, whereas the £618 is £456 plus £163. Can you explain it?—No, I am afraid I shall have to look into that.

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1871. Did you, in fact, have an increase in the cost of telephones or not?—Yes, in telephones I understand.

1872. You had an increase of £163 in the cost of telephones?—I am sorry, but I find it is a saving on telephones.

1873. So it ought to read: "Saving on provision for home and foreign telegrams, to which must be added saving in the cost of telephones"?—(Sir Gilbert Upcott.) I think the fact is that various alterations which appear to have been made in the typescript copy of the Appropriation Account do not seem to have got finally into the printed copy, because I have a manuscript copy in front of me which contained originally the words "Saving on provision for home and foreign telegrams" with a certain figure, "offset by increase in the cost of telephones". Then numerous

alterations have been made and initialled, with the result that it should read: "Saving on provision for home and foreign telegrams (£456) and telephones (£163)".

1874. And saving on telephones?—What the Accounting Officer wrote finally was simply the word "and".

1875. So, in fact, there is really a misprint in these accounts?—(Mr. Hill.) Yes. (Sir Gilbert Upcott.) It seems to be a failure, for which I am afraid I am responsible, to carry alterations made in the manuscript copy into the final proof. I can assure the Committee that the Accounting Officer eventually gave a perfectly correct explanation.

Chairman. Are there any questions? May I take it that this Account is approved? (Agreed.)

TRADING ACCOUNTS AND BALANCE SHEETS 1936.—DEPARTMENT OF OVERSEAS TRADE.

Chairman.

1876. Are there any questions on pages 92 or 93? On page 94 I see that the profit has turned out to be rather less, Mr. Hill, latterly. Could you explain that?—(Mr. Hill.) A slight decline for that year in the area let to exhibitors.

1877. That accounts for it, does it?—Yes.

Mr. Peat.

1878. I was going to ask the relationship between the payment for lighting, which is £17,889, as far as I can gather, and the receipt on account of lighting is £19,199. Does that indicate £1,000 odd profit on lighting?—Yes.

Sir Isidore Salmon.

1879. I suppose that is because you charge per lamp. Is that the cause of that profit?—Yes.

Chairman.] Are there any further questions?

(Mr. Hill withdrew.)

(At this point the Chairman withdrew and Sir Isidore Salmon took the chair.)

CIVIL APPROPRIATION ACCOUNTS, 1936.

CLASS V.

VOTE 14.

DEPARTMENT OF HEALTH FOR SCOTLAND.

Mr. W. S. DOUGLAS, C.B., and Mr. J. S. SEGGIE, called in and examined.

Sir Isidore Salmon.

1886. Department of Health for Scotland. The expenditure for your Depart-

ment is up, I believe, over the whole year, some £263,000, compared with last year's expenditure in the Appropriation Account?—(Mr. Douglas.) Yes.

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Mr. W. S. DOUGLAS, C.B., and
Mr. J. S. SEGGIE.

[Continued.]

1887. I am taking the whole Department. In sub-heads A to E, Administration, are you increasing the staff in your Department, Mr. Douglas?—In the year 1936, for which we are being examined, we actually show a saving on staff of £1,594 in the Appropriation Account.

1888. Is it not a fact that the administration is at a higher figure this year than it was at the corresponding time last year—the cost of administration?—May I get which year, 1937?

1889. 1936, the Appropriation Account?—As compared with 1935?

1890. Yes?—Yes, Sir, that is so.

1891. Are you finding it necessary to increase your staff because you have more work to do now in the Department?—Yes, Sir.

1892. How is it that you do not require now any grant for the Sanatoria: you just put down a nominal sum of £10?—It is merely a token figure. It is explained in G. This was money which was voted a long time ago and all the schemes have now finished. It was a capital grant towards Sanatoria. The money has been expended now but the Vote is kept open because there are two small schemes on which it is not yet finally decided whether they will or will not come within the terms of the original grants. We keep the Vote open in case it may be that they will come in later on.

1893. Page 231 just gives the total. Then we come to page 233. There is only one point I would like to ask you on that page. Could you explain H.2 a little more fully, "Contributions to the Unemployment Arrears Fund (Grant-in-Aid)"?—It is on page 233; that is a Fund which was created for helping Approved Societies to meet the loss arising from their unemployed members, the heavier cost arising from the fact that they are not getting contributions in cash from their unemployed members who do not stamp their books but instead have their cards franked at Labour Exchanges. There is no money coming into the Societies for that purpose, but they have to pay out moneys and this Fund was set up to help them to meet that expenditure. The expenditure, as you will see, is less than was estimated because unemployment has been better, or rather employment has been better, and therefore the Societies are asking less from the Department to help them

to meet that expenditure. (Sir Gilbert Upcott.) It is a statutory grant, Sir Isidore. (Mr. Douglas.) It is a statutory grant.

Sir Robert Smith.

1894. What I wanted to ask was for some further information about sub-head G.7. I see there is this grant towards the expenses incurred by Local Authorities in providing Rural Water Schemes and the note says: "The saving is largely accounted for by (1) the delay in proceeding with two large schemes of one local authority due to the illness of their engineer at a time when Schedules were in preparation for issue to the contractors; and (2) the cost of one large regional scheme proving to have been considerably over-estimated." What were these schemes?—The first schemes in which reference is made to the illness of the engineer, are schemes in Dumfries County. The second scheme is the Kirkcudbright Regional Scheme where the over-estimate was due to the fact that it was originally anticipated that one Burgh would come within the scheme and subsequently decided not to come within the scheme and therefore the cost of the scheme was correspondingly reduced.

1895. Am I not right that there was some water scheme about which they got a double grant from a Department?—(Mr. Fraser): That was under another Vote, Employment Schemes Grants.

1896. How do you have water schemes under two Votes?—This was the Unemployment Grants Committee which was a Committee which administered grants for the expediting of schemes which were going to cause employment. (Mr. Brittain.) And on which new grants ceased several years ago.

1897. This Department has nothing to do with those schemes?—(Mr. Douglas): Nothing whatever to do with them, Sir.

Mr. Wilfrid Roberts.

1898. With regard to sub-head F.4, will the Central Housing Association go forward in future without any delay?—We are not quite certain. It is simply kept open in case it were ever decided to set up a Central Housing Association.

1899. Is that in connection with the Special Areas in Scotland?—No, Sir, it would be in connection with Housing generally.

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Mr. W. S. DOUGLAS, C.B., and
Mr. J. S. SEGGIE.

[Continued.]

Sir Edmund Brocklebank.

1900. In sub-head F.4, why do you keep it open by a token Vote of £500. Why do you not take a token Vote of £10?—It is more than a token Vote. It is an estimate of the amount to be expended. This is a Grant-in-Aid and the amount granted could not be exceeded without presenting a Supplementary Estimate, so we have provided a little more than a token figure.

Sir Isidore Salmon.

1901. On page 233, the Details of Receipts. The estimates of Receipts and your realisation seem to be very close on total. Is there any special reason why you have been so near?—It is mostly those insurance matters which have been running for a long time and we can esti-

mate pretty closely. The only substantial difference is in connection with the Second Scottish National Housing Company where, as you will see from a note on page 234, it is a question of income tax for two years, otherwise the expenditure runs pretty normally from year to year and it is fairly easy to forecast. It is based on a costing system.

1902. On page 234, where you have a note on the £1,050,000, that is a part of the repayment that you get annually of capital and interest that you are referring to?—Exactly.

Sir Isidore Salmon.] Are there any more questions on pages 233 and 234? Page 235, Highlands and Islands (Medical Service) Fund. Are there any questions on that? May I take it that this Account is approved? (*Agreed.*)

HOUSING ACT, 1914, ACCOUNT, 1936.

Sir Isidore Salmon.

1903. Housing Act, 1914, White Paper. Sir Gilbert, have you anything to say on this White Paper?—(*Sir Gilbert Upcott*): This Paper is only presented in order to record a small receipt which came in in the year of account.

It is only presented when we have to report something which occurs on it. It is a pre-war account. It is merely a technical necessity. (*Mr. Douglas*): It was a shop which was sold by the Housing Association.

Sir Isidore Salmon.] May I take it that this Account is approved? (*Agreed.*)

NATIONAL HEALTH INSURANCE FUND ACCOUNTS, 1936.

SCOTTISH NATIONAL HEALTH INSURANCE FUND.

Sir Isidore Salmon.

1904. White Paper, National Health Insurance Fund Account 1936, Scottish National Health Insurance Fund, pages 20 to 25. I would like to refer you, Mr. Douglas, to the further White Paper that has been submitted separately. You show there a figure for contributions and a figure for benefits, also administrative expenses?—(*Mr. Douglas*.) Yes, Sir.

1904A. I suppose the administrative expenses are laid down by Statute as to how much the Societies may charge?—They may not exceed 4s. 6d. per member per year.

1905. How long was it since that figure was arrived at?—I suppose it is getting back to the beginning of things, but I am afraid I must ask for help about that. I should think it was about the beginning of the National Health Insurance Scheme.

1906. The reason I asked was this: at the time that figure was arrived at presumably the token figure was

calculated on the basis of a certain estimate of expenditure that might arise, but now that many years have passed I would suggest to the Treasury that the time has arrived when it might be re-examined, both for England and Scotland (we will deal with Scotland first). Or is there anything in the Act which prevents it being re-opened?—(*Mr. Seggie*.) The amount for Administration is prescribed by a regulation and that may be altered by the Joint Committee on the National Health Insurance at any time.

1907. It cannot be altered?—The figure, I think, has been altered twice since the Act came into force in 1912. In 1924, I think, there was an alteration, speaking from memory, but I cannot remember when the other was. It followed some agitation by approved societies.

Sir Isidore Salmon.] Are there any questions on pages 20 to 25? May I take it that this Account is approved? (*Agreed.*)

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Mr. W. S. DOUGLAS, C.B., and
Mr. J. S. SEGGIE.

[Continued.]

WIDOWS', ORPHANS' AND OLD AGE CONTRIBUTORY PENSIONS
ACT, 1936, ACCOUNTS, 1936.

PENSIONS (SCOTLAND) ACCOUNT.

*(On this Account no questions were asked.)**(Mr. Douglas and Mr. Seggie withdrew.)*

CIVIL APPROPRIATION ACCOUNTS, 1936.

CLASS V.

VOTE 1.

MINISTRY OF HEALTH.

Sir GEORGE CHRYS TAL, K.C.B., and Mr. S. H. G. HUGHES, C.B.E., called in and examined.

Sir Isidore Salmon.

1908. Ministry of Health, page 196, Class V, Vote 1. Sir Gilbert, have you anything to say generally on the account?—(Sir Gilbert Upcott.) I have no questions to raise on this account.

1909. Page 196 just gives the total, but if we are taking the detail for a moment, on page 197, on sub-head B. what were the un-anticipated increases in the District Audit Staff, Sir George?—(Sir George Chrystal.) Sub-head B. is Travelling Expenses.

1910. Page 197?—(Sir Gilbert Upcott.) The footnote refers to an un-anticipated increase in the Audit Staff. (Sir George Chrystal.) We had a re-organisation of the audit arrangements.

1911. Would you mind briefly telling us what it is?—In the Insurance Department there was also an increase; it is the Audit Staff you are specially interested in, is it?

1912. Yes?—That is £1,287 out of the £8,000 and it was made up of an excess for travelling of £796 and subsistence allowances of £1,016, making £1,812. Then there was a saving on removal expenses and lodgings of £525 which brings it out at £1,287. There were increases of staff which were not contemplated at the time the estimate was framed.

1913. If you were going to re-organise the section, I suppose you did have some idea of what it was going to cost you both as to number of units and a figure for travelling expenses?—It is not a very large sum. The way the note is put here rather suggests the amount is £7,700 whereas it is only £1,287. I think a variation of £1,287 is not a very serious matter.

1914. No, that is not, but from the explanation in the note it looks much larger?—Yes, I think that the drafting of the explanatory note might be improved in that way. I think that makes us out worse than we are. I agree, the note tends to mislead slightly.

1915. I have one or two other notes by the Chairman. On page 198, sub-head G.6, there is a large under-spending?—That is the Rural Water Supplies. We have discussed that before in this Committee and I am afraid we may have occasion to refer to the subject again in time coming. It has been a very difficult matter. There was a grant of £1,000,000 for improving Rural Water Supplies, and the rate at which this grant has been expended is disappointing. We were optimistic enough to hope that the sum we took would be spent during the year which we are now discussing, but unfortunately the schemes did not all materialise. It is not altogether on the wrong side, I think, because the £1,000,000 which Parliament granted has been the means of greatly stimulating schemes of Rural Water Supply throughout the country. One reason why there has been a delay in spending the £1,000,000 has been that the local authorities have grouped themselves together to frame comprehensive schemes and these have taken a considerable time to develop. Apart from that there have been various technical delays in plans and delivery of goods, and that kind of thing.

1916. Is it because there is a lack of skilled engineers to get out the plans?—No, I do not think it is so much that. It is more a good deal of discussion locally and the County Councils co-ordinate the schemes and try to work

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Sir GEORGE CHRYSAL, K.C.B., and
Mr. S. H. G. HUGHES, C.B.E.

[Continued.]

in the other authorities and that is a matter which takes time. It means negotiation and discussion and it is not easy to get it done very quickly.

1917. No, except that it does seem a large percentage of under-spending against your estimate of twelve months previously. That is the only point one can criticise. It is £87,000 on £237,000?—The £1,000,000, as I explained, is only part of a very much larger amount of expenditure. I believe that the whole amount the Local Authorities are committed to is about £7,000,000. All I can say is that at the Ministry we do our best—

1918. To urge it forward?—To urge it forward and, at the same time, not to take too much money. We have several times impressed very strongly on our Engineering Department that they must not be too optimistic, but one does not want to damp their enthusiasm altogether, and possibly we have been on the optimistic side.

Sir *Isidore Salmon*.] Are there any questions on pages 198 and 199?

Sir *Irving Albery*.

1919. I wanted to ask a question arising out of yours. I am not quite clear—does the delay arise mainly owing to sufficient schemes not having been approved or owing to delay in carrying out schemes already approved?—Three-quarters of the work has been done I am told, but we have only paid about half; there is a lag in paying for work that has actually been done.

1920. The delay is more in carrying out already approved schemes, not so much in the preparation and putting up of the schemes?—Getting comprehensive schemes formulated. We do not approve them until they have agreed, possibly on a rather big undertaking.

1921. Is there a time limit for this grant?—No.

Sir *Robert Smith*.

1922. Following on Sir Irving Albery's question, what is the total value of the schemes?—£7,000,000 or £8,000,000.

1923. How much has been spent up to date?—We have only spent £500,000 of our £1,000,000 although three-quarters of the work has been done. (Mr. *Hughes*.) The Local Authorities have spent or are committed to an expenditure equal to about three-quarters

of roundabout £7,000,000 or £8,000,000; our total grant will be £1,000,000 and already we have paid £500,000 towards it.

1924. Your total grant to the Local Authorities will be £1,000,000?—It will not exceed £1,000,000.

1925. And you have paid three-quarters of that already?—(Sir *George Chrystal*.) Half: we have paid £500,000. (Mr. *Hughes*.) The Local Authorities have carried out about three-quarters of the work. The total provision is made by County Council, District Council and Exchequer Grant, and towards the loss on the scheme, of course, there are the collections for Water Rates.

Sir *Isidore Salmon*.

1926. How long would it take you to pass a scheme when it is sent in to the Department?—We get the scheme in draft and that usually involves a visit by an inspector and discussions with the Local Authority putting forward the scheme and frequently consultations with a group of authorities and the County Council in order to get the most economical scheme for the District itself.

1927. But, in arriving at your figures of how much you are going to spend in the year, do you fix a figure that is going to be spent after you have passed the plans?—One way in which this estimate has been checked is by making an approximate valuation of the work done and an estimate of the amount of additional work that it will be possible to do during the 12 months commencing from the following April, and then basing the grant on the proportion of the Exchequer grant likely to be claimed in the 12 months commencing in that following April.

Sir *Isidore Salmon*.] Are there any other questions on this Account?

Mr. *Mabane*.

1928. With regard to sub-head R.R., I do not understand how you can be doubtful as to whether a Postal Order is stolen in transit or after delivery; either you know it has come or you do not know it has come?—These particular Postal Orders we were satisfied had been posted; there was no evidence that they were received in the Department but after investigating particular cases we felt that the balance of

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Sir GEORGE CHRYS TAL, K.C.B., and
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[Continued.]

evidence justified an admission by the Department that the money had been received.

1929. Was that because it was so difficult to get it out of the Post Office?

—We could not get it out of the Post Office.

Sir *Isidore Salmon*.] May I take it that this Account is approved? (*Agreed.*)

VOTE IA.

GRANTS TO PUBLIC ASSISTANCE AUTHORITIES (ENGLAND AND WALES).

CLASS IX.

VOTE I.

EXCHEQUER CONTRIBUTIONS TO LOCAL REVENUES, ENGLAND AND WALES.

(*On these Accounts no questions were asked.*)

NATIONAL HEALTH INSURANCE FUND ACCOUNTS, 1936.

Sir *Isidore Salmon*.

1930. White Paper: National Health Insurance: On the question of the National Health Insurance I would like to ask Sir George if he would kindly give us some explanation of how he deals with the amount of Administrative Expenses for the Fund of England and Wales. What is the system in fixing the amount that is allowed to Approved Societies?—(Sir *George Chrystal*.) The maximum amount of 4s. 6d. per contributor per year is fixed by regulation.

1931. That regulation being made by whom?—By the Joint Committee. Regulations are made for each class of contributor. They will have to make regulations shortly for the new class of contributor which comes in under the new Act.

1932. Sir Gilbert, have you anything to say on this particular point of how this amount is fixed—the amount that is allowed per contributor?—(Sir *Gilbert Upcott*.) No, I do not think it is possible for me to express any opinion on it.

1933. Have you any means, Sir George, of measuring what is the fair figure?—(Sir *George Chrystal*.) Yes, these things are constantly under review departmentally and there is the National Health Insurance Audit which very carefully scrutinises the accounts.

1934. You are satisfied that the figure is not too high?—On the whole I think not. If you swept the whole business of Approved Societies away and had a central Department probably it could be done cheaper, but things being as they are at present I think on the whole it is not unreasonable. We have been pressed to increase the amount which is allowed by the regulations.

1935. Has the percentage been the same since 1930?—Yes, curiously the two figures coincide very closely. In 1930 the combined Central and Approved Society expenses were 14·7 per cent., and in the year 1936 they were 14·8 per cent. (Sir *Gilbert Upcott*.) The officer responsible for checking the administrative expenses of the approved societies is the chief auditor of the National Insurance Audit Department. I do not audit the accounts of the Approved Societies; he does that.

Mr. *Feat*.

1936. On what figure is the percentage taken?—(Sir *George Chrystal*.) The total expenditure on benefits and administration was £32,552,000 in 1930.

1937. That was by the Approved Societies?—That was by the Approved Societies and the Insurance Committees, who look after the medical benefits, and the percentage of administration of that was 14·7. In 1936 the corresponding figures were £32,227,000 and the

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Sir GEORGE CHRYS TAL, K.C.B., and
Mr. S. H. G. HUGHES, C.B.E.

[Continued.]

administration expenses percentage was 14·8. I ought to add, to make the picture complete, that Insurance Committees get only 6d. for administering the medical benefits. The Approved Societies got 4s. 6d.; I ought to tell the Committee that.

Sir *Isidore Salmon*.

1938. National Health Insurance Fund Accounts. Have you anything to say on your report, Mr. Comptroller and Auditor General, on page 30?—(Sir *Gilbert Upcott*.) I explained last year that I required further time to investigate whether these accounts could be strictly certified as Income and Expenditure Accounts. There are some minor variations, but they are so unimportant

that I see no reason to take objection to the description.

1939. Are there any observations by the Treasury?—(Mr. *Brittain*.) No; we are in favour of the present arrangement.

Sir *Isidore Salmon*.] Are there any questions on pages 6-13, National Health Insurance Fund (England); 14-19, Welsh National Health Insurance Fund; pages 26 and 27, National Health Insurance Joint Committee, Central Fund and Unemployment Arrears Fund, year ended 31st December, 1936; pages 28 and 29, Approved Societies (Officers) Guarantee Fund (Joint Committee), year ended 31st December, 1936? May I also it that these Accounts are approved? (*Agreed*.)

Sir *Isidore Salmon*.] There is a separate paper called the National Health Insurance Funds, National Debt

Office Accounts, showing the investments of money. Are there any questions on that?

(*On this Account no questions were asked*.)

WIDOWS', ORPHANS' AND OLD AGE CONTRIBUTORY PENSIONS ACT, 1936, ACCOUNTS, 1936.

Sir *Isidore Salmon*.

1940. White Paper, Widows', Orphans' and Old Age Contributory Pensions; page 9, the Comptroller and Auditor General's report. Have you anything to say, Sir Gilbert?—(Sir *Gilbert Upcott*.) The report is merely to bring out that there is a substantial reduction in the deficiency which had to be met in 1936.

1941. I notice you say that the cost of administration amounted to £1,380,605 13s. 6d. making a total expenditure of £45,356,279 10s. 5d., but what is the percentage? Is this a sum of money that is earmarked specially for administration of the total expenditure of £43,975,673?—It is the actual amount of departmental expenditure.

1942. Can Sir George tell us, is the figure higher than it was previously? That is on the Comptroller and Auditor General's Report on page 9?—(Sir *George Chrystal*.) That adds together England and Scotland. (Mr. *Brittain*.) It is higher. (Sir *Gilbert Upcott*.) It was £1,269,787 last year; this year it is slightly more, £1,380,000. (Sir *George Chrystal*.) Our figures are £1,229,860 and £1,128,890 for England. (Mr. *Brittain*.) The Comptroller and Auditor General's figures include Scotland.

1943. Sir George is only responsible for England?—(Sir *George Chrystal*.) I have just given the part for England.

1944. Do you wish to add anything further to your report, Sir Gilbert?—(Sir *Gilbert Upcott*.) No, I do not wish to add anything.

Sir *Isidore Salmon*.] If no one has anything to say on Sir Gilbert's report, turn to pages 2 and 3. Are there any questions?

Mr. *Benson*.

1945. Is the first figure on the right hand side, £1,765,000, included in the second account of £20,000,000, or will that be introduced next year—Total Investments?—(Mr. *Fraser*.) This is the Treasury Pensions Account.

1946. To the National Debt Commissioners for investment. That was due to them on the 31st March. The amount held by the National Debt Commissioners was £20,000,000 on 31st March. Has any of that £1,765,000 been included in that?—Yes, it is included in that.

1947. The first line of print below the figure of £20,000,000 says: "At the same time the net sum withdrawn was £18,897,000. I do not quite follow that.

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Sir GEORGE CHRYSTAL, K.C.B., and
Mr. S. H. G. HUGHES, C.B.E.

[Continued.]

Where did that come from and where has it gone?—(Mr. *Brittain*.) That is the amount handed to the National Debt Commissioners from the Fund.

1948. From the very beginning?—Yes, from the Treasury Pensions Account. The £20,000,000 is the market value of the securities representing that cash at the present time.

1949. That first figure, £1,700,000, is part of the £18,000,000?—Yes.

(The witnesses withdrew.)

(Adjourned till Thursday at 2.30 p.m.)

THURSDAY, 10TH MARCH, 1938.

Members Present:

Mr. MORGAN JONES in the Chair.

Mr. Benson.
Sir Edmund Brocklebank.
Mr. Culverwell.
Mr. Lathan.
Mr. Peat.

Mr. Pethick-Lawrence.
Sir Assheton Pownall.
Mr. Wilfrid Roberts.
Sir Isidore Salmon.
Sir Robert Smith.

Sir GILBERT UPCOTT, K.C.B., Mr. W. R. FRASER and Mr. H. BRITTAIN called in and examined.

CIVIL APPROPRIATION ACCOUNTS, 1936.

CLASS VI.

VOTE 4.

DEPARTMENT OF OVERSEAS TRADE.

Chairman.

1951. I believe the Comptroller and Auditor General would like to make a statement arising out of last Tuesday's business?—(Sir *Gilbert Upcott*.) With your permission I should like to give a brief explanation of the error which was disclosed in a note appended to the Appropriation Account of the Department of Overseas Trade. That question was discussed last Tuesday. What happened was that a very large number of charges in this Account were found not to be appropriate to the year, but to have been, in fact, paid in 1937 and they had to be removed from the Appropriation Account for 1936; the full

amount of them was not ascertained until after the Appropriation Account had gone to be printed, and therefore the changes involved a number of alterations in the proof stage. My Department, of course, takes responsibility for the correct printing of the Appropriation Account. We got the figures quite correct, but I am afraid, in the course of the numerous changes which were necessary, the wording of this note was not duly corrected. That is how the mistake arose, and I thought it my duty to explain the unfortunate accident to the Committee.

Chairman.] A very interesting *mea culpa*, Sir Gilbert.

VOTE 8.

MINISTRY OF AGRICULTURE AND FISHERIES.

Sir DONALD FERGUSSON, K.C.B., called in and examined.

Chairman.

1952. Shall we turn to the Ministry of Agriculture Accounts, Civil Appropriation Accounts, 1936, page xxi, paragraph

41. I think the best way to deal with the question of Land Drainage Grants would be to ask the Comptroller and Auditor General, first of all, to explain

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Sir DONALD FERGUSSON, K.C.B.

[Continued.]

the point that is raised in the second sub-paragraph. Then I shall ask Sir Donald afterwards, since their reply is referred to in the next sub-paragraph, if he will explain the Ministry's reply?—(Sir Gilbert Upcott.) Why I raised a question with the Ministry of Agriculture on this scheme was that, as the Committee will appreciate, however desirable the improvement of internal navigation may be, it is, I think the Ministry will agree, not one of their functions. Their function is the improvement of drainage. It seemed to me that on the evidence contained in the papers there might have been reason to suppose that some of this expenditure was incurred for the improvement of navigation. When the scheme was originally put forward the Catchment Board of the river Nene indicated that the opinion behind the scheme included that of the Canal Company and an important industrial undertaking who were developing works in the locality and were anxious that the river should be made more navigable. It seemed to me that a good deal of the expenditure was incurred in the improvement of locks at such places as are picturesquely named Dog-in-a-Doublet and Barnwell Bridge, which appeared *prima facie* to go rather beyond drainage requirements and to be more in the nature of navigation improvements. The expenditure also included a good deal of dredging and the provision of locks at other points. I put these questions to the Ministry of Agriculture. As the Committee will see, they have given reasons for holding that the expenditure can properly be regarded as for the purposes of drainage and not navigation, though navigation may incidentally have been improved. However, I thought the Committee might like an opportunity of asking the Accounting Officer for a further explanation.

1953. What have you to say, Sir Donald?—(Sir Donald Fergusson.) Perhaps I might be allowed to explain first, because I think it is rather relevant to the view we eventually took, how the river Nene Catchment Board came to be a navigation authority. When it was set up under the 1930 Act it had to take over the functions of a number of authorities concerned with the river Nene in one way or another and one of the bodies whose function it took over was the Nene Second District Navigation and Drainage Commissioners. As the name implies it had navigation functions,

but it was completely moribund as a Navigation Authority; it had virtually no income; only a very small portion of the river was, in fact, navigable at all. The rest of the river was a swamp with a number of derelict broken-down locks. I do not know whether it would be in order, but if it would it would rather help me to explain matters if I could ask the Committee to look at a photograph.

1954. We always like to see pictures?—Those photographs show the condition of the river both before and after it was drained. (*Photographs were handed in.*) When the river Nene Catchment Board put up to us a comprehensive scheme of £750,000 for draining the river the question arose as to what controls were to be put at the places where the old locks had been. It was necessary to put some controls at those places. As the Comptroller and Auditor General has pointed out, the Catchment Board has not only the duty of drainage and getting rid of flood water but of providing water supplies. It is therefore necessary for them to erect barriers to hold up the water in summer in the various stretches of the river and barriers which can be raised to let through a rush of flood water in the winter and also perhaps to regulate the flow of flood water so that you do not get too much coming down against the tide at the time the tide is coming up, and so causing flooding in the lower reaches of the river. When it came to be considered what sort of control barriers had to be put up at the places where these old derelict locks were, it was thought that the only sort of suitable barrier would be to repeat the locks; in the first place because the Nene Catchment Board as a navigation authority might have an action brought against it if it had put up an obstruction which prevented the passage of a boat along the river, once the river was dredged and cleaned, and because in the second place, it would be impossible for the Catchment Board to have drained long stretches of the river if they could not get their dredgers up the river and the only way to get the dredgers up the river was, where you had your control, to have a lock for the purpose. It was for that reason that the Ministry took the view that the re-conditioning of the locks was an appropriate expenditure for which a grant might be made under the Land

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Sir DONALD FERGUSON, K.C.B.

[Continued.]

Drainage Act. As regards the place with the picturesque name mentioned by the Comptroller and Auditor General, the Dog-in-a-Doublet, there was a gravel bank in the middle of the river just near the point where the tidal waters ceased. That bank prevented water coming down or water getting up. It was a block in the river and there was a perpetual injunction against that bank being removed because just above it the supply of fresh water to a neighbouring town was taken away. If therefore the Catchment Board wished to clean out the river for the purpose of letting the flood water down and to remove that bank, it had to put in another form of obstruction, to make sure that the water could be held up for the town's water supply. In that case again we thought it was a reasonable drainage charge to allow the Dog-in-a-Doublet sluice and lock to be made part of the scheme for which we made a grant.

1955. I ask for information: supposing you had interpreted this more narrowly and said "We are merely concerned with drainage and, in point of fact, this concerns a good deal of navigation"; who, if you had not come forward, would have had to do anything to deal with the navigation point?—The Catchment Board would not have been obliged to provide navigation, I think, because the place was derelict. As these photographs show there was really no river in a large part, but once they did clean out the bottom of the river then they would have been obliged to provide facilities under old nineteenth century Acts for boats wanting to go up and down that river.

1956. Does that mean it would have been the responsibility of the Catchment Board?—It would.

1957. You made the point, I thought, at the beginning, that this Catchment Board is really the successor to another Board?—Yes.

1958. Which had a drainage and navigation function; but the point, as I understand, which Sir Gilbert raised is this, that you, in point of fact, were making a grant under Section 55 of the Land Drainage Act, 1930?—Yes.

1959. And his point, I understand, is that under that Land Drainage Act you were limited to making a grant for drainage only and not for navigation?—Yes, but we should have been entitled,

under that Act, to have made a grant for erecting the necessary controls at various points on the river, the controls being necessary to hold up the fresh water supplies; that is a function of the Catchment Board for which we are entitled to make grants. It is a question of regulating the water along the river. They might have put up a stony sluice instead of a lock. It would have been very much the same in appearance as a lock except that there would not have been gates at one end, the purpose of the gates being to enable a boat to get into that lock and out the other side.

1960. I take it your view is that it is just a happy coincidence the drainage expenditure happens to be beneficial to navigation?—I think it is undoubtedly true that the result of the dredging and excavation of the river Nene, which was required for drainage purposes was that there was, instead of a swamp, a river which would be navigable thereafter.

Sir Isidore Salmon.

1961. Really it boils down to this, that it was not divisible, and the work that you have really done is merely incidental so far as river work is concerned, the primary duty being that of drainage?—Yes, that is so.

Mr. Peat.

1962. I was going to ask whether the boats that go up and use the river now are boats of any considerable draught, or whether they are of very small size?—The scheme is only partly completed and I do not know what traffic is going up the river.

1963. There was no traffic for a great many years, I suppose?—Except for a little bit just above Peterborough.

Chairman.

1964. What sort of traffic do you anticipate?—It is very difficult to say whether there will be much volume of traffic, and, if there is, whether the tolls on that traffic will more than pay for the damage it does to the bank. It is not like the days of the old horse barge; a modern motor barge going fast up a river does much more damage. It is also very difficult to say whether the stretch of the river between Peterborough and Northampton will, in fact, be able to compete with the railway company.

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[Continued.]

1965. Would you have done this in response to representations of any sort?—From the navigation point of view?

1966. Yes?—No, Sir. Actually there was, as the Comptroller and Auditor General mentioned, at one time some talk of the value of the River Nene from the point of view of navigation. We consulted the Ministry of Transport who doubted very much whether it had any great commercial value and could, in fact, compete with the railway. (Sir Gilbert Upcott.) The initiative for the scheme which was carried out came, technically at any rate, from the Catchment Board.

Sir Robert Smith.

1967. Would Sir Gilbert explain why he makes the statement that the expenditure was intended primarily to benefit navigation?—I said that it appeared from the Ministry's papers that the scheme included provision for certain expenditure intended primarily to benefit navigation. That was my *prima facie* opinion, and that is why I raised the question.

1968. Can we have some reasons?—I gave the reasons in my opening statement.

1969. Can we have any? Can we see these papers. That is a very strong statement, that it was primarily intended to benefit navigation?—I beg your pardon, I did not say that. I said it included provision for certain expenditure; I did not say the scheme was intended primarily to benefit navigation, it included provision for certain expenditure.

Sir Robert Smith.] Intended primarily to benefit navigation. If certain expenditure is intended primarily to benefit navigation that is rather the point we are discussing?

Chairman. It is quite appropriate to ask Sir Gilbert how he came to make the statement; if you want to know about the Ministry's files I think you had better ask Sir Donald about that.

Sir Robert Smith.

1970. That statement seems to me to be fairly strong?—(Sir Donald Fergusson.) Subject to what the Comptroller and Auditor General says, I had always understood the position to be that this scheme of £750,000 included a certain amount of money for expenditure on locks, which are naturally

things which are required by boats. I understood the Comptroller and Auditor General raised the question because he thought this expenditure on locks on this river was not a drainage matter. I endeavoured to explain that there had to be some form of barriers and on the whole we had thought it was reasonable to include locks instead of sluices as the form of barrier.

1971. You said you might have put gates or some other form of control?—Yes.

1972. But you went on to say you could not do that because there were some old Acts of Parliament which would compel you to keep it as a navigational river, so you had not an alternative. Had you or had you not an alternative?—I think that it is quite true that the Catchment Board could not have put an obstruction other than a lock in the river.

1973. A gate would have been an obstruction?—A sluice would have been an obstruction.

1974. There is that point, that there was really no alternative open to you?—No, there was really no alternative to locks being used. Whether we were entitled to pay the grant for locks is another question.

1975. You must make it a navigable water?—Yes. (Sir Gilbert Upcott.) The observation which Sir Robert quoted from my paragraph was not intended to represent a final judgment. It gives the *prima facie* reason why I raised the question. The answer follows.

1976. The reply might be that it might be a very small quantity of the whole sum which was for navigation?—The number of locks is considerable.

1977. You remarked about the question of tolls for the use of this as a navigable water. What is going to happen to the tolls which are received? To what fund will they be placed?—(Sir Donald Fergusson.) They will go to the general funds of the Catchment Board and would be used for the general purpose of maintaining the banks of the river, amongst other things, against the damage done to the banks of the river by traffic moving up and down.

1978. Would those funds be allowed to be used by the Board for purely drainage purposes and not for navigation purposes? Supposing you were going to do something which required a certain amount of money and had a

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[Continued.]

certain amount of tolls for boats going through, would you be allowed to use that money for purely drainage expenditure and not for navigation expenditure?—I would not like to be quite certain without knowing the old Acts of the 19th century, but I should think they could be used for drainage purposes. I think the Catchment Board would regard the upkeep of the river from all points of view as one.

1979. That is what I want to know. You stated that there were certain tolls and that they would pay for the damage. I wanted to know if they would be used from the purely drainage point of view and you think they might?—I think the two things would be combined.

1980. Surely if you had the right to charge this navigational expenditure against drainage grants, the natural corollary is that if there was any return from the navigational side of it, it must be used for drainage because the whole thing is one. That is your argument?—That is so; and, in future grants given to the Board, a material factor in assessing the rate of grant is the revenue or income of the Catchment Board, and if they had an income from tolls, from navigation, we should be able to reduce the amount of grant we should give them for drainage work.

1981. Do you propose to keep the tolls in a separate account?—I do not know how the Catchment Board would work that.

Sir Edmund Brocklebank.

1982. How much land has become valuable by this scheme that used to be derelict; could you say at all?—I am afraid I could not answer that offhand. In the lower reaches of the river, there is very valuable land down by Wisbech. I could not say the acreage.

1983. You could not answer my next question, who is the owner of the land now and who has profited by it; because apparently from the photographs there has been a very great change?—I could not say that; down in the Wisbech area, which is the most valuable land, there are many small holdings. We have a Ministry Small Holdings Estate not very far away, the Sutton Bridge Estate.

1984. Those have not benefited by this scheme or you would not have gone there; those are all right. This is bringing practically marshland back into cultivation?—Out of this £750,000, a very large sum of money is being spent down

at Wisbech, to prevent the town of Wisbech being flooded.

1985. Do they impose a rate to get the revenue for the new Board; because the old Board had no revenue at all?—Yes, under the Land Drainage Act, 1930, the Catchment Board has powers of collecting money both from the Internal Drainage Boards in the district and also by precepting and getting a rate from the County Councils.

Chairman.

1986. The second one is a not particularly popular one, is it?—I do not know that any rates are.

1987. Let us pass to paragraph 42, which is a record of the liquidation of this scheme, is it not?—Yes, that is the last.

1988. Paragraph 43, "Contributions by Outside Bodies to Research". Have you anything to say, Mr. Comptroller and Auditor General?—(Sir Gilbert Upcott.) I mentioned this because both this Committee and the Estimates Committee have paid some attention to it in recent years and in 1934 the Estimates Committee recommended that Marketing Boards should undertake responsibility eventually for a proportion of expenditure on research; and the Public Accounts Committee asked last year how matters were proceeding, so I thought it desirable to mention what amounts have come into the accounts under review. This is the first time that such contributions have been shown.

1989. Have you any further development to relate to the Committee in respect to this matter, Sir Donald?—(Sir Donald Fergusson.) No, except that I would like to add this; It might appear from paragraph 43 that the amount being spent, by the Milk Board, was limited to the amount spent through the Ministry, according to the figures here, plus what they are spending through the Department of Scientific and Industrial Research. The figures quoted here are only that part of the expenditure on research by the Milk Board which is paid for through the Agricultural Research Council. In addition, the Milk Board are spending a large amount on research that does not appear through the Ministry's Vote. They have direct arrangements with research institutes of one kind and another.

1990. You mean they are spending money on their own account?—They are spending money on their own account on which they consult us first;

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[Continued.]

in point of fact they have authorised expenditure of some £50,000 on research. They have consulted us in each case and we generally advise them to which institute to go for the particular purpose.

Sir Isidore Salmon.

1991. Why was it necessary specifically to refer to £6,000 which the Milk Marketing Board contributed to the Research Board; they contributed £6,000, but as Sir Donald has just said, they are spending direct £50,000; why should not the £50,000 be mentioned as well as the £6,000?—(Sir Gilbert Upcott.) Because I have no knowledge of it. (Sir Donald Fergusson.) This appears in our account. (Sir Gilbert Upcott.) I have no knowledge of the accounts of the Milk Marketing Board.

1992. You only mention it because it comes via the Ministry of Agriculture?—Yes, I mention all that I know officially. (Sir Donald Fergusson.) I only mentioned the point because last year I think I was asked whether these Marketing Boards were spending enough upon research and I did not want it to be thought that this was the maximum.

Chairman.

1993. I appreciate that. I was going to return to the same point with another question this afternoon. Do you feel that some of these Boards which have a vast income should not be spending on research themselves as their own responsibility in this matter? £50,000 is an unofficial figure so far as this Committee is concerned. It is a relatively small sum of the total income of the Milk Marketing Board; it may be adequate; I do not know?—The Milk Marketing Board does not have an income in the happy sense of having a profit. It collects about £42,000,000 and it pays £42,000,000 out to the producers. The amount it spends on research has to be deducted from what it pays to the producers of the milk, and it is really for the producers of the milk to decide what they will spend on research.

Sir Isidore Salmon.

1994. What occurs with regard to the amount of money that the Milk Marketing Board retains for their own overheads?—They take .19d. per gallon for their expenses.

1995. It comes to a lot of money on the turnover?—Yes.

Chairman.

1996. If you look at the White Paper the proof of which has been circulated, page 108, General Expenses levy is £804,171. We do not want to examine that particular point at the moment but there it is. Are there any further questions on paragraph 43? Then pass to page 276, Class VI, Vote 8. That is a summary. On page 277, on sub-head A. you say "The saving—due mainly to the transfer of staff to the Tithe Redemption Commission—for which provision was made in the Supplementary Vote, was underestimated." How much was the saving, Sir Donald, can you say?—I think it was approximately that amount of the "Less Supplementary" £31,700.

1997. About £31,000?—Yes.

1998. Where does that figure appear?—We estimated originally £556,000 and we then knew that the Tithe Redemption Commission would be taking some of our staff and it was in consequence of that that when we took the Supplementary there was a "Less Supplementary" of £31,000.

1999. Where do you find that figure £31,000? I am afraid I do not follow: where is the figure?—At the bottom of the page 277. (Mr. Brittain.) Actually I think that was a net figure and the saving on transfer to the Tithe Redemption Commission was probably greater.

2000. It was actually greater, was it?—Yes, but that item was offset by other things.

Mr. Peat.

2001. How is it possible to transfer staff without prejudicing your efficiency?—(Sir Donald Fergusson.) One of the divisions of the Ministry of Agriculture dealt largely with a large number of tithe problems. Under the new Tithe Act a Tithe Redemption Commission was set up and they took over our staff and our work.

Mr. Wilfrid Roberts.

2002. Under sub-head M, Agricultural Marketing, what are the functions of the Ministry with regard to Marketing; what does that cover. That is on page 276?—(Sir Gilbert Upcott.) That is a summary. You will find more detail on page 281.

Chairman.] Could you postpone that question until we get to page 281?

Mr. Wilfrid Roberts.] Yes.

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[Continued.]

Sir Isidore Salmon.

2003. On agricultural research you are spending more money under this head, are you not? Each year you add to it?—(Sir Donald Ferguson.) Yes, it has been growing each year.

2004. Are you really getting any results from the research you are undertaking?—I think very valuable results. It is, of course, very difficult to estimate research results; the research undertaken is of all sorts and kinds; it gradually adds to the knowledge of diseases in the case of animals, and pests and diseases of plants, and how to deal with the soil and all kinds of questions like that. It is a slowly accumulating amount of knowledge but that it is accumulating is undoubted.

Chairman.

2005. Pages 278 and 279. On Agricultural Education, sub-head G.2, there is a note at the bottom of the page "Delays in connection with building schemes". Could you give us a little further explanation on that note G.2?—One of the items was our old friend, the Royal Veterinary College. On that again there was less expenditure in the year in question than was expected, and the final instalment of expenditure occurred in the following year. That matter is now concluded; the Royal Veterinary College is completed. We have paid the total amount of the grants due and the College was actually opened a few months ago by the King. That is now completed, but that is the explanation of one of the main items of saving in this particular year.

2006. What about the maintenance of that College. Have you an endowment fund and things of that kind for running it?—We are awaiting a report of a Committee which is sitting on the whole question of Veterinary Education in this country at the various Veterinary Colleges. We expect to get their report fairly soon and then I imagine we shall take it up with the Treasury and review the whole question of grants for this College in the light of that report.

Sir Isidore Salmon.

2007. On the question of studs: licensing of stallions and bulls, sub-head H.2. I notice the explanation there is "Appeals under the Improvement of Live Stock (Licensing of Bulls) Act,

1931, were more numerous than expected, with consequential increase in expenditure". Does that mean that you get appeals from different departments or farms, or what?—In the case of bulls, the farmer has to obtain a licence for his bull before he is allowed to go on keeping it. The bull is inspected by the Ministry's Livestock Officer and he may reject the bull. The farmer then is entitled to appeal and a referee is appointed.

Sir Robert Smith.

2008. On sub-head G.2, Agricultural Education Grants, I notice the expenditure is down by £13,000 less than you took. In a case like that I notice in your estimates for 1936, on the question of "Grants to Local Authorities in respect of annual expenditure including maintenance of farm institutes and demonstration farms and loan charges relating to capital expenditure in connection therewith"; you allowed £10,000 less in 1936 than you did in 1935. Are you cutting down these grants very largely there?—No. The reductions in both cases, I think (but anyhow in this case), are not in respect of the maintenance of these institutes but in respect of capital grants. We estimated in the course of the year that certain capital expenditure would be incurred. For some reason or another there has been a delay in starting the scheme and therefore the expenditure on the year has been less than we had anticipated.

2009. It looks as if your policy was to cut down, but that may be simply because certain capital charges which you did not expect would come in that year?—(Mr. Brittain.) They actually spent more in 1936 than in 1935.

Chairman.] Pages 280 and 281.

Sir Isidore Salmon.

2010. Does sub-head J.5, on page 280, refer to paragraph 41 of the Comptroller and Auditor General's Report, the matter we have been discussing previously?—(Sir Donald Ferguson.) Yes.

Sir Edmund Brocklebank.

2011. On sub-head J.5 is there anything contained here for the scheme of drainage at Walberswick in Suffolk; you have a large scheme going on there; it comes out by Southwold?—Would that be the East Suffolk rivers? I have

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[Continued.]

them only under the headings of the particular Catchment Boards and the rivers. (Mr. Fraser.) The River Blyth is the river.

Chairman.

2012. Have it looked up, will you?—(Sir Donald Fergusson.) I can look it up.

Mr. Benson.

2013. With regard to sub-head J.1, where is the account referred to published, the Small Holdings and Allotments Account?—(Sir Gilbert Upcott.) Page 292.

Mr. Wilfrid Roberts.

2014. Might I ask what is sub-head J.3, "Improvement of Cultivation of Land"?—(Sir Donald Fergusson.) It is a remanet from the time of the period of the war. During the war a large amount of land was ploughed up. In respect of that ploughing up the owners or tenants were allowed to claim compensation for the damage done owing to the ploughing up that took place then. The reason why it has been so long delayed is that if an owner has to claim compensation he may do it when a tenancy comes to an end and, if there was a tenancy in existence during the war which has run on as long as this, when that tenancy expires the owner is in a position to claim compensation.

2015. Are the damages then estimated in this current year; the damages that are paid to the owner; the estimated damages resulting to-day from the ploughing-up that was done during the war?—It may not be assessed until the end of the tenancy. The tenancy might have been a tenancy running for a great many years and until the tenancy comes to an end the damage done at that time may not be assessed.

Chairman.

2016. It is very nice for the tenant?—(Sir Gilbert Upcott.) It is the owner who has a statutory right to make a claim at any time up to three months after the end of the tenancy.

2017. Even though the disturbance took place during the war?—(Sir Donald Fergusson.) Yes, if valuable grass land was ploughed up in the war and it did

not recover from that fact—(Sir Gilbert Upcott.) The owner, of course, must prove loss. (Sir Donald Fergusson.) He has got to prove loss.

Mr. Wilfrid Roberts.

2018. How is it done; is it done by a valuation of the land now or does proving that loss involve proving that his tenant paid him a lower rent as a result of having to take ploughed land?—The owner would have to prove, for example, that he had re-seeded the land. He would have his bills, but under the arrangement he need not present his bills to us until the end of the tenancy.

2019. He cannot make out a claim that a farm is a worse farm now because he ploughed the land during the war; it has to be some specific expense that he is put to?—He would have to show that he had suffered loss. He might be able to show that he had suffered loss because grass fields had been turned into arable fields.

Sir Isidore Salmon.

2020. Page 281, "Agricultural Credit," £70,000 odd expenditure, "losses on repayment before the due dates of loans"—is that because they can borrow the money at a cheaper rate?—Yes.

2021. And this is the difference between the rate that you were getting and the new rate?—Not quite that. The position is that a large amount of this money was borrowed when rates were about 6 per cent. It now pays the man who borrowed it to pay it back and to borrow at current rates to-day, not from us but from the banks or anybody else.

2022. The loss you are making is on interest; you get your capital back?—(Sir Gilbert Upcott.) This is the amount of the premiums paid to the Local Loans Fund which was mentioned the other day when you had the Local Loans Fund before you. This is the way that the losses due to premature repayment are made good to the Local Loans Fund.

Chairman.

2023. Pages 282 and 283. On page 282 I would like to ask for an explanation on sub-head O.1. I rather think it was not usual to pay in gold francs. Will

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[Continued.]

you tell us why it was paid in gold francs this time rather than in paper francs?—(Sir Donald Fergusson.) I think it is true to say that there has been recently a change and most of these international bodies now are paying in gold francs. The decision that this should be paid in gold francs was taken at a meeting of this international body by all the countries concerned, I presume to ensure greater steadiness of the amount that they were receiving.

2024. Did our representative agree?—Yes, he agreed.

Mr. Benson.

2025. This is not the first time that we have had those gold francs mentioned.—(Mr. Fraser.) It was paid in gold originally, then changed to paper francs and then back to gold; all we did was to fall into line with everybody else.

Mr. Culverwell.

2026. The subscription of £4,250 to the International Institute of Agriculture at Rome seems a very large sum; on what basis do we subscribe as compared with other countries? Is it the same scale of contributions as to the League of Nations?—(Sir Donald Fergusson.) The countries are divided into groups, certain countries pay so many units. We, as one of the large countries in what is called Group 1, pay 16 units of the cost. The work that is done at this Institute is the collection of world-wide agricultural statistics. I think all important agricultural countries belong to it and it is regarded as extremely useful from that point of view.

2027. I imagine that from time to time these subscriptions are reviewed, are they, to see whether we are getting our money's worth?—Yes.

Mr. Lathan.

2028. Is it necessary, to secure uniformity of contributions, to pay in gold francs? Cannot the custom which I believe operates in connection with the League of Nations and the International Labour Office, that is to say, the payment in an agreed currency of a particular country, operate just as effectively?—I think that is more a matter for the Treasury than for me; I assume you have to have one currency.

2029. Yes; you could agree to pay in Swiss currency?—If it had been in Swiss paper francs there might be a tendency

for the receipts to go down. (Mr. Brittain.) It is, in fact, on a Swiss franc basis now.

2030. That supports the suggestion I made?—But it was the custom for a lot of these international bodies to fix their subscription on a gold franc basis ever since the war, for instance the International Postal Union and others like that.

2031. That was some time ago that the basis was fixed?—Yes, but I agree the case for it is not so strong now; the Swiss franc was regarded as the equivalent of the gold franc for many years before 1936.

Mr. Pethick-Lawrence.

2032. Has that been affected by the recent action of Switzerland in devaluing her franc?—(Mr. Brittain.) The change to Swiss francs followed the devaluation of the Swiss franc.

2033. They are still on the Swiss franc?—They have come on to the Swiss franc in the last year or two.

Sir Isidore Salmon.

2034. What has become of the flax experiment? Has it closed down?—(Sir Donald Fergusson.) It has closed down; the question of a further experiment is being considered by a Committee but on the particular one which fell as a charge on our Vote we have no further payment to make.

Chairman.

2035. Pages 283 to 287. There is a reference to the Bosbury Trust Estate on page 287. We shall take the account later, but can you tell us whether there is any prospect of this paying back its loan, Sir Donald?—No.

Chairman.

2036. Are there any questions on page 288? May I take it that this Account is approved? (Agreed.) On page 289 "Account of the Payments and Receipts on Development Fund Schemes" this explains how the money gets out of the Development Fund does it not?—Yes.

Chairman.] Page 291 (B), "Cattle Pleuro-Pneumonia Account for Great Britain," page 292 (C), "Small Holdings and Allotments Account". Are there any questions on page 293? May I take it that these Accounts are approved? (Agreed.) Page 295 (D), "Agricultural Marketing Fund Account". Are there any questions? May I take it that these Accounts are approved? (Agreed.)

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[Continued.]

VOTE 9.

BEET SUGAR SUBSIDY, GREAT BRITAIN.

Chairman.

2037. Page xxii, paragraph 44, Beet Sugar Subsidy, Great Britain. This paragraph may be divided into two parts?—(Sir Gilbert Upcott.) It relates partly to 1935-6 and partly to 1936-7.

2038. With regard to the first two subparagraphs you were not in a position last year to give us the figure of payment in respect of interest on capital; can you give it to us this year?—It is in my paragraph.

2039. That is the £240,000?—The allowance for depreciation was £240,000; the figure for interest which has since been ascertained is £164,955.

2040. How has that figure been arrived at and what rate of profit does it represent?—(Sir Donald Fergusson.) The figure is based on a payment of 3½d. per cwt. of sugar. It represents approximately 2 per cent. on the capital of the various factories which were amalgamated into the British Sugar Corporation.

2041. This figure does?—Yes, £164,000 but, as I explained to the Committee last year, Sir, there was provided in the Sugar Act of 1936, the sum of £315,000. The reason why this figure is less than the amount provided in the Act is that after the Act was passed we then knew what the trading results of the year had been, and they proved to have been more favourable than had been anticipated when it was proposed to pay £315,000. We therefore re-opened negotiations with the factories and, as a result of those new negotiations, we settled on this figure.

2042. Last year I think it worked out about 4 per cent.?—4 per cent. (Sir Gilbert Upcott.) It was calculated last year, as the Accounting Officer explained, that when the subsidy had been paid it would just cover the cost of production and this payment would be the amount allowed for interest on capital.

2043. I forget whether you explained last year how this subsidy was arrived at. Would you be good enough to do it briefly this afternoon?—(Sir Donald Fergusson.) The subsidy as it is paid now?

2044. Yes.—In the 1936 Act for the first year of working of the scheme there was a prescribed standard rate of assistance which was laid down in the Act

as 5s. 3d. per cwt. It was provided also that in future years, in fixing the rate of subsidy, account was to be taken of the economies which could have been effected by the setting up of the Corporation and the subsidy would be that much less; it was to be assumed that the economies that could have been effected had been effected. The prescribed rate is related also to a number of standard conditions which have to be taken into account. One of those standard conditions is the raw sugar price and, according to the movement of sugar prices in the year, the amount of subsidy to be paid in respect of that year will vary. A further factor to be taken into account is the quantity of sugar produced. The standard quantity under the Act is 560,000 tons of white sugar; if in any year the Corporation's production of sugar from home grown beet falls below the standard quantity by 7½ per cent. or more the rate of assistance is increased by 1d. or 2d. a cwt. according to the amount of the deficit. There is a further rather complicated matter, what is known as the quota income. There was to be made, and there has in fact been made, an agreement between the Sugar Corporation and the other refiners, and under that agreement the Corporation is entitled to sell a part of the amount of sugar it might refine into white sugar—it is entitled to sell to the other refiners the right to refine that amount of white sugar and to receive a payment from the other refiners in respect of the quota which it allots out; I am afraid that is a rather complicated point.

2045. I agree that it is rather complicated and perhaps I sprung this upon you a little suddenly. What, anyway, is the result by way of profit?—The result by way of subsidy is that there will be a very large reduction in the subsidy payable to the Corporation.

2046. In this year of account?—In the year after. It was fixed for the first year 1936-7. In the next year 1937-8, the current year, there will be a very large saving.

2047. Could you tell us how it works out in rate of profit to the Corporation?—It is rather difficult to work it out at a rate of profit. The final figure for 1937-8 has not yet been decided definitely.

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[Continued.]

2048. But take the year 1936-7?—The profit for the year 1936-7 was £584,000.

2049. Are you speaking now of profit to the Corporation?—To the Corporation, but it was a very particularly favourable year for the Corporation.

Chairman.] Could you give me that in percentage?

Mr. Benson.

2050. 7 per cent.?—They paid a dividend of 4 per cent. less tax. They put to a Contingent Reserve £86,000 and to a Dividend Equalisation Reserve £187,000, and they paid a dividend of 4 per cent. which took £150,000.

Chairman.

2051. £150,000, and how much was put to reserve?—£187,000 plus £86,000.

Mr. Benson.

2052. On this point, Mr. Chairman, was the £164,000 additional to their £584,000?—(Sir Gilbert Upcott.) That was a different year. (Sir Donald Fergusson.) That was the year before; the £164,000 was paid in respect of the year before.

Chairman.

2053. Let me ask you one question of principle? Supposing the rate of interest were, in point of fact, from the point of view of the Government, tending to become excessive, what would the Government do? Would they consider the matter, or what; would they take action of any sort?—Each year the rate of profit, I think, could only increase in so far as the average costs of production of sugar beet came down. Under the arrangement made, if the costs come down those are to count; that economy is to be taken into account by the Government in fixing the rate of subsidy for the following year.

2054. So that a reconsideration of the subsidy would be automatic?—Automatic.

2055. If certain favourable factors appeared, so to speak?—Yes.

Sir Isidore Salmon.

2056. If, on the other hand, there were adverse factors, would they also be taken into account?—No; there is what is known as the incentive agreement. A proportion of the economies effected by the Corporation enure to the benefit of the Corporation.

2057. I should be interested to know how long after the end of the financial year the Corporation know what the amount of subsidy would be judging by the complication of figures?—This year there has been a delay really because it has been necessary to work out the application of the principle of the incentive agreement into actual figures. I think it will be settled quite soon.

Chairman.

2058. I think next year when we come to this, whoever may be on the Committee may perhaps like to have a pretty clear picture of the situation?—Yes.

Chairman.] Because it is interesting naturally to the Committee.

Mr. Lathan.

2059. Do I gather that payments are made to the Corporation under two or more headings. First an allowance in respect of depreciation of buildings and plant, and secondly the subsidy which is paid under the conditions which you have illustrated to us?—I am afraid I should have made that clear. Those particular payments in respect of depreciation and allowance for interest on capital were payments made in respect of the year 1935-6 only and will not recur. They were the last payments made to the old factories before they amalgamated into the Sugar Corporation. In future the only payment made to the new Sugar Corporation will be the subsidy payment calculated in accordance with the terms of the Sugar Act, 1936.

Mr. Lathan.] The subsidy payment last year or for the year under review, as I gather from the statement that you made, was sufficient to enable the Corporation to pay 4 per cent. on its capital tax free.

Mr. Culverwell.

2060. Did not you say less tax?—Less tax.

Mr. Lathan.

2061. I beg your pardon. 4 per cent. and to place to reserve a sum of money that was equal to that 4 per cent.?—Yes, the position was an exceptionally favourable one for the Corporation in its first year for this reason that the rate of subsidy had been fixed by the Sugar Act for the first year at 5s. 3d. The Corporation was, in fact, able to effect economies on a large scale very quickly, therefore during the first year of the operation of the new corporation it had

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[Continued.]

a very favourable result because the rate of subsidy had been fixed at 5s. 3d. in the Act. There were also other factors which made it a very favourable year, technical questions, the beet was good, they had an exceptionally good season.

Chairman.

2062. Things that they cannot necessarily count on again?—No: the economies that were effected which went so much to their benefit in the first year have, under the Sugar Act, got to be taken into account towards reducing the subsidy in the following year. I can only give this as a very rough estimate, but we roughly estimate the saving effected by the amalgamation of the factories into the Corporation is of the order of magnitude of £500,000 a year.

Mr. Lathan.

2063. It would appear that you were thoroughly justified in using the term "favourable" in relation to the conditions which attach to the Corporation. Is it not rather a singular situation, where a firm or an undertaking is enabled by an agreement of the character they made here to place so large a sum of money in relation to its distributed profits to reserve? Will that factor be taken into account in any arrangement that is made or will be made in the future?—Yes, the position will be that because the Corporation made the economies so quickly in its first year the subsidy will be reduced and is being reduced as a result of that. In other words, I think it might be put in this way: that when the Sugar Act of 1936 fixed the rate of subsidy at 5s. 3d. it was going on what had been the carefully examined costs of production in the previous year. The Corporation has been able to reduce those costs of production very considerably and in future

the subsidy will be reduced on that account.

2064. It has reduced the cost of production and it has also made very substantial provision for future difficulties by way of this heavy contribution to reserves?—Yes.

2065. I suggest that most people, I think, would take the view that the needs of the Corporation might be taken into account in the fixing of figures in relation to further payments out of National Funds?—Yes, that will be done and has to be done under the Sugar Act. The figures we were talking about originally related to the time previous to the setting up of the Corporation.

Mr. Benson.

2066. Can you give me some indication as to how the shares of the Sugar Corporation are held?—Under the terms of amalgamation of the various factories into the Corporation, the capital was £5,000,000 and each factory had a proportion of that as agreed among themselves according to their assets.

2067. How much of it is held abroad? Have you any idea?—I am not aware of that. The old companies went into liquidation and the shareholders of the Corporation will be the individual shareholders of the old companies.

Chairman.] May we pass on to page 296, Class VI, Vote 9, Beet Sugar Subsidy, Great Britain. Are there any questions? May I take it that the Account is approved? (*Agreed.*) May I say before we pass on that there are presented to the Committee, for their information only, two reports to-day, one on the Agricultural Marketing Schemes and the other report on Development Schemes, but they are of course presented for information only. The Accounting Officer is not responsible for them in any way.

VOTE II.

CATTLE FUND.

Chairman.

2068. Paragraph 17 of the Comptroller and Auditor General's Report, Cattle Fund. This is a record of the winding up of an emergency scheme?—(*Sir Gilbert Upcott.*) Yes, it will be succeeded by the scheme under the Live Stock Industry Act.

2069. Are you satisfied that there are adequate safeguards now in respect of the payment of the subsidy in regard to this matter?—(*Sir Donald Fergusson.*) Yes.

Chairman.] Page 298, Cattle Fund. Are there any questions? May I take it that this Account is approved? (*Agreed.*)

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Sir DONALD FERGUSSON, K.C.B.

[Continued.]

TRADING ACCOUNTS AND BALANCE SHEETS, 1936.—MINISTRY OF AGRICULTURE AND FISHERIES.

Chairman.] Conway Mussel Cleansing Scheme, pages 2 and 3. Are there any questions? May I take it that this Account is approved? (*Agreed.*) I pass over the General Foreword. Turn to pages 6-9, the Farm Settlements Accounts.

Sir Isidore Salmon.

2070. The losses are growing, are they not?—(*Sir Donald Fergusson.*) They are book losses. The losses are the accumulation of interest of the original loans. All these settlements are run at a loss and the book losses pile up each year. It would be a great convenience to the Ministry if we could present these as just Cash Accounts, showing the income and expenditure in detail, of course, each year. I think that might give the Committee a truer picture but I do not know whether the Committee would approve of that.

Sir Isidore Salmon.] There would be less criticism on that.

Mr. Benson.

2071. Is the interest added to capital and the interest charged on that?—(*Mr. Fraser.*) No. (*Sir Donald Fergusson.*) No, it is only the interest each year. (*Mr. Fraser.*) Simple interest. (*Sir Gilbert Upcott.*) They would not be described as Income and Expenditure Accounts but Cash Accounts.

Chairman.

2072. May I take it that these Accounts are approved? (*Agreed.*) Pages 12 and 13, Acton Park Farm Settlement Accounts. Are there any questions? May I take it that the Accounts are approved? (*Agreed.*) Turn to page 16, Amesbury Farm Settlement Accounts. There are no settlements there now, I understand, are there?—(*Sir Donald Fergusson.*) No.

2073. Has the question of the transfer of this matter to the Crown Lands Department now been considered?—Yes, I have been in communication with the Crown Lands Department and have suggested that they might take over this property but they have not responded favourably. The difficulty, of course, is that there are some perpetual annuities, a large amount of perpetual annuities as a charge on this land. They do not regard it is a very suitable investment. They feel that they are not entitled to

(*The witnesses withdrew.*)

(*Adjourned till Tuesday next at 2.30 p.m.*)

invest in anything that is not a good investment and they do not regard this as being one.

Sir Isidore Salmon.

2074. They do not want to carry your baby for you?—That is it, I am afraid.

Mr. Benson.

2075. I gather that there is a loss of £1,560 irrespective of interest here?—That is so.

Chairman.

2076. May I take it that this Account is approved? (*Agreed.*) Pages 22-25, Holbeach (Lincolnshire) Farm Settlement Accounts. May I take it that these Accounts are approved? (*Agreed.*) Page 28, Rolleston (Nottinghamshire) Farm Settlement Accounts. Are there any questions on pages 28-31? May I take it that these Accounts are approved? (*Agreed.*) Page 34, Sutton Bridge (Lincoln) Farm Settlement. On page 35, Sir Donald, the loss, I see, has come down very considerably. Might I take it that that loss, in point of fact, is due to a somewhat isolated piece of good fortune in the sale of property?—That is so.

2077. It is accounted for up above?—That is accounted for in profit on sale of property up above.

Chairman.] I thought that was the figure.

Sir Isidore Salmon.

2078. When you show the estate profit next year and you are bringing forward losses, will you make any note on your papers to show that there has been a profit on a certain thing?—We show it there; this shows profit on sale of property. That was actually the sale of a hotel.

Chairman.] May I take it that these Accounts are approved? (*Agreed.*) Page 40, Bosbury (Buchanan Trust) Estate Accounts. Are there any questions on pages 40 to 43? May I take it that these Accounts are approved? (*Agreed.*) Page 45, National Stud and Farm, Tully, Eire.

Sir Isidore Salmon.

2079. There you make a profit?—Yes, there we make a profit.

Chairman.] It is a better year this year altogether. Are there any questions? May I take it that these Accounts are approved? (*Agreed.*)

TUESDAY, 15TH MARCH, 1938.

Members present:

Mr. MORGAN JONES in the Chair.

Sir Irving Albery.
Mr. Benson.
Sir Edmund Brocklebank.
Mr. Culverwell.
Mr. Lathan.
Mr. Mabane.

Mr. Pethick-Lawrence.
Sir Assheton Pownall.
Mr. Wilfrid Roberts.
Sir Isidore Salmon.
Sir Robert Smith.

Sir GILBERT UPCOTT, K.C.B., Mr. W. R. FRASER and Mr. H. BRITAIN, called in and examined.

CIVIL APPROPRIATION ACCOUNTS, 1936.

CLASS VI.

VOTE 10.

MILK (ENGLAND AND WALES AND NORTHERN IRELAND).

Sir DONALD FERGUSSON, K.C.B., called in and examined.

Chairman.

2080. Civil Appropriation Accounts, page xxiii, paragraph 45. Sir Donald will you please look at the second subparagraph. There is a reference there to a saving which was effected in respect of this milk subsidy?—(Sir *Donald Fergusson.*) Yes.

2081. Will you please explain a little more fully how this saving has been effected?—The subsidy paid under the Act is the difference between the standard price, 5d. in summer and 6d. in winter, on the one hand, and the cheese-milk price or the net cost to the purchaser, whichever is the higher, on the other hand. Normally the cheese-milk price is the operative factor. In this year the cheese-milk price was higher than was anticipated owing to the rise in the price of imported Canadian and New Zealand cheese. Of the £625,562, £500,000 was due to the lower rate of payment per gallon owing to the rise in the cheese-milk price. The remaining £125,000 was due to a lower gallonage of milk produced and going for manufactured purposes.

2082. In that last sentence, Sir Donald, there is a reference to an increase as compared with the estimate in respect of Northern Ireland. Could you tell us what was the estimate in respect of Northern Ireland actually?—The estimate in respect of Northern Ireland for 1936 was £70,000 and the actual expenditure was £100,229.

2083. So that the actual expenditure was an increase of between 40 and 50 per cent.?—Yes.

2084. Is there any reason why Northern Ireland should be doing so well proportionately out of this subsidy as compared with other parts of the Kingdom. I see their proportion is in the ratio of 73 to 43?—(Sir *Gilbert Upcott.*) That is a comparison of reductions. (Sir *Donald Fergusson.*) As a result, I think, of discussion on this point before the Committee last year, arrangements have been made under the present Milk Act for the rate of subsidy in the case of Northern Ireland to be calculated in such a way that it is no higher than the rate of subsidy in England and Wales.

2085. It is going to be adjusted, is it?—Yes, arrangements have been made to adjust it.

2086. Does that require legislation, Sir Donald?—That was done in accordance with the legislation passed last summer.

2087. That has been done, has it?—Yes, it has been done.

2088. I am indebted to the Comptroller and Auditor General for giving me a new word. Are these payments not only exigible (that is the word) but going to be exacted? "Further, in April and May, 1937, no payment was due"?—(Sir *Gilbert Upcott.*) That relates to the repayments.

2089. Yes: "and for June and July, 1937, the statutory cheese-milk price

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Sir DONALD FERGUSSON, K.C.B.

[Continued.]

was sufficiently high to render repayments exigible under Section 5 of the Act?—(Sir Donald Fergusson.) The repayments in respect of certain months last summer are not only exigible but will be exacted, but it was announced in the Government's White Paper that repayments in respect of months after September, 1937, would not be exacted. (Sir Gilbert Upcott.) That will, of course require legislation. (Sir Donald Fergusson.) Yes, that was in the White Paper on future milk policy, which will require legislation.

Sir Isidore Salmon.

2090. The saving of £625,562 is a credit to the Exchequer?—Yes, Sir.

2091. I suppose, at the time you framed your estimates, it was not possible to have any idea as to what the market price was likely to be for milk and cheese coming from the Dominions?—No, we did not know: there was a marked rise.

Sir Robert Smith.

2092. With regard to this point to which you refer, "exigible," should it not be "non-exigible" in this case?—(Sir Gilbert Upcott.) I think that I have correctly stated the position under the Act.

2093. Surely it is a negative; the price was sufficiently high to render repayments not exigible?—(Sir Gilbert Upcott.) No; the repayments were exigible from the Milk Marketing Board.

Mr. Lathan.

2094. The first sub-paragraph of paragraph 45 refers to a price of 5d. a gallon in summer and 6d. a gallon in winter for milk. Do I understand that that is an economic price, that is to say, a price that enables the producer to make a profit?—(Sir Donald Fergusson.) This is milk used in manufacture, this price is not one which enables the producer of milk, the farmer, to make a profit.

2095. That means there has to be a subsidy?—Under the policy of the Milk Acts, subsidy is given for milk sold below those prices.

2096. But at those prices?—If those prices are reached no subsidy is payable.

2097. It therefore means that milk can be produced and sold at a profit, or at any rate without any loss, at 5d. a gallon in summer and 6d. a gallon in winter?—No, Sir, the return that the

farmer receives on his milk is a balance between the price received for liquid milk and the price received for manufactured milk. The price the farmer under the Board scheme receives is the pool price, which is the result of the price received for the liquid milk and the price received for the manufactured milk.

2098. This price then has no relation to what is paid to the farmer necessarily?—No; the producer could not sell milk at 5d. a gallon and make any profit on it.

Mr. Wilfrid Roberts.

2099. Could I ask what the total amount of the subsidy was in this year for England?—(Sir Gilbert Upcott.) You will see that on page 297. (Sir Donald Fergusson.) On milk used for manufacture the expenditure was £474,667.

2100. That includes the £100,000 for Northern Ireland?—Yes.

2101. Then the English subsidy was £374,000?—Yes, approximately.

2102. I would like to ask a little more about this Northern Ireland question. Was there a discrepancy there? You said there was no cheese-milk price?—No. The situation and the arrangements in Northern Ireland are quite different from those operating in England. Whereas in England and Wales subsidy is payable on the difference between the cheese-milk price, which in any month let us say was 4½d., and the standard price, which let us say, was 5d., in Northern Ireland subsidy was payable on the basis of the difference between the price actually realised for the milk, when it went into manufacture for butter or cheese, and the standard price.

2103. I do not know whether this is a question which you can answer, but were there yearly contracts in Northern Ireland, that is to say, when the value of cheese increased, were the manufacturers of butter and cheese still buying their milk at a price fixed perhaps six months before?—The ordinary contract, of course, is a contract which provides for variations month by month in the case of England. I understand that in Northern Ireland the position is that manufacture is largely carried on by co-operative creameries run by the producers themselves.

Mr. Wilfrid Roberts.] They seem to have done very well.

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Sir DONALD FERGUSON, K.C.B.

[Continued.]

Chairman.

2104. Turn please to page 297. On sub-head B there was very little expenditure, though £45,000 was the actual grant. Could you explain why it was that so little was, in fact, spent?—Yes, Sir. This was an estimate for expenditure under the Attested Herds Scheme. That Scheme provided certain assistance to owners of herds who wished to have their herds attested free from tuberculosis. Under the Scheme which was operating in the year in question, the inducement offered was insufficient to induce many owners of herds to make the attempt to get their herds attested. Since then a revised Scheme has been produced and under the revised Scheme rapid progress is being made. In this particular year the progress made was disappointing, compared with the estimate.

2105. Can you tell me whether the inducements were as good in England as in Scotland?—The inducement that was operating in this year was not as good in England as in Scotland.

2106. That explains perhaps the difference; I will come to the Scottish scheme presently, but looking at the same tables, so to speak, it looks as though in Scotland they took up the scheme?—They had a more favourable scheme in Scotland in this year.

2107. Another injustice to England?—That has been remedied since.

Chairman.] Are there any questions on page 297?

Sir Isidore Salmon.

2108. On sub-head C, as regards the contributions towards the expenses of the Milk Marketing Board, how are their expenses controlled—by regulations issued by the Ministry of Agriculture?—The expenses in this connection are the expenses of the Board in supplying milk in schools. The arrangement is that we treat the cost of selling milk at reduced rates as part of the Board's expenses which may be assisted from the Exchequer. The Scheme provides for a reduced rate of 1s. a gallon for milk in schools. We pay half of the cost of selling at that reduced rate in respect of the first 18 million gallons consumed by the school children during each year and one quarter of the cost in respect of any excess over that quantity.

2109. Is most of this money absorbed under sub-head C by those two factors?—Yes.

Mr. Mabane.

2110. Over what period of time does the Milk Marketing Board propose to spend the £60,000 on additional publicity?—That was, I think, a scheme for one year.

2111. They proposed to spend £60,000 in one year?—Yes.

2112. It is a very high appropriation for advertising anything, is it not?—The value of the product is £42,000,000 a year. I am afraid I am not familiar with how much commercial firms do spend on advertising.

2113. But, in fact, they only spent £20,000?—I do not know that.

2114. You say in your note that you only contributed one-third of your £30,000, and as you were contributing on a pound for pound basis that would mean that the Milk Marketing Board spent £20,000, would it not?—I am not sure whether the Scheme ended in the year to which these accounts relate. It may be that we only contributed the proportion that fell in this financial year.

2115. You cannot tell us what amount was actually spent in this financial year and over what period during this financial year it was spent? I imagined that this £20,000 represented an expenditure spread over the whole year, but, if it was only part of the year, I would like to know what it was?—(Sir *Gilbert Upcott.*) Four months.

2116. Four months only?—(Sir *Donald Ferguson.*) Yes. The difficulty is that there were various publicity schemes started at particular dates to which the Ministry undertook to make certain contributions; they did not correspond exactly with the financial years.

2117. Your note refers to further publicity: I was going to ask this question: could you tell us what is the expenditure of the Milk Marketing Board on publicity in total? I agree if you make no contribution perhaps I am not entitled to ask it?—Our actual expenditure in the year in question towards the publicity was £38,000.

2118. Was that all on a pound for pound basis?—Yes, that was a pound for pound basis.

2119. It is all on a pound for pound basis?—Yes, it is all on a pound for pound basis.

2120. That is to say, they spent in this year £76,000 on advertising?—Yes, approximately.

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Sir DONALD FERGUSON, K.C.B.

[Continued.]

2121. Why was it necessary for them to increase from their original figure by this additional £60,000?—They had made arrangements for one publicity scheme and then they found that the results were beneficial and it was decided to have another publicity scheme. In fact, during this period there was a very considerable expansion in the sales of liquid milk.

Mr. Lathan.

2122. Am I correct in understanding that this figure of £919,681 shown as a total expenditure is the net expenditure also of the Milk Marketing Board. There is nothing to offset against that—no income from anywhere?—This is the expenditure of the Ministry to the Milk Marketing Board.

2123. Should I be correct in understanding that it costs the country £919,681 to enable private consumers of milk to have milk at the price they are having it to-day and manufacturers to have it at the price they are having it and the standard price to the producers to be maintained? That is the net cost to the State?—There are other items in this figure besides the subsidy for milk going into manufacture. Under sub-head B, for example, there is the expenditure on trying to rid the herds of tuberculosis. Sub-head C comprises the subsidy for the Milk in Schools Scheme. It also comprises an item for a Nutritional Survey Scheme and the general publicity work which the Committee have just been discussing.

2124. All those services in the matter of milk production and distribution mean a charge on the State of £919,000?—Yes.

Mr. Wilfrid Roberts.

2125. Could you tell us how much has been spent on the Nutritional Survey?—The Exchequer contribution was limited to £5,000. The actual expenditure in 1936 was £3,300.

2126. The Board is contributing part of the cost?—Yes.

2127. Could you tell me the total gallonage under sub-head C, the Milk in Schools Scheme?—(Sir Gilbert Upcott.) I think it is 22,000,000 gallons. (Sir Donald Fergusson.) I think it is 22,000,000 gallons. I have the number of children.

Sir Isidore Salmon.

2128. Do you subsidise Milk Bars in any way as a means of publicity?—No, I think it was simply a poster campaign to which we contributed.

Mr. Wilfrid Roberts.

2129. There is an organisation known as the National Milk Publicity Council. Do you have any dealings with them as a subsidiary of the Milk Board?—(Sir Donald Fergusson.) That was a body set up before the Board to prepare publicity schemes.

2130. Some of its finance comes through the Milk Board?—Yes, half comes from the Milk Board and half from the Exchequer—I beg your pardon; from the distributors.

2131. It is the body to carry out the Milk Board's publicity campaign?—No, it does not carry out the Milk Board's publicity campaign, but it advises the Milk Board on its publicity methods.

Mr. Mabane.

2132. The gallonage, you say, was 22,000,000?—Yes.

2133. Would you mind telling us what it costs, because I thought you told us it costs 6d. a gallon up to 18,000,000 gallons and 3d. a gallon over 18,000,000?—I beg your pardon.

2134. I thought you said you contributed 6d. of the one shilling reduction on every gallon up to 18,000,000 gallons and a quarter of it over that?—No, it is not so simple as that.

2135. That is what you told us a moment ago?—It varies from month to month, because the Board do not naturally pay the half for the first 18,000,000 gallons and then a small proportion later on. The Board do not pay for the first 18,000,000 gallons as it comes in the financial year. There is an equalisation throughout the year, otherwise it would mean that they had paid the whole or the bulk of the subsidy for perhaps three months consumption in the year.

2136. Is the system so complicated that it cannot be explained?—No. (Sir Gilbert Upcott.) The formula is half the difference between one shilling and the wholesale price for liquid sales plus 6d. a gallon for distribution costs. That is up to the first 18,000,000 gallons; after that it is one-fourth.

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Sir DONALD FERGUSSON, K.C.B.

[Continued.]

Mr. Benson.

2137. May I ask the number of children receiving milk?—(Sir Donald Fergusson.) 2,793,000.

2138. Is that on any one day?—At the 29th March, 1935, that was, and that was in public elementary schools. In other schools there were 156,000 making a total of 2,949,000.

Chairman.

2139. That is practically two years ago?—Yes, I gave that as the figure.

*(Sir Donald Fergusson withdrew.)**Sir Assheton Pownall.*

2140. Three years ago?—Yes, that was, I think the maximum reached. The latest figure is 2,800,000.

Chairman.

2141. A slight decline?—Yes, a slight decline, but, of course, the number of school children has fallen.

Chairman.] Are there any other questions? May I take it that this Account is approved? *(Agreed.)*

VOTE 20.

DEPARTMENT OF AGRICULTURE, SCOTLAND.

Mr. P. R. LAIRD, C.B., called in and examined.

Chairman.

2142. Department of Agriculture for Scotland. Turn please to page xxv, paragraph 50, Agricultural Marketing (Scotland) Fund. I rather gather, Mr. Laird, you have not been very lucky with raspberries in Scotland?—(Mr. Laird.) Very unlucky.

2143. It looks as if you have had two attempts?—Yes.

2144. I will just ask one general question: would it not have been wiser to have made fuller enquiries as to how far these schemes might be acceptable to people before you incurred so heavy an expenditure, or, was this the only way you could find out?—When the second scheme was submitted, in view of the experience that had been had on the first scheme, we made it very clear to the promoters that the Secretary of State would want to be sure that the promoters who asked for this scheme were substantially representative, in terms of the Act, of the number of raspberry producers in Scotland and, in point of fact, they produced evidence that the submission of the scheme was supported by 243 growers with a total acreage under raspberries of 3,593. Those figures were actually more than the statutory majority required for getting a scheme through on a poll. Therefore the Secretary of State had no alternative but to suppose that the scheme was wanted by producers generally.

2145. What did the poll actually disclose in the end?—I am afraid I forget the figures but it was considerably less than the statutory majority required.

2146. What is the statutory majority required?—Two-thirds in number, who must also represent not less than two-thirds of the quantity.

Sir Isidore Salmon.

2147. Would it be a fair question to ask what was the main objection to the scheme?—What happened in this case, as in the previous one, was that between the time when the scheme was promoted and the time when it came to poll, the price of raspberries materially increased and they decided that they did not want one.

Chairman.] That is referred to in the last part of the paragraph.

Sir Assheton Pownall.

2148. What interval in time was there?—The scheme was submitted in December, 1934, and there was a great deal of delay involved in negotiating as to what should be the area of the scheme. There was a great deal of difficulty as to whether the producers who produced mainly for the basket trade should be included or not so that the poll was not actually held until September, 1936, that is a year and nine months later; in fact, it was so long that one had some doubt as to whether the original requisition could be regarded as still holding, but it was decided that it could be proceeded on. (Sir Gilbert Upcott.) You ask the actual figures of the poll; it is contained in the report of which you have had a proof on Agricultural Marketing Schemes. They were that, of 288 producers, 108 were in favour and 179 opposed.

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Mr. P. R. LAIRD, C.B.

[Continued.]

Mr. Culverwell.

2149. May I ask whether they want a scheme now?—(Mr. Laird.) There has been no demand since that poll.

Sir Robert Smith.

2150. So far as the Department is concerned, the initiation of the scheme comes entirely from the growers?—Yes.

2151. You have nothing to do with initiating a scheme?—That is so.

2152. You have merely to carry out the terms of the scheme? Was not there some difficulty with regard to those who produced for jam making with regard to the last scheme?—Yes, it was the jam makers mainly who wanted the scheme. The Lanarkshire growers, who are mainly concerned with the fresh fruit, were not so keen about it.

Sir Irving Albery.

2153. I think you gave the number of people who had to poll. What was the total number of the persons who did actually poll?—(Sir Gilbert Upcott.) 288 producers voted, 108 in favour and 179 against.

2154. I must admit I am quite ignorant about the whole thing, but why did it cost so much to get the votes of such a comparatively small number of people? I should have thought you could get a poll of 300 people for less than £400?—(Mr. Brittain.) These expenses do not merely cover the cost of the poll, but the whole expenses of the Board in putting the scheme through and preparing it from the beginning. (Mr. Laird.) Legal expenses in drafting the scheme and matters of that kind, and no doubt a good deal of travelling in connection with the promulgation of the scheme.

Chairman.

2155. Turn please to page 322, Class VI, Vote 20, Department of Agriculture for Scotland and appended accounts A to D. I have no questions on page 322, but on page 323, sub-head J, we have "Land Drainage." I see there was not very much spent of the grant that was allowed, Mr. Laird. Is the scheme merely postponed, or is it abandoned?—It is merely postponed. The provision for this year included an estimate of about £10,000 for a scheme of drainage on the River Clyde and actually for various reasons that had to

be deferred until a later period. I might mention that we have now spent some £6,500 this year. It was delayed for a year or two.

Chairman.] Are there any more questions on pages 322 and 323?

Sir Isidore Salmon.

2156. Would you mind explaining a small point on sub-head G? I notice the explanation is "The loss on land settlement (Section 26 (3) of the Land Settlement (Scotland) Act, 1919) during the year ended 31st March, 1936, was more than estimated." As I understand it, this includes Grants-in-Aid. How much are Grants-in-Aid and how much is the balance? It is all merged in one vote; that is why I ask the question?—The Grants-in-Aid were £265,000 and the balance is for loss on Land Settlement.

Sir Robert Smith.

2157. With regard to sub-heads K 4 and 5, this question of research, you have rather cut it down there, especially in sub-head K 4. Your lectureship in helminthology shows a reduction, for one thing. Could you give us some information with regard to what you are doing about research? With reference to helminthology, if you read the Poultry Technical Commission's Report that came out the other day, you will see that the death rates amongst poultry have gone up. I do not know whether you have seen the Report?—Yes.

2158. In the Scottish laying trials the mortality in the year 1928-9 was 5.5 per cent., in 1934-5 it was 17.3 and in 1935-6 it was 19.6, so you have got a tremendous rise in the mortality among poultry, yet you have cut down your research. Helminthology must have a good deal to do with poultry disease surely?—Yes; we did not, as a matter of fact, cut down the amount of the grant. This grant is made to a certain Dr. Morgan, lecturer in Edinburgh University for this purpose and it just happened that in the year he did not spend all he might have spent under his allowance. We did not cut the grant.

2159. That is £115, but on those two figures, K 4 and K 5, you have cut down your research for the benefit of agriculture by some £2,000; you have spent less than you were entitled to. Is that a wise and economical thing to do in view of the fact, which you must have known,

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[Continued.]

of the seriousness of the diseases in certain branches with regard to which research work might be undertaken?—I think one would need to compare the provision made for this purpose in this year in the Estimates with that made in previous years to see how far there was any indication of a desire to cut down the service. These figures here only show that, of the amount which was provided for in the Estimates, for one reason or another a certain amount was not spent.

Chairman.] How does it compare with previous years?

Sir Robert Smith.

2160. £3,000 up?—£3,000 up. The actual expenditure on research, I can assure Sir Robert, is always rising.

That is what I wanted to be sure about because there is so much less that it seems to be a very serious thing. There is another question on page 327 which deals with sub-head K5, but I had better wait till we get to it.

Chairman.] Are there any questions on pages 324 and 325?

Mr. Wilfrid Roberts.

2161. I would like to ask a rather general question. Can you give any indication of how the money spent on agricultural education and research under sub-heads K1 to 6 compares with similar expenditure in England in any way? Has that been compared?—It could be, of course, but it might give rather a fallacious result. For one thing, the location of Research Institutes is determined by convenience of locality and you cannot necessarily say that because there is so much on the Ministry's Vote and so much on ours, therefore England is getting so much and Scotland is getting more or less than its fair share. The Research Institutes all over the country are really regarded as on a sort of national basis but those which are in Scotland are financed through our Vote and those which are in England through the Ministry's Vote. Beyond that, of course, the Agricultural Research Council themselves spend a good deal of money on research which may be spent in England or may be spent in Scotland.

2162. So no comparison would be of any very great value?—I doubt if it would be of any very great value.

Chairman.] Are there any questions on pages 324 to 327?

Sir Robert Smith.

2163. On page 327 would you be good enough to let us know this: Take grants for Agricultural research, sub-head K, are these figures pretty much the same every year, or has there been any increase in the amount which was granted?—Generally an increase. I could not off-hand say how much, but I could easily supply the Committee with that.

2164. The Rowett Research Institute gets a grant of £13,000, double what any other Department gets. What is its personnel compared with the other Departments?—It is certainly the biggest of the Institutes.

2165. It is the biggest?—Yes.

2166. Is it more than double the size of any of the others?—I should not have said so off-hand. I am afraid I could not be quite certain.

2167. The others only get half what that gets?—Yes.

2168. Does the whole cost of the Rowett Institute fall upon your Vote, or does it not?—Practically all of it does. I think there are one or two small endowments, but it is very largely upon this Vote.

2169. Is it not a fact that it does Empire work and also that it deals not only with stock and poultry but also with human nutrition as well?—That is perfectly true.

2170. Does it not seem strange that as regards an Institute, the results of which are largely for the Ministry of Health, the whole costs should be put down to agriculture?—It is an arguable point, I think, whether, with the recent extensions of the Rowett Research Institute's work, that should be properly charged against agriculture as an agricultural service. Whether it would be worth while trying to make a division I do not know, because after all, the greater part of the work of the Institute is on farm animals and in connection with farm crops—the larger part of the expense.

2171. Are not a great many of the Reports dealing with nutrition of animals used in connection with the nutrition of the human animal?—The results are certainly made available for the information of those who are interested entirely in human nutrition.

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[Continued.]

2172. Have not a good many of the points that have been brought from the Empire dealt entirely with human nutrition rather than with animal nutrition?—I do not know that I could go as far as that.

Sir *Robert Smith*.] I wanted to know what were the facts.

Chairman.] I was wondering whether you were urging a re-arrangement of grants.

Sir *Robert Smith*.

2173. I am suggesting that this is an expense that is shown on the agricultural Vote which is not really for the benefit of agriculture entirely and I wondered whether they get any assistance from elsewhere towards that. On health services, a service in regard to nutrition of humanity is not a charge which should be borne by the Ministry of Agriculture but by the Ministry of Health?—(Sir *Gilbert Upcott*.) This is not money originally found by the Vote of the Department of Agriculture; it comes from the Development Fund and the grants are made on the recommendation of the Development Commissioners who must be satisfied that it is for the development of Agriculture. It passes through the Vote of this Department, but it does not increase the net expenditure of this Department because there is a corresponding Appropriation in Aid from the Development Fund.

2174. It is for the development of Agriculture?—The Development Commissioners, upon whose recommendations only the grants from the Development Fund can be made, must be satisfied that it is for the development of agriculture.

2175. From the replies we have had just now, part of it is not for the development of agriculture but for the benefit of human nutrition, and my point is that it is shown wrongly?—(Mr. *Fraser*.) Not wrongly.

Sir *Robert Smith*.] Not shown wrongly but wrongly allocated.

Chairman.

2176. On page 328, Mr. Laird, there is a note (c) on the arrears of rents and annuities. I merely wanted to ask, are these arrears increasing or decreasing?—(Mr. *Laird*.) They are decreasing. This figure was less than last year's, anyway.

Chairman.] Are there any further questions? May I take it that this Account is approved? (*Agreed*.) Page 330, Land Settlement (Scotland) Act, 1919. Are there any questions? May I take it that this Account is approved? (*Agreed*.) Page 331, Agricultural Marketings (Scotland) Fund. May I take it that this Account is approved? (*Agreed*.)

TRADING ACCOUNTS AND BALANCE SHEETS 1936—DEPARTMENT OF AGRICULTURE FOR SCOTLAND.

Chairman.

2177. Turn please to the Trading Accounts and Balance Sheets, paragraph 2 of the Comptroller and Auditor General's Report; Small Holding Colonies. Sir Gilbert, have you anything further to add in regard to your paragraph 2?—(Sir *Gilbert Upcott*.) This is the same question as arose last year in connection with the Ministry of Agriculture as regards their Amesbury Estate in which it appeared that the Small Holdings Scheme was not operative and the Department found itself in the position of being an agricultural landlord. It was generally agreed that that was not a function intended by Parliament to be exercised by them and that it would be desirable, as soon as possible, to dispose of the Estate by sale.

In this case I found that the Department had this farm which, when they originally bought it, was, in their opinion, suitable for easy and economical sub-division. That was in 1919, but that has never been found practicable and when I ascertained that it had been let as a farm for all this period and was again being re-let as a single farm I thought it desirable that the Treasury should be informed of the position, because, as I say, it did not seem to me that it was in accordance with the intentions of the Act, that it should not be used for small holdings if held by the Department of Agriculture. The Committee will see that while the Treasury have given covering approval for the letting of the farm which it may be was the most practicable step in the

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[Continued.]

circumstances, they noted that the lease provides for a break in 1943 and expressed the opinion that if a profitable opportunity for a sale arises it should be taken.

2178. Perhaps I had better ask Mr. Laird if he has anything to say as to what the Department intend to do in the matter?—(Mr. Laird.) We are quite prepared to accept the suggestion of the Treasury that if a profitable opportunity arises for a sale it should be taken. We fully accept that suggestion. I might perhaps just point out in supplement of what Sir Gilbert has said that the farm here in question was only a small part of a large estate which we bought, extending in all to 836 acres, so that it was only a small part of the estate which was not, in point of fact, divided up and used for small holding settlements. The reason was that it is really dairying land and there was a difficulty in dividing it up into economic holdings which would fall within the statutory requirements as to rental and acreage.

2179. Is the other part of the estate already sub-let into small holdings?—Yes, there are 12 small holdings on the rest of the estate.

2180. When your Department originally said that it was a suitable place for small holdings did they have this part in mind?—Yes, that is true, but we were looking at the estate as a whole; the estate as a whole was suitable for sub-division. We did expect, as a matter of fact, that it would be possible to divide the whole of it up. We could not deal with this particular farm at the time because it was under lease and it was only when the lease fell in that we could deal with it.

2181. What has made your Department change its view as to the suitability of this for small holdings?—Eleven years or more had gone by before we first had a chance of reconsidering the matter, 1919 to 1930. I think the Department and their advisers at that time took rather a different view from that which the Department and its officers had taken in 1919.

2182. Different advisers, of course?—Yes, different advisers.

Sir Irving Albery.

2183. The estate was bought in 1919 with a view to being small holdings, but this farm was let until 1936, so could not come into your possession?—(Sir Gilbert Upcott.) It originally fell in

in 1930. It was bought subject to a lease that fell in in 1930 originally.

2184. My book says: "On entering into possession at Martinmas 1936"?—The tenant remained in possession for the next 6 years by what the Scots call "tacit re-location." (Mr. Laird.) There was a break in 1930. The chance was not taken and it went on by tacit re-location until 1936.

2185. Were these only exceptional bits that were let on lease?—Yes, that is so. Most of it was available within two or three years of the date of acquisition, 1920, 1921 or thereabouts. (Mr. Brittain.) About seven-eighths of this, in fact, fell within 2 years.

Sir Robert Smith.

2186. It was in 1936 that you entered into this new 14 years lease?—Yes.

2187. Why did you grant a 14 years lease; or have you a break at 7 years?—(Mr. Laird.) We have a break at 7 years; we can break in 1943.

Sir Isidore Salmon.

2188. I suppose you have lost so much money under the small holdings that if there is a chance of making a profit on a let you like to take the opportunity. You would not like to deny that, would you?—Oh, yes.

[Chairman.] Turn, please, to page 52 of the Trading Accounts.

Sir Isidore Salmon.

2189. On page 52 the administrative expenses are increased by £3,900. When one looks for the explanation under (d) it states "The charges for administrative expenses and bad and doubtful debts are estimated figures." You can scarcely put the two things together, can you, because although they are separate in the Account the explanation comes under one heading?—The footnote (d), to which you refer, is a standard form which is incorporated, I think, in these accounts every year in order to indicate that we cannot calculate them with very great accuracy.

2190. Not even your administrative expenses?—The administrative expenses certainly not. We do, in point of fact, endeavour to calculate them with some meticulous care, but it is not possible to arrive at exactitude. It means estimating the proportion of time spent on these properties by every single man in our land division, surveyors, land officers and all the rest of them. They have to keep records and supply Headquarters

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[Continued.]

administration with attempts to estimate the amount of time spent on the particular properties.

2191. Had you more small holdings and more work to do in the year under review than you had in the year previous?—Yes, certainly, much.

2192. Has it grown?—Yes, it is always growing. (Sir Gilbert Upcott.) If you look at the right-hand side you will see the rents receivable have gone up from £61,000 to £74,000.

2193. I thought you might have had some good tenants instead of bad tenants?—They are the rents receivable.

Chairman.

2194. Sir Gilbert referred to rents receivable. Is that increase due to new land for settlements?—(Mr. Laird.) It is due partly to new properties, but also due partly to some extent to the changing over to the system of equipped rents, that is the case where we let a holding on a rent which is inclusive of the land and a house which we provide, whereas a large number of our previous settlements were on a basis of rent for the land, plus an annuity in respect of a building loan, so the figure of rent now has an element of transfer from the old basis of building with an annuity to equipped rent.

2195. It is a new phrase to me?—Rent as for a holding fully equipped with a house.

Sir Isidore Salmon.

2196. Is that the reason for the increase in the staff?—No, the increase of staff is due to the actual increase in the number of holdings and settlements.

2197. Could you tell us by how many they increased in the year under review?—I am not sure. We were aiming during the three years, 1935, 1936 and 1937, at 1,000 new holdings in the three years and we practically got them. (Sir Gilbert Upcott.) There were 10 additional settlements in the course of that year.

2198. Is it fair to assume then that the £3,000 odd increase was due to the 10 new holdings?—Ten properties, not 10 holdings. (Mr. Fraser.) The cost of staff was also increased in that year by automatic increases and restoration of economy cuts.

Chairman.

2199. I believe the loss is being reduced, is it not?—(Mr. Laird.) Yes, I think so.

2200. Is the reduction of the loss continuing?—You mean the reduction of the loss as brought out in these Trading Accounts?

2201. Yes?—The loss in the terms in which it is calculated in these accounts cannot diminish over all, because it has got this perpetual feature of the interest increment. I think, generally speaking, it can be said that we are doing better on our returns on land settlement every year.

Sir Robert Smith.

2202. With regard to the rents, have you increased rents at all? I do not mean equipped rents as against the others but have you increased your rents for small holdings in the year under review?—No, it does not represent any increase in rents.

Sir Irving Albery.

2203. Last year I think it was stated that the form of these accounts was to be reviewed. Are there any material changes in the form of the accounts this time?—Not in this year as against last year, it was two years ago. (Sir Gilbert Upcott.) After the expiration of this year the review is to be made.

Chairman.] Pages 54, 55, 56 and 57, Borgia Estate.

Sir Irving Albery.

2204. Administration expenses I see have come down from £538 to £261; is there any particular reason for that?—(Mr. Laird.) That high figure in the previous year was due to a great deal of work by surveyors on a reconstruction of a lodge on a property acquired.

2205. Is that also the explanation of the increase in rent from £264 to £672?—(Sir Gilbert Upcott.) That is the shooting letting. The expenditure in the previous year resulted in an increase this year in lettings from shootings.

Sir Robert Smith.

2206. Is that where a school house was altered to a lodge?—(Mr. Laird.) I gather that a room was given in the lodge for a school.

2207. There was something about a school having their classes there and it was turned back last year into a shooting lodge, was it not?—Yes, it was taken over by a gentleman who intended to run it as a hotel and for sporting purposes.

Chairman.] Pages 58 and 59, Gariochsford Estate.

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[Continued.]

Sir Irving Albery.

2208. Administration is £117, the rent is £309; is that a property which is let? It seems a lot for administration, £117, if one has a rent of £309?—I think that is not out of scale with the general run of land settlement accounts, which always have shown and must show a certain rather high looking administrative expense. Actually in this particular case of Gariochsford the returns are pretty good. The profits are quite substantial for an estate of this character.

Sir Robert Smith.

2209. It is one of the few that pays?—It does pay.

Chairman.] I think the point that Sir Irving Albery is putting still requires explanation. The fact that Gariochsford is doing well and shows a good return has nothing to do with the point Sir Irving is putting.

Sir Irving Albery.

2210. My point is that the revenue from the rent is approximately £309; I am not sure that the fact that it is let might not in some way reduce the administrative expenses. I do not know how these are apportioned. I do not know whether they are individual administrative expenses or whether you merely apportion some amount from the total administrative expenses?—I am sorry if I did not appear to take Sir Irving's point. I was trying to say that while the administrative expenses do look high in relation to the rent they are not out of scale with the general run of administrative expenses in relation to rents all over our properties. It is an apportioned cost.

2211. On the next page, page 60, you have administrative expenses £343?—*(Sir Gilbert Upcott.)* If you look at the combined account you will see that the administrative expenses are upwards of £50,000 as compared with rents of £74,000. *(Mr. Laird.)* That is the point I was trying to bring out.

2212. I do not know, but I should think it would be helpful if one could have some information about these administrative expenses. Let us take it in that light; the rents are £70,000 and administrative expenses £50,000. I was wondering if Mr. Laird could briefly explain to us a little why administrative expenses are so high?—Perhaps I might

explain just what the administrative expenses include. They include provision for architects and clerks-of-works in connection with the expenditure in the erection of holders' houses and the properly attributable portion of the cost of headquarters' staff of the office in Edinburgh, the administrative staff and the people engaged in the land division and finance on land settlement; a good deal of that expenditure, I think, is not such as would be considered administrative expenses in the ordinary sense in private estates.

2213. I am rather inclined to agree. Take architects: if you build houses I should have thought the architects' expenses would have gone into capital account, the cost of building the house?—That is so; it would appear as an element in the contractors' bill probably as part of the capital cost; we always treat that as part of the administrative expenses because we have our own architects staff.

2214. I think the Comptroller and Auditor General told us just now (I expect it is in the book if I could find it) that the total rents were £70,000?—£74,000. *(Sir Gilbert Upcott.)* On page 53 the total rents are £74,000.

2215. And the administrative expenses?—£54,000.

2216. Unless the Treasury or someone can satisfy one a little more that these administrative expenses are absolutely unavoidable, I cannot help feeling that I would rather like some more detailed explanation of it in the form of a paper?—*(Mr. Fraser.)* I think we might quite well look into this; I do not think it a question of whether the actual money spent is too much, but whether the apportionment is done on the right system.

Sir Irving Albery.] I think we are also concerned with the question whether the administration is economical or not. I admit one cannot see it from these figures.

Chairman.

2217. Could we do it like this: Mr. Laird, I wonder if you would care to look into this matter when you return and perhaps send us a note on this question of administration which will clarify the thing a little better for us?—*(Mr. Laird.)* Certainly.

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[Continued.]

Sir Robert Smith.

2218. Why has it risen from £81 in the year before to £117; that might give us some idea, because in the year before it was £81 and it is now £117?—That, I think, is in scale with the increase we have already looked at on the previous page for the Combined Estates. I do not think there is any speciality about it.

Sir Irving Albery.

2219. On pages 62 and 63 there is no item of administration expenses, Knocknagael Farm. I do not see any administrative expenses down at all?—That is an estate which is the Department's own property and this account here is really what you might call a landlord's account. It is a reflection of the financial position from the point of view of the Department as landlord. It includes a fictitious figure of rents receivable—a practically fictitious item of £310. You get the actual accounts with the administrative expenses for this farm and the others on the two previous pages, pages 60 and 61. The administrative expenses occur there.

2220. I still find these accounts rather difficult to follow. I understood they were to be revised. I asked the question last year: "I understood you to say just now that the form of these accounts was going to be reviewed next year." The answer I got was from the Chairman but it seems to have been passed and not corrected?—(Mr. Fraser.) I think that was on the general question whether we required to go on having trading accounts for these particular services. I have been looking at the Ministry of Agriculture accounts in this book and the administrative expenses charged seem to be very much less, so it looks as though the two Departments may be going on different principles in the way they apportion administrative expenses, and I think it might be looked into.

Chairman.] Mr. Laird has promised that we shall have a general note explaining it.

Sir Robert Smith.

2221. There must be certain administrative expenses which are purely attached to this one estate, Gariochsford, and there must be others which are apportioned. I hope we shall have them quite clearly defined, which are attached to this particular estate and

which are apportioned?—The Ministry of Agriculture's Accounts separate those off which are apportioned and put that in as a separate item.

2222. It is rather important?—(Mr. Laird.) We can do that.

Chairman.

2223. 58 and 59 Gariochsford Estate. 60 and 61 Knocknagael, etc., 62 and 63 Knocknagael Farm. May I take it that these Accounts are approved? (Agreed.) Before we pass on I should like to ask one other question. I would like you, Mr. Laird, to look at three pages. If you look at page 43 (it does not vitally concern you but as a matter of interest) there is the English Account and the Accounting Officer there signs his statement the 5th July. I look at the account on page 51 and there is another account signed by Sir Donald on the 18th August. Then I come to the Scottish Accounts and I find them all signed in January. Could you tell us why that is?—Yes. I am afraid that that was a very unduly late date of signature, due to the fact that our establishment branch, owing to various staffing questions, which had been very active, was working under extreme pressure and unable to deal with that particular item in these accounts which relates to the assessment of administrative expenses about which we have been talking. As I was mentioning, in that connection we take rather special pains to get that estimate of administrative expenses with as much foundation in fact as we possibly can, which, as I have said, involves getting from every out-door officer in particular an estimate of the amount of time that he has spent in connection with particular schemes covered by the accounts. There is a good deal of calculating work involved. I do not say that that entirely justifies the delay, which I think was perhaps excessive and exceptional. It certainly was exceptional. I will endeavour to see that it is got out a great deal more quickly in future years.

2224. Thank you, Mr. Laird. I have been looking at these dates. I have not got it clear in my mind, but I have an idea that the statutory date is somewhere about the end of November?—(Sir Gilbert Upcott.) 30th November is the statutory date.

2225. I could not understand quite, since these accounts were not signed until January, how you, Mr. Comptroller

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and Auditor General, were able to get this audit done?—Of course, a good deal of the audit work is done currently and on preliminary figures.

2226. You do not have to wait?—It does not all have to be done after the date on which the account is signed, but I feel bound to say that it would be of great assistance to my Department if the Department could render the account at an earlier date, more comparable to that of the Ministry of Agriculture, because these accounts were received a very

short time before it was necessary for them to go to Press and the final work of auditing and preparing anything I may have to say about them is not very easily done under pressure of that kind.

2227. Mr. Laird, I think, is conscious of that and he says that there were exceptional conditions last year?—(Mr. Laird.) Yes.

2228. So I have no doubt next year that he will see that they are earlier?—Certainly.

TREASURY MINUTE ON PARAGRAPH 16 OF THE SECOND REPORT OF
THE COMMITTEE OF PUBLIC ACCOUNTS 1937.

Chairman.

2229. Treasury Minute, paragraph 16, Milk used for Manufacture. Mr. Laird, what is the result of this investigation, which is referred to in the Treasury Minute?—(Mr. Laird.) I might perhaps explain, just for the information of the Committee, the steps that we took in view of the discussion which took place a year ago. I, first of all, had an interview with officers of the Scottish Milk Marketing Board, and ascertained, rather as I had expected, that they would be extremely unwilling to consider any question of repayment of the difference between the money which they had received under the Act and the money which they had paid out to the farm cheese makers, because, as they pointed out, their contract or agreement with the farm cheese makers was based on certain understandings and carried out on a certain footing which would be upset if this method were dropped and another method adopted. They, however, indicated that if they were strongly pressed they would be willing to consider altering the method which they had adopted vis-a-vis the farm cheese makers, but they said they would do so with very great reluctance because it would cause them a good deal of inconvenience and time to tear up their existing methods of settlement and frame a new scheme. The investigation *quoad ultra* was designed to find out how far the difference of approximately 6 per cent. between the money that we paid and the money that the farm cheese makers got was really covered by the factors which were discussed at the previous meeting of this committee a year ago. The check on the accuracy of the payments made to the Board by

the Department consists primarily of the evidence furnished by the returns made to the Board by cheese merchants of their purchases which, on the basis that one gallon of milk makes one pound of cheese, represents 94 per cent. of the gallonage used in making cheese. This weight of cheese does not include cheese sold or otherwise disposed of in parcels of less than 5 cwt. The two steps which we took were, first of all, we ascertained the views of experts in the West of Scotland as to the average amount of cheese made from a gallon of milk. The views of three experts were, first .95 lbs. and the second one was .9465 and the third one was from .94 to .96 lbs., or, expressing that perhaps in a more comprehensible way, 100 gallons of milk were reckoned by these experts to make not more than, say, 96 lbs. of cheese on the average, taking an average of those three opinions that we got. That therefore accounted for four of the 6 per cent. that we had to explain. Then, secondly, we asked two of the county organisers attached to the West of Scotland College of Agriculture, as being people who were in constant touch with farm cheese makers, to estimate the percentage of the total cheese manufactured on farms which could be attributed to the sales of 5 cwts. and over. The estimates they furnished were: the first man said from 95 to 98 per cent. and the second man said 98.5 per cent., so that on the lowest of those figures a further 5 per cent. is covered, and if you take the higher figure, 98 per cent., that covers the other 2 per cent. that was missing. We therefore came to the conclusion that it was clear that there was no serious loss involved in this and it looked to us as

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if the Board had been properly accounting for the money that they received from us. We of course reported the result of these investigations to the Comptroller and Auditor General and had correspondence with him throughout the year. In point of fact, during the current year 1937-38 it is unlikely that any question will arise of any further payments under this section at all. One payment will probably fall due in respect of March, 1937, but, as against that there were two months in which the Board will actually be due to make a repayment to us, which, of course, will be on exactly the same terms as the original payment was made. So that actually the question is somewhat academic because nothing further will happen after the end of this year on the same lines. I hope I have persuaded the Committee that we have sufficiently checked the probability that there has been no loss to public funds by this method of making payments.

2230. Have you anything to say, Sir Gilbert?—(Sir Gilbert Upcott.) The Committee will remember that there is no difficulty of this kind in England because in that country a gallon of milk is taken as equivalent to a pound of cheese and as the poundage of cheese sold can be checked, there is a definite check of the claims for milk turned into cheese. The trouble arose in this particular case because the gallonage of milk claimed to be used by the farmers

in Scotland is, as the Accounting Officer said, about 6 per cent. more than the poundage of cheese shown to be sold. That gallonage is not susceptible of any precise check. I am quite ready to agree that the indirect evidence which Mr. Laird has quoted indicates that there is probably very little, in fact, at issue. The difference is probably, in fact, inconsiderable, if any. And, of course, if, as he says, there is no payment likely to be made during the current year, for the moment the question is not worth pursuing. But I am bound to say, as an auditor, that claims which are only capable of indirect corroboration and not susceptible of definite check are not satisfactory. I should hope that in future a procedure will not be adopted which will necessitate my relying, not upon any precise check, but upon indirect corroborative evidence of the kind quoted. As I say, I think for the moment the indication is that there is not much at stake and the question is not of any immediate pressing importance.

2231. Have you any observations?—(Mr. Fraser.) It will be cleared in future legislation. (Mr. Laird.) Yes. (Mr. Fraser.) Before it becomes a live point again. (Sir Gilbert Upcott.) That, of course, would be entirely satisfactory to me. I should not have any desire to press further for the reopening of the past.

Chairman.] Then we can pass on.

CIVIL APPROPRIATION ACCOUNTS, 1936.

CLASS VI.

VOTE 21.

MILK (SCOTLAND).

(On this Account no questions were asked.)

(Mr. Laird withdrew.)

WHEAT FUND ACCOUNTS, 1936-7.

Mr. H. D. VIGOR, O.B.E., called in and examined.

Chairman.

2232. Wheat Fund Accounts, turn to page 6, the Comptroller and Auditor General's report. The first paragraph, I think, is statistical. Paragraph 2 is in regard to quota payments by millers and importers of flour. I understand that

quota payments have ceased now?—(Mr. Vigor.) They ceased on the 18th April last and they were reimposed last September.

2233. So they are now again imposed?—Yes.

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Mr. H. D. VIGOR, O.B.E.

[Continued.]

2234. In regard to the repayments, what is the full effect of the House of Lords judgment? Do these represent the full effect of these repayments?—Yes, there is nothing to add in the way of repayments after the figures mentioned in that paragraph.

2235. There will not be a continuing loss?—No. (Sir Gilbert Upcott.) Except so far as the substances in question will not be subject to the quota payments in future.

2236. Paragraph 3, what is the point at issue here? Could you tell us, Mr. Vigor?—(Mr. Vigor.) Yes; under the Wheat Act, millers who grind wheat without separating flour from offals to make a whole substance called wheat meal which they deliver for stock food, are exempted from liability to make quota payments, provided they satisfy the Wheat Commission that it is delivered for consumption without further manufacture as animal or poultry food. That was intended to deal with 1,500 or 1,600 small provender millers in all parts of the country whom it was not thought to be worth powder and shot to pursue in respect of little outputs of ground wheat meal. The condition was that it should be without further manufacture. There are a certain number of millers about whom we had information that they have used this wheatmeal in the manufacture of certain other substances. They say "No, we have not done that." They say they are not liable, so the matter is being very carefully sifted by us, with legal advice, to see the full position. Meanwhile we have notified those millers that we hold them liable for quota payments on a certain tonnage of wheatmeal which they have used for making cubes and pellets for stock feeding.

2237. Is there any settlement of these claims being reached?—No, they are still in legal advisers' hands and I do not anticipate that we shall know very much for some months.

Chairman.] Paragraph 4, Deficiency Payments.

Mr. Lathan.

2238. Is the suspicion that the meal or the wheat ground into meal in the manner that is now described is being used for food other than animal or poultry food?—No, there is no question of that sort at issue. It is undoubtedly

used for stock feeding, but in the form of what we think is a manufactured article.

2239. It is not for me to suggest, but the matter will be checked by the records?—We have audited all those points, there is no question on that.

Mr. Wilfrid Roberts.

2240. The only substance produced from wheat which can be sold under this clause, not subject to a quota payment, is meal?—Yes.

2241. If it is turned into a cake and sold for stock feeding it must then pay a quota payment?—Yes, that is what we consider is the law. The other exempted article is wheat offals.

Chairman.

2242. That is the question in dispute?—Whether it has been further manufactured or not.

2243. I gather from reading paragraph 4 that there was a heavy fall in the supply of wheat; is that so?—Yes.

2244. What was the cause of that?—The chief cause was that in 1936 the yield per acre at the harvest was much lower than in the two preceding years. The two preceding years had been exceedingly favourable for wheat production, but the 1936 year was not nearly so favourable and there was a considerable decline from 19 or 20 cwts. per acre to under 17 cwts. per acre; that 3 cwts. fall, applied to 1,800,000 acres, means a loss of about 5,000,000 cwts.

2245. Was it that there was less wheat sown?—No, there was no less sown; it was rather the seasonal effect upon the production of the crop.

2246. Are there any further questions. Turn please to the Account. On page 2, Mr. Vigor, I see a little item (b) under expenditure, "Expenses of Flour Millers' Corporation, £10 11s. 3d." It strikes me as a very small figure in comparison with some we have seen. Is that organisation functioning?—The organisation exists, but it performs no functions really, except that it is in existence for the purpose of a contingency. The contingency is that if in any year it was represented by us to the Minister that it was desirable that the Flour Millers' Corporation should be called upon to buy unsold stocks of British wheat existing on the 1st June,

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Mr. H. D. VIGOR, O.B.E.

[Continued.]

the Minister might, by Order, require that Corporation to buy those stocks. That event has not arisen and it is very unlikely to arise, but the Corporation is there for the contingency. The cost

of £10 10s. is merely the cost of auditing their accounts.

Chairman.] Are there any questions on pages 3, 4 and 5? May I take it that this Account is approved? (*Agreed.*)

(*Mr. Vigor withdrew.*)

AGRICULTURAL RESEARCH COUNCIL ACCOUNTS, 1936.

(*On this Account no questions were asked.*)

CIVIL APPROPRIATION ACCOUNTS, 1936.

CLASS V.

VOTE 2.

BOARD OF CONTROL.

(*On this Account no questions were asked.*)

VOTE 3.

REGISTRAR-GENERAL'S OFFICE ENGLAND.

Chairman.

2247. Page 206, Class V, Vote 3, Registrar-General's Office, England. Can the Treasury tell us what is the meaning of that "C." "Due to the increase in the number of salaried Superintendent Registrars being larger than anticipated" and yet the expenditure is less. I think I know what the explanation is, but perhaps you will tell us it?—(*Mr. Brittain.*) Some of the Registrars are salaried and some are paid, by fees and

this is the sub-head which pays those paid by fees, so if the number of salaried registrars is increased the amount paid in fees is reduced. (*Sir Gilbert Upcott.*) "Salaried" means salaried by the local authorities and not by the Exchequer and, as they are paid by the local authorities, their salaries pass to the rates and away from the Exchequer.

Chairman.] May I take it that this Account is approved? (*Agreed.*)

VOTE 4.

NATIONAL INSURANCE AUDIT DEPARTMENT.

VOTE 5.

FRIENDLY SOCIETIES REGISTRY.

VOTE 6.

OLD AGE PENSIONS.

(*On these Accounts no questions were asked.*)

(*The witnesses withdrew.*)

(*Adjourned till Thursday at 2.30 p.m.*)

THURSDAY, 17TH MARCH, 1938.

Members present:

Mr. MORGAN JONES in the Chair.

Sir Irving Albery.	Mr. Pethick-Lawrence.
Sir Edmund Brocklebank.	Sir Assheton Pownall.
Mr. Culverwell.	Sir Eugene Ramsden.
Mr. Lathan.	Sir Isidore Salmon.
Mr. Mabane.	Sir Robert Smith.

Sir GILBERT UPCOTT, K.C.B., Mr. W. R. FRASER, and Mr. H. BRITAIN called in and examined.

TREASURY MINUTE ON PARAGRAPHS 7 AND 8 OF THE SECOND REPORT OF THE COMMITTEE OF PUBLIC ACCOUNTS, 1937.

Sir ALEXANDER MAXWELL, K.B.E., C.B., and Mr. C. B. HAINS, M.B.E., called in and examined.

Chairman.

2248. Treasury Minute dated 8th November, 1937, on the Second Report of the Public Accounts Committee, 1937, paragraphs 7 and 8, Home Office. Will you please turn to the Treasury Minute, Sir Alexander? In regard to the first sub-paragraph of the Treasury Minute I understand that this provision in regard a separate Vote has been made already,

has it not?—(Sir *Alexander Maxwell*.)
Yes.

2249. I gather that so far as this Committee is concerned, we shall have it under review in 1940; is not that so?—Yes.

2250. On the second sub-paragraph this has also been attended to by legislation, has it not?—Yes, that is true.

Chairman.] Are there any further questions?

CIVIL APPROPRIATION ACCOUNTS, 1936.

CLASS III.

VOTE I.

HOME OFFICE.

Chairman.

2251. Civil Appropriation Accounts, page 94, Class III, Vote I. On page 94 I would like to ask the same question as I am afraid I have had to ask many times before. In regard to sub-head E2 your predecessor did say that this would be attended to legislatively "at not too remote a date." Those were his exact words. I take it that date is becoming a little less remote?—I think that is so, but you know how difficult legislation is at the present time.

2252. Yes, but may we take it that it is always being kept under review?—Yes, certainly.

2253. On sub-head H2, page 95, there is a note: "The estimate was framed on a full three-shift basis but it was not possible to work at full capacity on this basis." Could you explain that note a little further?—The anthrax station has to work from time to time in a rather

irregular manner. There is no possibility of spreading the work out evenly over the whole year. We have to be prepared at certain times to work at the fullest possible speed; at other times there may be a slackening of the speed. That is because it is necessary to turn out the wool that is required for the trade at once; it cannot wait. Therefore we have to base the estimate on the supposition that we shall want a full staff working for three shifts. At times, as I say, that full speed is not necessary and so the full expenditure is not incurred.

Chairman.] Are there any questions on pages 94 and 95?

Mr. *Mabane*.

2254. Could you expand that note to sub-head F3? Why cannot an accurate estimate of the number and costs of deportation orders be made? I wondered

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[Continued.]

whether the amount spent less than granted was due to the fact that the number had been very much less than you had anticipated?—I do not know that I have the exact figures here but the cost of deportation varies enormously. In numerous cases the alien himself pays his own cost or it may be a very short journey just across to France. In other cases it may be necessary to pay for a very expensive journey and it is quite impossible to make the figures of expenditure from year to year much the same.

2255. Could you say whether the number was an actual decline?—The number of people actually deported, no; I do not think there was any decline. I have the figures for the last four years of Deportation Orders actually made; and that, of course, does not mean all the people turned out, because a good many go because we say "You must not stay any longer." The figures for the last four years are 200, 193, 192 and 187.

2256. The last year being what?—1936-7.

2257. There has been a decline then—a slight decline?—It can hardly be called a decline.

Sir Irving Albery.

2258. There is one thing I cannot quite understand about sub-head H. You spent less than granted by quite a considerable percentage because of what you stated about the three-shift basis, but it goes on to say "The saving in expenditure has been offset by a consequential reduction in the revenue from fees for disinfection". Does that mean that the Department could not cope with the disinfection work that was required?—No, it means that the estimate was prepared on the basis that we might be working up to full capacity and that the fees received would be on that basis too. But you see we were not working during part of the year at full capacity, and consequently the fees received were not as high as the estimate.

2259. I do not understand whether you were not working at full capacity because there was not the work?—Yes, that is the reason.

2260. Then I cannot understand the first part of the note "The estimate was framed on a full three-shift basis"; that has not anything to do with it. The fact that it was over-estimated was

a miscalculation in the amount of work that would be offered to be done?—I do not think it was a miscalculation, because the principle on which this estimate is based is that provision is made for a staff for a three-shift basis, and during part of the time, as I say, we are not employing that full staff.

2261. It is still not quite clear to me, because you estimate for material which was not used; it was either not used because there was not enough demand for disinfection or it was not used because you could not comply with the demand for disinfection?—No; we complied with all demands but the wool comes in in irregular quantities. At times we are working under full pressure and at other times we are not. (Sir Gilbert Upcott.) The Station waits for wool to be disinfected; the Station is there waiting to disinfect wool when it is tendered to it for disinfection. It must be ready to disinfect the maximum possible amount.

2262. That would not affect material, would it? There is a large difference in material; the cost of material was estimated at £12,000. I only wanted to understand?—(Sir Alexander Maxwell.) I believe the material is largely the disinfecting stuff, formaldehyde and so on, used in the process. (Sir Gilbert Upcott.) The material is the disinfecting material, not the material to be disinfected, but the disinfecting material.

Sir Irving Albery.] I will not pursue it.

Chairman.] If you are not satisfied I wish you would, because you must understand it and you are entitled to ask questions if you desire.

Sir Irving Albery.

2263. I thought the rest of the Committee did understand it and I do not want to detain you if you do understand it; I am afraid I still do not?—(Sir Alexander Maxwell.) I am sorry if I have not made it clear. I may put it this way: as the Comptroller and Auditor General has pointed out, this is a Station which has to supply the needs of the trade as and when the wool comes in. When the wool comes in for disinfection we must disinfect it at once. We are not the persons who say how much wool shall be disinfected; that rests with the traders who bring the wool in. We have to be prepared to work at full capacity, and therefore we provide in the estimate a sum of money

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[Continued.]

which will be necessary if we are working at full capacity; but, in fact, there were periods when we were not working at full capacity and that accounts for the difference between the sum spent and the sum put in the estimate.

2264. Taking it in conjunction with the fact that the salaries were also considerably over-estimated, it seems to come back to the point which I thought I was making (perhaps wrongly) that it may be very difficult to estimate this, but you had, in fact, estimated for more work; the real explanation simply appears to be that it was an over-estimate of the amount of work which you would have to do, both as regards salaries and as regards material?—It was not an over-estimate in the sense that we tried to calculate how much work we should have to do in the year and overcalculated that sum. It was a quite deliberate policy of making provision in the estimate for the maximum amount of work we might have to do.

2265. That merely means that it was an over-estimate of the work which you would have to do, but that it was, perhaps quite rightly, a deliberate over-estimate?—I am sorry if I did not make that plain.

2266. I think I understand now?—(Mr. Fraser.) I think it was a safe estimate.

2267. That was not quite clear to me?—I think perhaps the word "possible" is a little misleading in the note.

Sir Isidore Salmon.

2268. With reference to the point you have just been discussing, Sir Alexander, I notice that under the receipts you estimated to receive from the trade £8,000 more than you actually received. Therefore, if you do not get the receipts, all your other calculations are thrown out?—(Sir Alexander Maxwell.) Yes.

2269. Is that the position?—Yes, that is true. The receipts are based on the same basis as I have been explaining with regard to the expenditure.

2270. You were optimistic as to how much business you were going to do and you have done £8,000 less business than you anticipated doing?—Yes, but I do not quite like calling it an optimistic estimate of business, because we have to conform to the requirement, whatever it may be, that the trade thrusts upon us.

2271. But surely you estimate a figure that you are going to take during the year?—Yes.

2272. And, in fact, you were out to the extent of £8,000 in your estimate, so far as the amount of fees you were going to receive for the work you were undertaking is concerned?—Yes.

2273. That consequently has thrown out the whole of the expenses of this section of the Department?—(Mr. Fraser.) It has very little effect on the net estimate; it only affects the gross estimate and the Appropriations in Aid, and it is usual in such cases to take a safe estimate, otherwise you may have to have a supplementary estimate, even though you have Appropriations in Aid which you could otherwise use.

2274. Under sub-head F, the Aliens Restriction Acts, under the heading of salaries there is an increase roughly of £3,000 against last year. Is that due to ordinary increments. Last year in the Aliens Restriction Acts Department you spent less than you have this year; this year was £3,000 more. Is that due to more staff or merely the increments?—(Sir Alexander Maxwell.) More staff.

2275. Because you have more work to do?—Yes there has been a necessary increase in the number of immigration officers at the ports, partly because of the increase in traffic and partly because the traffic comes to more points; particularly the air ports have necessitated an increase.

2276. Although, in fact, there is a falling off in applications for naturalisation. That comes in the same department, does it not?—Yes, but there is no necessary correlation between the number of foreign passengers coming in and out of this country and the number of people applying for naturalisation.

Sir Robert Smith.

2277. Might I go back to that question of disinfection. In regard to previous years you say you work on a full three-shift basis. In former years has the same thing happened, that you have not had so much wool coming in as you anticipated, or have you always been employed to your full capacity in former years?—No, I think not.

2278. For many years it was not possible to work at full capacity on this basis in former years?—The history of this Station, as the Members know, has been very varied. For many years

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[Continued.]

the Station was working far below its capacity and then an entirely different situation arose because a new class of wool became liable for disinfection, so it is very difficult to compare this year with former years.

2279. I understood you to say in reply to Sir Irving that you were making financial provision for a larger amount of work than you had to do?—Yes.

2280. In the years since this other class of wool has come in, have you always found your full amount has been required, or has every year been 10 per cent less than you estimated, in former years?—I think this was the first year in which we got a full amount of work, but I will look that point up.

2281. This year there is less of an over-estimate than in the previous year; have you had a larger amount of work to do?—(Mr. *Fraser*.) The underspending in this year was more than the underspending in the previous year. (Sir *Alexander Maxwell*.) I have not the figures here.

2282. I thought Sir Alexander said the opposite?—(Mr. *Fraser*.) In 1935 the underspending on the two sub-heads was about £4,000.

2283. It is £6,000 this year?—In 1934 it was about £11,000.

2284. The only thing was, it seemed to me, that you ought to be able to estimate more nearly if you found for many years that your capacity was more than the work submitted?—(Sir *Alexander Maxwell*.) It is very difficult to work on that basis, and whatever basis we use here is, as has been pointed out, offset by the Appropriations in Aid.

Chairman.

2285. Pages 96 and 97. On sub-head N I have already made the observation about the Air Raid Precautions. I take it this separate Account will not be before this Committee in point of fact until 1940. On "General Expenses", sub-head N4, could you tell me why you spent only £200,000 more than the original. Why was the supplementary so much larger than proved to be necessary?—At the time when the Supplementary Estimate was introduced the plan was to take a factory and assemble the parts of the respirators at the utmost possible speed in order to provide as large a quantity of those respirators as possible in that financial year. We anticipated that we should

be able to provide in the course of the financial year a very large number and we asked for the money for that purpose. It would, of course, have been most unfortunate if we had asked for too little and the work had been delayed in any way because the estimate was too small. The factory having been taken and work having started thereon it was found that owing to various technical difficulties, it was impossible to get the work done as rapidly as we had hoped. We had difficulties with regard to both machinery and labour and the factory was not working at its full output until some months later than we had thought we should be getting a full output. The consequence was that our hopes of being able to complete within the financial year a very large output were disappointed.

2286. Could you give us some details of the expenditure under this heading?—Under this heading of General Expenses, £644,000, the expenditure on civilian respirators I see was £531,978; there was another expenditure on Service respirators of £27,000 and then there was a large number of items, including expenditure on tests of various kinds with regard to bombs and oil; there was an expenditure of £11,000 on protective clothing; there was expenditure of another £11,000 on badges, and there are a number of items here which I can give the Committee, if you would like to have them.

2287. No, I think we have a general idea of it. Did you differentiate between civilian respirators and Service respirators?—Yes.

2288. What is the difference?—There is another special type of respirator for people who are in difficult conditions for longer periods or greater concentration of gases and so on.

2289. "Service" in that sense does not mean for the Services at all?—No, it may mean any special kind of duty for which a particular kind of respirator is wanted.

2290. It does not mean the Military Forces?—(Mr. *Hains*.) The same type is used by the Services; there are three types.

2291. But this does not provide for it?—There are three types of respirator, the Service respirator, the same as the Troops have, a civilian duty respirator, which would be for people who were required to work in concentrations of gas but did not require to go on in the

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[Continued.]

same way as a soldier, and there is the ordinary civilian respirator which is the one which would be required by the people.

2292. Thank you, but will you still answer the question. Is this expenditure in respect of Service respirators for the Services? Do they supply their own, or do you supply them?—No, it is for the Police and other ancillary services.

2293. There is one other question I want to ask. This is going to be a new service now: have you made arrangements about the audit of this, Mr. Comptroller and Auditor-General?—(Sir *Gilbert Upcott*.) The year is a preliminary one from my point of view but tests have been made both centrally and locally and on the experience my Department has had hitherto, I am satisfied with the accounting arrangements, but I require further experience before I should like to express a final opinion as to whether they are completely adequate. So far the results of the review made have been satisfactory.

Sir Assheton Pownall.

2294. On sub-head N4, Sir Alexander, you answered a question to the Chairman a moment ago. Would you tell me when that Supplementary Estimate of £850,000 was taken?—July.

2295. My reason for asking was that only £170,000, or almost exactly one-fifth of this was spent and it seemed so remarkable to take a large Supplementary Estimate and not spend four-fifths of it, and only spend one-fifth of it; but in July you had nearly nine months to run and you could not get closer than that?—(Sir *Alexander Maxwell*.) No; we certainly hoped we should have got a much larger production than we did, in fact, get in the next nine months.

2296. You see my point? The proportion is such an extremely small one, one-fifth only?—Certainly.

Mr. Culverwell.

2297. Could you tell me why the fees for naturalisation under the details of receipts, item 2 at the bottom of page 96 is nearly double since 1935; it has gone up from £10,000 to nearly £19,000. As I understand there is a long waiting list of applicants for naturalisation, on what system do you work in granting naturalisation certificates?—Do you mean do

we grant more in one year than in another year?

2298. Yes, I do not understand why in 1935 you estimate £10,000, in 1936 £14,000 and actually received nearly £19,000; you have nearly doubled the number of certificates?—Yes. That does not, of course, mean that double the number of certificates were granted, because we get a fee on every application, whether it is granted or not and there was a period when we got a very large number of applications. The increase in applications is much larger than the increase in grants.

2299. I thought it was a matter of actual charge for the certificates?—No.

2300. Is the number of certificate granted, in fact, going up?—Yes, in one or two years it has gone up; I thought I had exact figures here; there was a year when we got a very large number of applications, I know, from Italians at the time when there was a great tendency for Italians to apply for naturalisation. Here are the figures: the figures were 1,800, in 1931, then they dropped to 1,200.

2301. Are these applications or grants?—These are grants. Certificates granted in 1931, 1,800; 1934, 1,200; 1935, 1,800 again; 1936, 2,000 and 1937, 1,500.

2302. On page 97 under item 17, Details of Receipts, "Fines, England and Wales, imposed under the Factory and Workshop Act," etc. Why is that continuously going up, because in 1935 it was £2,750, in 1936 it was £3,000, and now it has gone up to over £5,000; why is that, is it purely fortuitous?—I do not think the prosecutions have been going up but it may be that there have been larger fines imposed. I do not think I have any particulars about that but I could look it up for you.

2303. I did not know whether there was any tendency at present?—There has been no tendency to increase the number of prosecutions.

2304. Have you issued instructions or recommendations that the fines were inadequate before?—No, we have no authority to give any advice to the Courts as to what they consider appropriate fines.

Chairman.

2305. Is there any explanation for the increase, Sir Alexander?—I am afraid I cannot give you any explanation at the moment. I will look it up and see if I can give the Committee any information.

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[Continued.]

Mr. Culverwell.

2306. At any rate, you do not think it is necessarily due to an increase in the number of offences; it is more likely to be an increase in the penalties imposed?—I should think so.

Mr. Lathan.

2307. With regard to the production of respirators, am I justified in assuming that the arrears of anticipated production have been overtaken now?—Yes.

2308. In regard to the details of receipts below, the figures 1 to 7 show an increase in every case. That is due, I take it, to the larger number of cases dealt with or a different variety of demand made upon you, not to any increase in fees?—No, there were no changes of fees in items 1 to 7. It was simply that there happened to have been a larger number of cases.

2309. There have been in some other directions increases in the fees charged, have there not?—I cannot remember any particular fee in which the Home Office is interested which has been varied of recent years.

2310. I am trying to remember; I have heard of one, but I cannot remember at the moment?—There may be one but I cannot think of it at the moment.

2311. I understood the explanation you gave with regard to the Anthrax Station, but I notice on page 97, despite the circumstances you have referred to, the sale of material was substantially higher than was estimated?—But that is only odd materials which the Station happens to be able to dispose of, odd products. We do not sell the wool, of course. We simply have the wool pass through the Station. We have a few odd results of our processes from which we can realise a little money by selling them.

Sir Robert Smith.

2312. With regard to the reply to the question by Mr. Culverwell, you gave us the figures of the last two years, 1,500 in one year and 2,000 another, of the number of people who had been naturalised?—Yes.

2313. You said there was a fee for application?—Yes.

2314. Can you give us the number of applicants in those years. Take this year under review, £14,000 estimated against £18,000 received; what were the number of naturalisations granted and the number of applications?—Two

thousand five hundred and thirty new applications, 2,034 certificates granted.

2315. About 500 out of 2,500 were not granted. Have you the figure of the year before?—Three thousand one hundred and thirty-seven new applications, 1,898 certificates granted.

Sir Robert Smith.] You have tightened up a little bit.

Mr. Mabane.] No: slackened.

Sir Robert Smith.

2316. There was a bigger proportion granted the year before?—No, a very much smaller proportion, 3,137 applications, 1,898 granted.

Mr. Mabane.

2317. What do you mean by the expenditure on badges?—(Mr. Hains.) These badges are badges that denote service in the Air Raid Precautions Department by volunteers; after a month's training they are allowed a badge and so many badges have been issued and that expenditure which is shown in the estimate is what we paid the Mint for them.

2318. How many badges have been issued?—I am afraid I could not say now, but I will obtain the figures for the Committee.

2319. How many did you buy in 1936?—Two hundred and fifty thousand.

2320. I have not seen any; were they issued in 1936 or 1937?—Some in 1936; they are always being issued.

2321. How many have in fact been issued? I ask the question because I have some knowledge of this and to my knowledge no local authority has distributed any?—(Sir Alexander Maxwell.) Yes, some have.

2322. I said "to my knowledge". That is why I am interested to know how many have been produced?—(Mr. Hains.) We have issued to local authorities—that is the medium through which they are distributed to the volunteers—102,375 badges.

2323. Up to the present time?—Up to the present time.

2324. Out of the 250,000 you made in 1936?—Yes.

2325. I take it you have not made any since 1936?—No.

2326. You cannot tell me how many the local authorities have distributed?—Yes, they have distributed 5,367 badges and 1,162 brooches; the brooches are for the women.

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[Continued.]

2327. One-fiftieth of the badges you made in 1936 have been distributed up to the present time?—Yes.

Chairman.

2328. How many local authorities are there?—About 2,000.

Mr. Mabane.

2329. I take it that 102,000 of the 250,000 you made have been issued to the local authorities and they have distributed about 6,000?—Yes, the local authorities have based their requirements on what they anticipate to distribute in one year and that is dependent, of course, on their recruiting programme. They are probably behind.

2330. So only about one-fiftieth have been distributed?—Yes.

Chairman.

2331. When you gave me the figure of 2,000 did you mean to say that you have sent these 102,000 out to the 2,000 local authorities or that that is the total number of local authorities who might ask for them but have not necessarily received them?—That is right.

Chairman.] The 102,000 may not have gone to the 2,000 authorities.

Mr. Mabane.

2332. I thought you had actually dispatched the 102,000?—Yes, but not to all the 2,000 local authorities. There are some authorities who may not have asked for badges.

2333. I would like to ask why there was the delay in bringing the factory into production for the manufacture of respirators, as you call them, or gas masks?—We had to install machinery and make certain renovations of the factory. It was an old cotton mill in Lancashire; we bought the mill on the 13th July and had to get the house breakers in to take down the cotton looms.

2334. You did not anticipate having that to do?—Not when we started out.

2335. Did not you know that there was cotton machinery there?—Yes, but not when we started out to get the factory; we did not know we were going to buy a factory with the looms standing, we simply went out into the market for a factory.

2336. You asked for the supplementary before you knew the factory you were going to buy?—Yes, in July.

2337. It would appear to me that you could scarcely anticipate spending the

money unless you knew in what direction you were going to spend it?—We anticipated getting a factory and from the experience which we had of the manufacture of respirators for the War Department, we had the time factor for the production of certain quantities of respirators. Given the factory, we felt that we would be able to produce, say, 5,000,000 by Christmas or by the end of this year.

2338. Am I correct in stating that the reason why you did not spend the Supplementary Estimate you required was because you were not able to get a factory of the kind you required and that you asked for the supplementary before you knew that?—(Sir *Alexander Maxwell.*) That was only one factor, as Mr. Hains is pointing out.

2339. Let us have the other factors?—When they got their factory there was some delay because they had to clear the existing machinery out. That was the first unanticipated delay. Will you explain the other, Mr. Hains? (Mr. *Hains.*) Then there was the installation of the new machinery. The contractors were very much behind time in their estimate for the completion of the installation of the machinery.

2340. Those are the only two factors?—Yes, I think we can put it down to that.

2341. Is it proper for me to ask what number of respirators you anticipated making in this year?—The year under review?

2342. Yes?—About 9,000,000.

2343. How many were you able to make?—5,000,000.

2344. Those have been distributed?—They are in our regional stores.

2345. Not in the possession of the local authorities?—Not in the possession of the local authorities.

2346. And have remained there since 1936?—Yes, or 1937.

2347. Not distributed to local authorities?—That is right.

2348. Those are still as good now in 1938 as they were in 1936?—Yes, we think so; we hope so.

2349. But you do not know?—They are properly protected; the face pieces are stored in cans from which the air has been extracted and an inert gas, nitrogen, substituted. The filters are stored in airtight cylinders.

2350. Are samples taken out and tested, for example?—Regularly.

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[Continued.]

Sir Irving Albery.

2351. I take it that the actual cost of that factory is not under this Vote?—No.

2352. What Vote would that come under?—The Office of Works.

Sir Isidore Salmon.

2353. I understand you to say that you bought a factory which you had to clear of certain machinery?—Yes.

2354. Presumably that machinery was sold and is credited to the Account?—Appropriations in Aid.

2355. You also said that you have an inspection of these respirators?—Yes.

2356. How often does the inspection take place?—It is really a running inspection; we test about 10 per cent. of the respirators a year.

2357. So you have had experience of respirators that have been made for over a year and you find them just as satisfactory as when you put them in?—Yes, that is right.

2358. I understood Sir Alexander, in answer to the Chairman, to say that you did tests for bombs?—(Sir Alexander Maxwell.) There were various tests we conducted.

2359. Do you do the test or does the National Physical Laboratory?—No, we have various experts helping us. Some are done at Woolwich Arsenal, I believe.

2360. You send them to the Technical Departments within the Government service?—Yes.

2361. Is it fair to say that at the present moment you are in a position to deliver the balance of the respirators that are in arrears? When do you expect them to be completed?—I think Mr. Lloyd made an announcement the other night that we had now got 30,000,000 ready and we are still producing them at a very rapid rate. (Mr. Hains.) 540,000 a week.

2362. Do the local authorities look to you to find stores in their areas when you start to distribute these respirators from your regional stores?—No; we require under the Act the local authority to provide the storage and it ranks for grant.

2363. Your inspectors would view the stores to see that it was a suitable place to store them in?—Yes.

2364. That is the only responsibility the Home Office would have?—We should go and inspect them periodically,

we should withdraw proportions for tests and test them in our own laboratories.

Mr. Mabane.

2365. One question arising out of that: if the stores were now available would you distribute gas masks to the local authorities?—Yes.

2366. How many local authorities have those stores available?—None that I know of.

Sir Isidore Salmon.

2367. On that point; are steps being taken to urge local authorities to have stores ready?—Yes, a circular is going out this week.

Chairman.

2368. Is going out this week?—Yes, the regulations under the new Act had to lie for 40 days; the 40 days have now expired and the regulations have been made requiring the local authorities to make arrangements for the storage of respirators and other things under the Act.

2369. Have you any idea by what date you are likely to have these stores ready on the part of the local authorities?—It depends entirely on the local authorities.

2370. How does it depend upon them—their goodwill and co-operation?—No, they must under the Act provide the storage but the question as to when they do it is a matter entirely within their control.

2371. Is it mandatory? Are they obliged to provide the stores?—Yes.

2372. What pressure are you putting on them?—We are exhorting them to provide this storage. (Sir Alexander Maxwell.) The legal obligation on the local authorities has only just come into operation but there have been previous negotiations and I have no doubt that many local authorities are making plans to have these stores ready; it is only the actual legal obligation which has just come into operation.

Sir Assheton Pownall.

2373. Is there any date by which they have to have them?—We do not fix a date in the regulations. I have no doubt that now the legal obligation has come into force, there will be very rapid action on the part of the local authorities.

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[Continued.]

Mr. Culverwell.

2374. I thought you said that some of them were issuing them already, then later on you said "There is no storage accommodation provided by any local authority"?—(Mr. Hains.) I did not intend to convey that they have been issued. (Sir Alexander Maxwell.) They are in Government regional stores, I think Mr. Hains said, and have not yet been distributed to the local authorities.

Chairman.] That is quite a different idea from what I understood.

Mr. Culverwell.

2375. I understood that out of the 2,000 local authorities you had issued to

a certain number of them a certain number of respirators?—(Mr. Hains.) No, we were talking about the badges then.

Mr. Mabane.

2376. The respirators are in regional Government stores at present?—Yes.

2377. Do I understand that until the local authorities have provided their stores there is no means available at the present time for distributing the respirators to the civilian population?—That is right.

Chairman.] May I take it that this Account is approved? (*Agreed.*)

TRADING ACCOUNTS AND BALANCE SHEETS, 1936—HOME OFFICE.

Chairman.

2378. Trading Accounts, page 84, Profit and Loss Account for the year ended 31st March, 1937; page 85, this appears to be just about paying its way, does it not?—(Sir Alexander Maxwell.) Yes, that is so.

Chairman.] Pages 86 and 87, Balance Sheet.

Sir Irving Albery.

2379. You actually did disinfection work to just over £20,000. Could you give us any idea of what the capacity of the Station is, just for the sake of comparison? About how many pounds worth of work do you estimate the Station could do in a year?—I should think about £28,000.

*(Mr. Hains withdrew.)**Sir Isidore Salmon.*

2380. Are you paying the same figure for disinfectants to-day as you have been for some time? Last year, or the year before, Sir Russell Scott told us the amount you were paying. I did not know if the amount was the same to-day as at the time he answered the question—the cost of the disinfectant for this Station. He made a point at the time of what they were paying; if you have not got it it does not matter?—It is the same; there has been no change.

Chairman.] May I take it that this Account is approved? (*Agreed.*)

CIVIL APPROPRIATION ACCOUNTS, 1936.

CLASS III.

VOTE 3.

POLICE, ENGLAND AND WALES.

Sir JOHN MOYLAN, C.B., C.B.E., called in and examined.

Chairman.

2381. Will you please explain a little more fully sub-head E, the note says "The expenditure under this sub-head could not be estimated accurately." There is a big underspending and I should be glad if you could develop the point a little further?—(Sir Alexander Maxwell.) I can give you the various items on which there has been expenditure on these special services. First of all, there has been £2,900 spent on a

science laboratory for the East Midlands. The Home Office, in consultation with the various Police Forces, decided that considerable advances could be made if various scientific methods were available to the Police Forces in different districts, but, in order to make a start it was necessary that some expenditure should come on to the Exchequer and that the Home Office should exercise some measure of control in starting this new scheme.

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[Continued.]

Having started the laboratory and the laboratory having got in working order the various Police Forces in the neighbourhood have come to recognise its value and make use of it and arrangements are now being made to transfer that laboratory to the cost of the Police Forces and they will, in future, finance it. This was an experimental scheme and in order to get the experiment going, it was necessary to incur this special charge. There are various other different services on which money has been expended, for instance, there has been an expenditure of nearly £800 on wireless experiments with a view to trying to improve the methods by which the Police can keep in touch through wireless. There is a scheme going on under a Police committee for training and breeding Police dogs. We spend about £500 a year on experiments in that direction. As a matter of fact we get a great deal more than £500 worth of work done for it. There has been a central contribution towards certain group publications as we call them, that is to say, publications that circulate amongst forces in a particular area giving them information which each force ought to have. Altogether these various items, of which I can give the Committee the complete details, if they wish, come to £5,673.

2382. But why is the contrast between the grant and the expenditure so great? Secondly, could I ask this: you talked of making a start with a scheme; is it contemplated that this expenditure is to be confined to the East Midlands or that you propose to extend it to other regional areas again later?—We have already started two other laboratories of the same sort. That was the explanation, that we thought all three of these laboratories could be started at once, but, as a matter of fact, within this year we could only get the one going and the other two were started later.

Mr. Lathan.

2383. £100,000 contribution towards general expenses; could we have a little elucidation of that? What precisely are those general expenses?—(Sir John Moylan.) That description "towards general expenses" is rather misleading. This is a special contribution of £100,000 which has been made to the Metropolitan Police since 1910 under the

Police Act of 1909; it is a special contribution not in respect of general expenses but in respect of the Imperial and National services rendered by the Metropolitan Police. The grant was made under the Act of 1909 as a result of representations by the London County Council that the London ratepayer ought not to be called upon to pay for those services of the Metropolitan Police which were really associated with Government rather than with London, that is, services which were described as Imperial and National and not London services.

2384. It appears to the debit of the Home Office; the Home Office ought to have the credit, it seems to me, of £100,000 from some other quarter?—It is a grant made to the Metropolitan Police from the Police Grant, England and Wales. (Sir Gilbert Upcott.) It is a grant out of the Exchequer to the Metropolitan Police Fund.

Mr. Lathan.

2385. On page 101 it says in the note "Receipts. These consist of superannuation deductions from salaries and of witness fees etc." and I take it that it refers to the small sum of £293 at the foot of page 100; is that so? I do not see any other receipts?—(Sir John Moylan.) I think that is all it is.

2386. There must have been a very small number of superannuation deductions?—(Sir Gilbert Upcott.) It relates to certain officers whose salaries are paid from this Vote, it does not refer to the Police Force generally. (Sir John Moylan.) The salaries of the Commissioner of Police and the Receiver paid from this Vote; it does not refer cost of the two Assistant Commissioners, and superannuation deductions in respect of the Commissioner's salary and the two Assistant Commissioners are credited to this Vote.

Chairman.

2387. I am afraid I did not grasp that point?—The salaries of the Commissioner of Police and the Receiver of the Police are paid from the Exchequer. They are not shared between the Exchequer and the rate, and also part of the cost of the salaries of two Assistant Commissioners are paid by the Exchequer, and the superannuation deductions from the Commissioner's salary as

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a Police Officer and from the two Assistant Commissioners are credited under sub-head I in page 100. (Sir *Gilbert Upcott*.) The Exchequer has to pay their pensions, therefore the Exchequer gets their pension deduction.

2388. I see the point; but do I understand from that answer that a proportion of the salary of the Chief of Police in London?—No, the whole of the salary of the Chief of Police, that is the Commissioner of Police in the Metropolis, is charged to the Exchequer and the whole of the salary of the Receiver of Police.

2389. Is charged to the Exchequer?—Is charged to the Exchequer.

Mr. *Lathan*.

2390. And superannuation also?—There is no superannuation deduction in the case of the Receiver, the superannuation deduction is from the Commissioner and the two Assistant Commissioners who come under the Police Acts.

Chairman.

2391. Yet his functions are entirely in London?—Yes, but that has been the arrangement ever since the Metropolitan Police Force was established, that the salaries of the Commissioner and the Receiver were to be paid by the Exchequer and subsequently it was arranged that part of the cost of two Assistant Commissioners should be paid by the Exchequer.

Sir *Isidore Salmon*.

2392. Where does that appear in the Account?—(Sir *Gilbert Upcott*.) Under sub-head A. (Sir *John Moylan*.) Page 102, sub-head A (i).

Sir *Robert Smith*.

2393. Where does this £100,000 show on page 102 or 103?—Page 102 A (iv).

2394. In sub-head A4 it is said it is a "Special contribution in respect of services of Metropolitan Police for Imperial and National purposes." Then the other is "Contribution towards General Expenses" on page 100. It is not entered as the same thing. In one case it is a contribution towards general expenses, on page 102 it is said to be applied to a special purpose?—(Mr. *Fraser*.) It is fully described in the Estimates. In Part II it is called "Contribution towards General Expenses" and in Part III it is further described as "Contribu-

tion under Section 1 of the Police Act, 1909 (9 Edw. 7. c. 40) towards expenses of Metropolitan Police in respect of Imperial and National services."

Chairman.

2395. How is it described in the Estimates—according to page 102 or page 100?—Both.

Sir *Robert Smith*.] It seems to me to be very unsatisfactory, the way it comes in. In one place it is said to be a special contribution towards a special thing; in the other it is said that it is a contribution towards general expenses.

Mr. *Lathan*.

2396. When I raised the question Sir John said the description was not quite accurate?—(Sir *Gilbert Upcott*.) The description is an accurate reproduction of the Estimates, which it has to be. On page 100 is a short replica of the description in the Estimate. (Mr. *Fraser*.) The Appropriation Account never goes into so much detail. (Mr. *Brittain*.) It goes into the general fund. It is not earmarked for any special purpose, but it goes into the General Fund.

Sir *Robert Smith*.

2397. It goes to that one thing; there is nothing left but Imperial and National Services. I do not know what those services may be?—It is not earmarked to particular expenditure.

Sir *Irving Albery*.

2398. On the point you raised of the special services, £20,000, I see that for the previous year that Estimate was £2,000. I could not see, even after the explanations which were given in reply to you, Mr. Chairman, that an adequate case was made out for the estimate of £20,000?—(Sir *Alexander Maxwell*.) As I say, this policy of regional laboratories was entirely new.

Sir *Irving Albery*.] If they had all been built and the two extra ones had been about the same price as the one you have put up, you would still have been a long way short of £20,000.

Chairman.] No.

Sir *Irving Albery*.

2399. They only spent £2,000?—£2,900 on that particular one.

2400. That would be just under another £6,000. That would bring us up to £12,000, which would still leave

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[Continued.]

£8,000 unexplained. It does not seem to me desirable that that kind of Estimate should be passed. Some leeway in that kind of special services is no doubt desirable, but it is very undesirable that it should simply be an incentive to think of something?—(Mr. Fraser.) The Estimate was reduced in the succeeding year from £20,000 to £15,000.

Chairman.

2401. That makes it worse?—(Sir Alexander Maxwell.) You will find that a lot more schemes were in hand that year.

2402. I think the Committee is entitled to have a more complete answer to this. You said, I gathered, that there were three schemes contemplated?—Yes.

2403. That would take us, on the original basis, to round about £7,000. Then there was another expenditure bringing it up to £12,000. There is still a margin and it is the business of the Committee to know why it is that there is that very big margin?—I can only say that these laboratories were a new experiment and that the estimate that was formed of the expenditure that would be incurred was excessive. We found that the amount of work that we could do in that year and the amount of money that was required to set up this laboratory was less than had been anticipated. The schemes that were contemplated when the estimate was made were prepared at a time when the whole of this work was entirely new and we had to work on a comparatively small amount of information as to what the amount was which would be needed.

2404. What supervened to prevent your going on at the pace you anticipated?—(Sir Gilbert Upcott.) The Committee will appreciate that Sir Alexander was not the Accounting Officer then.

2405. That is quite true, and we must keep that in mind?—(Sir Alexander Maxwell.) I think it was largely the difficulty of securing the necessary measure of agreement with the various Police authorities. In a scheme of this kind it is very necessary that we should work hand in hand with the Police authorities. That means a lot of preliminary spade work in the way of getting various people interested in the scheme and getting them to approve. I think that was one of the reasons why we were much slower than we had anticipated. We had thought it would be

possible to get three places going, whereas the result showed that we had much better go more slowly and get one place going one year and the others the next.

Chairman.] I am sorry to press the point as you were not the Accounting Officer at the time, but even if you had anticipated that there would be three going, you still would not account for your £20,000.

Mr. Mabane.] I think I can put the point that is bothering us this way: first, you anticipated setting up three laboratories whereas, in fact, you were only able to set up one, and had you been able to set up three the cost of those three would have been almost exactly 50 per cent. of your estimated figure?

Sir Irving Albery.] How?

Mr. Mabane.] The laboratory set up cost £2,900, three times which is £8,700 and there is £8,000 surplus; that is the point that is bothering us.

Chairman.

2406. Clearly, Sir Alexander cannot carry it any further. I appreciate that you were not Accounting Officer at the time and perhaps it is not, in a way, fair to press you. Could you give us a note on the point?—Yes, certainly, I really ought to have made further enquiry about this.*

Chairman.] No; it is all right.

Sir Isidore Salmon.

2407. Is it correct to say that in preparing your estimate of £20,000 for these laboratories, that was a mere estimate of what you thought might be required and, as a matter of fact, you are not sure that it is not going to cost you a lot more than £20,000 by the time the three are built?—I think that is so; we had very little data as a basis.

2408. For all we know the £20,000 here may be only a Token Vote in so far as when you come to equip the others on the experience you have gained from the first the estimate may go up tremendously?—I do not think that will be so because we have now had sufficient experience to know what these things cost, but I will, as the Committee says, furnish the Committee with as full a note as I can.

2409. When these laboratories are built in different parts of the country,

* See Appendix 8.

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what steps are going to be taken to co-ordinate the work between the three of them so that they are really benefiting and pooling knowledge; because, as I understand it, each laboratory is under its own Police authority?—A great deal of co-operation has been secured of recent years between all the Police authorities. There are constant meetings of representatives at the Home Office. The Home Office itself will be in touch with each of these three laboratories and the scientific men working at the laboratories will also be in touch with each other. At the present time there is a Central Police Committee, a Central Detective Committee whose recommendations led to these new experiments, and I am quite sure that a system of co-operation between the various laboratories will be adequately supervised.

Chairman.

2410. Is there any danger of your duplicating or even triplicating work in connection with these, or will you be saying "In area A you will specialise on this line of enquiry and in area B on another line of enquiry" and then pooling the results of your enquiries?—As regards certain special lines of experiment that might be possible, but a great deal of this work concerns the examination of things which arise locally, that is to say the Police Force themselves bring in various things and want them examined for all sorts of detective purposes.

Chairman.

2411. May I take it that this Account is approved? (*Agreed.*) Pages 102 and 103, Metropolitan Police Fund. On page 103 I have a note on D, Number 23, "Purchase of sites and erection of buildings" £105,258 odd. There is a note at the bottom "In addition, the sum of £251,614 os. 8d. was expended on Loan Account." Could you tell us how and on what principle is the expenditure divided between the Revenue and the Loan Account, Sir John?—(Sir John Moylan.) The general principle is this, Sir, that before we obtained our borrowing powers under the Act of 1935 we were expending approximately £100,000 a year on new buildings or the purchase of sites plus any sum that we may receive from the sale of surplus properties and we are continuing that procedure, that is, we are continuing to

expend £100,000 from income plus receipts and the rest is being charged to loan.

2412. On Note (c) will you explain this and will you tell me if this £9,753 is lost or wasted or what happened to it?—I had better just explain the position?

2413. Yes, please?—This is expenditure incurred by the Office of Works in connection with a proposed new Police Training School. The decision to have a new Police Training School was arrived at in 1929. Our existing Police Training School was built as long ago as 1907 when ideas as to the training that a candidate for the Police Force should undergo before joining were very meagre compared with what they are now, and in 1928 and 1929 it was under consideration to enlarge the school to meet up-to-date requirements. For a time the question considered was whether we should acquire additional properties adjoining the existing school in Westminster; but it was decided that that was too expensive and in any case it would not provide sufficient outdoor space for training purposes, and so it was decided to move the training school to another suitable site further away from the centre of London. By 1931 a decision had been more or less arrived at, when the financial crisis of that year supervened and the scheme was, for the time being, postponed. It was revived in 1933 when the scheme for the Police College had also come forward and this property at Hendon was bought for the purpose of the Police College and a new training school and certain other purposes. It was decided to proceed with the training school on the site, and as a matter of fact the then Prince of Wales laid the foundation stone in 1934. More than two years were then expended in consideration of what exactly was wanted in respect of the Training School, which, I ought to explain, is rather more than a training school. It is a building at which shorter courses for senior officers are also conducted. Eventually the plans were settled by the Office of Works in consultation with us and tenders were invited and received in May, 1936. By that time we had had two years experience of the Hendon site and, in particular of the working of the college and of the other establishments on the site. The Commissioner of Police, who was

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[Continued.]

no longer Lord Trenchard but Sir Philip Game, as the result of those two years experience and his own consideration of the matter, came to the conclusion that there was not room on the Hendon site for these two institutions. The first idea was to move the training school to another site, but then it was provisionally decided that it would be better to move the college and to incorporate the existing college buildings in the new school. That is how the matter stands at present. We are carrying on with the old school in Westminster and the college is carrying on at Hendon. This sum of £9,753 represents what we have had to pay to the Office of Works for the time of their staff in preparing the plans and any out of pocket expenses they may have incurred, and also there is a payment of £2,000 odd to quantity surveyors. There were no payments to contractors. The work was never started. When the tenders came in it was decided, after consideration, not to proceed with the work for the present. On the question whether this expenditure has been wasted, some of it undoubtedly will have been wasted because now if we proceed with the present scheme of building a new training school at Hendon, which will incorporate the existing Police college buildings, obviously the plans prepared will not fit the new scheme but, at the same time, a great deal of the work which has been done on these plans cannot be wasted. May I put it this way, when we started on the new training school we started from scratch; nobody had very much knowledge as to what was wanted, but the details have been worked out as a result of this planning, such details as the size of the rooms and the amount of space wanted for various purposes, and a great deal of that work will not have to be done again. It does, of course, occur occasionally that we prepare a scheme and carry it to a considerable length and eventually abandon it because we decide that it would be wise not to go ahead. In this case the general basis of the decision was that, if there was any doubt as to the wisdom of proceeding with this expensive building, which was going to cost nearly £300,000, on the Hendon site, it would be folly to do so and that we had better cut any loss that had been incurred in

preparing the plans and suspend action; and that is what has happened.

2414. The £9,000 odd paid to the Office of Works is in respect of preparing plans for the £300,000 building?—Yes, and quantity surveyors' fees.

2415. And £2,000 odd for quantity surveyors' fees?—Yes.

2416. I should like to ask one more question if I may on page 104. I merely ask for an explanation. I do not quite understand what the "service" means under item H: "Fees for service of summonses, for certificates, etc." What is a fee for service of summonses?—The Police receive fees for serving summonses.

2416A. From whom?—From the various authorities on behalf of whom we act, like the rating authorities, the income tax authorities or any other authority on behalf of whom the Police execute the summons; it is is. per summons.

2417. I am sorry I have so little experience of this thing; do you charge fees to individual people?—No; to the local authorities on behalf of whom we execute summonses for non-payment of rates.

2418. Do individuals who want to have a summons served on A, B or C apply to the police?—No, if an individual wants a summons he applies to the Courts, not to the Police. These are fees paid under a Table of Fees approved by the Secretary of State; the Police are entitled to charge local authorities in respect of the services rendered by them in executing or delivering a summons to an individual; the individual does not pay it.

2419. Would those authorities be authorities outside London?—They might be authorities outside London; they would normally be authorities inside London; it is nearly all London authorities. (Sir Gilbert Upcott.) It might be a rating authority in London.

2420. Do not those authorities pay normally to maintain your Police Force through their rates?—(Sir John Moylan.) Yes they do, but this charge has always been made for the special service of summonses, because they might employ their own officers for serving summonses, and lots of local authorities do. They do not employ the Police, they employ their own officers.

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[Continued.]

2421. They might do it themselves; but if they use you they pay for it?—Yes; we are only acting as agents for them.

Chairman.] Are there any questions on pages 102 and 103?

Sir Isidore Salmon.

2422. I would like, if I may, just to finish the question of the college at Hendon?—The Training School?

2423. The Training School. Supposing that you decide to move the college at Hendon and make that the Training School—that is the plan, as I understand it, that is contemplated by this expenditure of roughly £9,000?—No, that was not the plan contemplated by this expenditure.

2424. I will put it in another way; the plan that was contemplated was to enlarge Hendon for the purpose of having a Training School in the same curtilage as the college?—I am sorry if I appear to quibble; the plan was to build a new building at Hendon, not to enlarge anything.

2425. Was the building to be within the curtilage of the existing Hendon ground?—Yes, within the curtilage of the existing Hendon ground.

2426. That scheme has cost you roughly £9,000 to prepare?—Yes.

2427. If you alter the scheme, whenever you do alter it, you scrap your £9,000 and you start *de novo*. That may be a good or a bad proposition; I am not arguing that?—I said we did not start *de novo*; a good deal of the work we have done would come in useful. We should not start from scratch, as we did before.

2428. With all respect, I will not say that is a subtle way of putting it, but, as a matter of fact, the plans *qua* plans will not be of any value. You have information of requirements that you want the architect to lay out, and all that sort of work will be saved; but if you have a different site, you will have to lay it out according to the site?—Yes, I agree.

2429. Therefore the plans as plans will have to be re-done and the quantities will have to be recalculated?—I quite agree that there will have to be fresh sets of plans and a fresh set of quantities, but, at the same time, the

persons preparing the new plans will find the old plans enormously helpful.

2430. But it will not save any of the £9,000?—We shall not get any of our money back, if you mean that, but even there I would like to qualify that, because the Office of Works did say that much of the work that had been done on the abandoned scheme might be embodied in the revised scheme, and that, if and to such extent as the work already done proved to be adaptable to a revised scheme, they were prepared to raise with the Treasury the question of making an appropriate set-off in our favour.

2431. What I really wanted to bring out was this: you have spent, especially for your existing college, a sum of money to adapt it and to provide what you considered necessary for the training of officers?—Yes.

2432. If you are going to scrap that for the purpose of training officers under a new scheme, you will have spent a certain sum of money there that otherwise you would never have arranged to spend at Hendon, and you will either not be giving sufficient or suitable accommodation, or you will be giving too elaborate accommodation (one or the other) for the persons that you are going to train in the school, as separate from the college; is that a fact?—No; if I understand you rightly, all the accommodation that is now being used for the college will be suitable for the purpose of a training school.

2433. Would you have spent as much money on the training school as you have already spent for the college at Hendon?—If we had had to build that part of the training school which will be incorporated in the college, we should have spent a good deal more.

2434. Did not you spend any special money at Hendon that was particularly pertinent to the object you had in mind, that is, a training college for officers at Hendon?—Nothing except furnishings, which could be transferred to a new college.

2435. No structural work?—No structural work.

2436. Such as baths?—I hesitated over the swimming bath, but I think the swimming bath would probably be regarded as just as necessary for a training school as for a college.

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[Continued.]

2437. This year your expenditure is considerably down on "Hospital, medical and dental treatment for Police, medical attendance for prisoners." Last year it was £24,000; this year it is only £17,863; is there any special reason for it. It is rather a large drop. That is No. 20, £17,863. In 1935 it was £24,000; it is a big drop?—The biggest drop is in respect of dental treatment, the supply of dentures, materials and equipment. In 1935-6 there was an expenditure of approximately £9,600 in respect of the services of outside dental surgeons, in order to overtake arrears in dental treatment. In 1936-7 there was no expenditure on outside dental assistance. We have spent a considerable sum on the equipment of our own dental surgery at Lambeth, but this will appear in a later account.

2438. Is it fair to say that you have spent certain money for capital expenditure?—Capital expenditure, equipping the surgery. (Sir Gilbert Upcott.) There was an exceptional rise in 1935, because the expenditure in 1934 was only £15,093. (Sir John Moylan.) We have started a new dental department at Lambeth.

2439. Receipts from lost property are less than last year?—That was because of the transfer of lost property on the buses and trams from the Police to the London Passenger Transport Board. Those were our main sources of receipts, and now we only get lost property from taxi-cabs.

2440. And I suppose you have reduced the cost of running the office accordingly?—Yes, very much.

Sir Irving Albery.

2441. I wanted to draw attention to what I might call the architecture of these accounts. In sub-head F you have "purchase of horses," "forage," "saddlery, farriery and stable equipment," and you give "purchase and maintenance of motor vehicles"; that is one item; "purchase and maintenance of motor boats"; that is one item; I do not know why one has a different way of treating these things?—I think we have now lumped those first three items together; these accounts have been altered and will appear in altered form, not next year but the year after.

(Sir John Moylan withdrew.)

Sir Irving Albery.] It is the kind of thing one finds very often; the accounts would be reduced if there were more uniformity in the method of treating them.

Sir Isidore Salmon.] Sir John has followed out certain suggestions which were discussed at the Estimates Committee last year and which seem to be an improvement.

Mr. Culverwell.

2442. When you say you handed over the Lost Property Office to the London Passenger Transport Board, did they pay you compensation, or does it not pay for itself?—No, it does not pay for itself, because the bulk of the property is of such small value that if we were to charge an office fee sufficient to cover our expenses it would hit people very hard.

2443. You are well rid of it?—Yes; there is no money to be made out of it.

Sir Isidore Salmon.

2444. Item 43G is telephones, wireless, etc. Do you pay any licence duty to the Post Office, or do you get it free?—Yes, we pay a licence duty.

Chairman.] Pages 106 and 107.

Mr. Culverwell.

2445. On item 58, "loss on catering for junior station inspectors"; what is that?—That is in respect of a hostel which we ran temporarily for junior station inspectors during their first year, that is, their training year after passing out of the college. That was discontinued.

Sir Irving Albery.

2446. Might we ask whether the Police are appointing a catering adviser or not?—The answer is in the affirmative.

Chairman.

2447. Page 109, at the bottom of the page, "Central Office—sites." May I take it that this is a reference to the New Scotland Yard site?—Yes.

Chairman.] Are there any further questions? May I take it that this Account is approved? (Agreed.)

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VOTE 5.

APPROVED SCHOOLS, ETC., ENGLAND AND WALES.

Chairman.

2448. Approved Schools, Class III, Vote 5, page 116. The expenditure is going up, is it not, in respect of these Approved Schools? I take it that is in consequence of the new policy, is it, to embark on a different kind of treatment of the type of child with which these schools are concerned?—(Sir *Alexander Maxwell*.) I think it is mainly due to the fact that the number of children committed to these schools has been increasing, and consequently we have had to have a number of new schools. The cost in these new schools is higher than the cost in the old schools, because the new schools have a sinking fund and are paying off their original capital, and the old schools had mostly paid it off long ago.

Chairman.] Are there any further questions?

Sir Isidore Salmon.

2449. On sub-head E, "Local Authorities: Parental Contributions," I think I have raised this point before. Do the Home Office do the collection here, or do the local authorities do the collection?—The local authorities make the arrangements with the parents. The Court makes an order on the parents to pay, and the whole of the contributions are collected by the local authorities but ultimately handed over to the Home Office. They used to reduce the cost of all the schools, some of which are local authorities' schools and some of which are voluntary schools; but a share is given back to the local authorities.

2450. This figure here means the share coming from the parental contributions that you give to local authorities?—Yes.

Sir Irving Albery.

2451. Under Approved Schools, does that include some of the training ships afloat?—Yes, I think there is one ship still an Approved School.

Mr. Mabane.

2452. There were four Nautical Schools last year. Sir Irving asked the same question last year?—Yes, but they are not ships.

Sir Irving Albery.

2453. Is the "Conway" an Approved School?—That is not a Home Office ship; only the "Cornwall."

2454. Is that being continued?—Yes, I think so.

2455. Is it regarded as adequate housing accommodation for young boys?—We prefer a building on shore, but we have not felt it necessary to say that the "Cornwall" was so unsuitable that it could not be used. It does very good work there.

2456. There are so many vessels, as far as I can see, all the time, that are being got rid of at practically scrap prices, which I should have thought would be much more suitable; has it ever been considered whether it would not be economical and much better to change to a more modern ship?—I should think that, if the Home Office were consulted, we would say "If you are going to make a change, have a shore building."

2457. Am I to understand from that, that the running of ships afloat is merely on grounds of economy and not on any other grounds?—I should imagine in the case of the "Cornwall" there is a good deal in tradition; the people who run the "Cornwall" think there is a considerable value in having the boys on that ship as a preliminary to nautical training.

2458. I should have thought they could get equally good training on any ship. I believe it is run very well, but I have been on it, and personally I should not like to think that anybody connected with me was put on it to live?—You will realise that our position is not to say, "do we think this is the very best method", but "do we think this method is reasonably satisfactory in order to be approved?"

Chairman.

2459. What did you mean by suggesting that if you were consulted you would make a certain decision? Who takes the decisions?—The "Cornwall" and various other voluntary schools are run by bodies of voluntary managers. We inspect their schools and give them

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[Continued.]

a certificate of approval. If we thought a school was not suitable for boys, we should have to withdraw that certificate.

Sir *Irving Albery*.

2460. You provide part of the funds?
—Yes, we provide 50 per cent. of the cost.

Chairman.

2461. You have not addressed yourself particularly to the point Sir Irving raised, as to whether this place is a suitable place for the boys to live in?—

It is, in the view of our people. I was only suggesting that, if there were a choice between that and another ship, if they were proposing to move the school, I think our view would be that you had better have the school in a building.

Mr. Culverwell.

2462. Is the nautical school at Portishead one of your schools?—Yes.

Chairman.] May I take it that this Account is approved? (*Agreed.*)

VOTE 18.

NORTHERN IRELAND SERVICES.

CLASS VI.

VOTE 18.

STATE MANAGEMENT DISTRICTS.

(*On these Accounts no questions were asked.*)

TRADING ACCOUNTS AND BALANCE SHEETS, 1936—STATE MANAGEMENT DISTRICTS.

Colonel W. B. VINCE, D.S.O., O.B.E., M.C., T.D., called in and examined.

Chairman.

2463. Trading Accounts, page v. Could you explain, Mr. Comptroller and Auditor General, what is the point you are raising in this paragraph 5 of your report?—(Sir *Gilbert Upcott*.) As I mention in this paragraph, the Trading Account for the year under review contains a provision for a reserve against the abnormal cost of barley in forward purchase contracts. The provision of that reserve is quite clearly shown in the confidential accounts which are before the Committee, on the first page on the left-hand side. I raised a question on it with the accounting officer for two reasons. First of all, I take it that this reserve may be considered as something in the nature of an equalisation of profits arrangement. That is, of course, an arrangement which would quite normally be made by a trading concern, which would desire to equalise its profits from year to year, but I was not quite clear that it was altogether appropriate to a State Trading undertaking which is desired by Parliament to present trading accounts to show the variations in its transactions from year to year, and there is no particular reason why anything should be done to equalise variations in a surplus from year to year.

Secondly, if the Committee look at the published Trading Accounts, on page 97 they will find no indication of the provision of this reserve. Of course, it is accepted that there should be particulars in the confidential accounts which are not given in such detail in the published accounts, but the Committee did in 1933 rather specifically take exception to an arrangement under which transactions in regard to reserves were deliberately concealed in the published accounts. They said in that year that they considered that "where public funds are concerned, the published accounts should be drawn in such a way as to exhibit the material facts from year to year." That illustrates again, of course, the point I made just now as to the disclosure of the results from year to year, if they do vary, without concealing the extent of the variation. The matter to which they referred in 1933 was, of course, very much more serious than this comparatively minor arrangement, because it was in that case a transfer from an undisclosed reserve which was described as a receipt from sundry credits, and which turned what really was a loss into an apparent profit. I do not suggest there is anything of that nature in these accounts, but what

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I did feel was that in principle the point was very much the same, and therefore I used the accounting officer for reasons why it was considered necessary, in the trading account of a public undertaking intended to exhibit the trading results of a particular period, to provide this undisclosed reserve. The Accounting Officer has given an answer to my question, as stated in the latter part of my paragraph, but no doubt Sir Alexander would like to supplement it.

2464. Have you anything to say, Sir Alexander?—(Sir *Alexander Maxwell*.) I am impressed by the considerations that the Comptroller and Auditor General has advanced, but at the time we made this reserve the expert opinion given to us was that, in connection with the forward contracts for the purchase of barley we were then making, the price was abnormal, and that the private commercial practice, in view of that abnormal price, would be to establish a small reserve such as we have here. There has been a desire, so far as reasonably practicable, to bring the transactions of the State Management into line with commercial practice, but, as the Comptroller and Auditor General has pointed out, there are considerations which arise in commercial practice which do not arise in connection with these accounts, and I quite recognise that there may be objections, which we did not appreciate at the time, to making such a reserve as is set out here.

Sir Irving Albery.

2465. I rather understood that the Comptroller and Auditor General's objection, in view of what this Committee had decided previously, was mainly that it should not be disclosed in the published account, rather than the actual fact that there was such a reserve. Was that so or not? You drew attention to it, I understand, mainly because it was not disclosed in the published accounts?—(Sir *Gilbert Upcott*.) I drew attention to it for two reasons: Firstly because it tends to obscure the variations from year to year. It is an equalisation arrangement over a period of years; the facts would be obscured in the published accounts. Also, as you say, for the second reason, that it is an item which, while contained in the confidential accounts, is in no way exhibited in the published

accounts. That was the point to which the Committee particularly took exception in 1933.

Sir Isidore Salmon.

2466. What was the value of the contract for the reserve that you have earmarked?—(Sir *Alexander Maxwell*.) We purchased £11,500 worth of barley and £2,496 was charged against the profits for 1936-7.

Mr. Mabane.

2467. Was that British barley?—(Sir *Gilbert Upcott*.) Some of it was British, but it was mostly Australian and Californian barley.

Sir Irving Albery.

2468. What I really wanted to know was: would the Comptroller and Auditor General take exception to this if it were disclosed in the published accounts; and if it were disclosed in the published accounts, would he still consider that the accounts were obscure?—If it were disclosed in the published accounts, I think the question would still arise, why it was considered necessary in a Government undertaking.

Sir Irving Albery.] Can I express a view on that, Mr. Chairman?

Chairman.] Certainly.

Sir Irving Albery.

2469. I cannot see personally, if the Government is trading, and this is a trading branch of the Government, why they should not pursue ordinary trading practice, so long as it is adequately disclosed. Obviously we do not want anything in the accounts which hides anything, but so long as it is disclosed I personally cannot see the slightest objection to their following an ordinary trading practice, as they happen to be trading?—There would be no accounting objection to it, if that is the suggestion. I should take no accounting objection to it.

Sir Isidore Salmon.] I should like to associate myself with the fact that, if we are going to try to run this on business lines, we must adopt business methods, but then we should disclose it quite frankly in the published accounts.

Chairman.

2470. Are there any further comments on this? If not, turn to the Account itself. We start at pages 96 and 97.

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With this we take the confidential document which has been circulated to the Committee. Did you wish to say anything on behalf of the Treasury on that point which we were discussing a minute ago, Mr. Fraser?—(Mr. Fraser.) No, Sir.

2471. Turn, please, to the confidential document and the Accounts. On this sheet which has been issued, Sir Alexander, is the increased trading profit due to increased turnover?—(Sir Alexander Maxwell.) Yes.

2472. Will you just answer one other question for me: How do you reconcile the figure which you find on page 97 in the totals column of £92,031 13s. 11d. with the figure of £91,757 in this paper? I think they are the comparable figures, are they not?—I am told, Sir, that the difference is accounted for by a separate Account for small payments in respect of compensation—an Account which has now been closed. That Account provides the figure which is the difference between £92,031 and this £91,757.

Chairman.] Are there any questions on these two pages or on the document? I will take the whole Accounts now in one.

Mr. Mabane.

2473. What are the percentages of food and liquor receipts?—I have the figures here. The receipts for food were £38,448 as against a corresponding figure of £35,671 in the previous year. You want a figure showing the percentage of food as compared with the other. Alcoholic liquor is 81.24 per cent. and food 8.74 per cent.

2474. You have improved the sale of food relative to the sale of liquor as compared with last year?—Yes.

2475. I asked you last year if you could tell the Committee the proportion of British to foreign barley you used?—It is over 60 per cent. British.

2476. Only 60 per cent. is British?—Just over 60 per cent. is British.

Sir Isidore Salmon.

2477. I would like, first of all, to deal with the question of profit that is shown in the Profit and Loss Account. I want to suggest that the reserve from profits for repairs and improvements in 1936 was £18,879, and in 1937 £15,911, and therefore there is a reduction of £2,968 in the way of reserves. On the other hand it is true that a proportion of the

cost of alterations and improvements written off during 1937 has increased by £1,785, but the fact remains that the profits have been enhanced by £1,183, after giving credit for the extra amount of money that you have written off for alterations and improvements. I want to suggest to Sir Alexander that £1,183 of the £9,000 increased profit that you show is due to the fact that you have not put as much to reserve as you did in the year previous?—(Colonel Vince.) The reduction in the reserve figure is due to the fact that last year we had a reserve of £3,000 in the Cromarty Firth Area, and that has been absorbed against the building of a hotel.

2478. In the figures that you have published, the figures on page 96, you show a reserve from profits for repairs and improvements at £15,911 for the year under review?—Yes.

Chairman.] For Carlisle.

Sir Isidore Salmon.

2479. No, for the whole of the business. Is that correct?—Yes.

2480. In the previous year that figure was £18,879?—Yes.

2481. Therefore, looking at it at first blush, it looks as if you have swollen the profits by £3,000, but it is only fair to say that on the other hand you have charged more to alterations and improvements this year than you did last year?—Yes.

2482. You will see that on page 96 for alterations and improvements to properties: proportion of cost written off this year £15,357 against £13,572 last year. Therefore, if you take the credit of taking from your profits £2,000, on the other hand you have not written off by the £3,000 as much as you did the year previous. The net result is that your net profit is written up by £1,183 by the re-arrangement of these figures?—We have benefited to some extent by the use of this reserve.

2483. £1,183—that is the figure?—Yes.

2484. Why is that done this way? I do not think, if I may say so with respect, that there is any answer in the fact of your hotel. The fact remains that on your balance sheet, by not debiting the Account with its same proportion of depreciation as you have done in the past, obviously it makes your profit greater if you do not charge as much depreciation?—We have debited

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by writing off, the proportion of cost which does not add to the realisable value; that has been written off in this year's Accounts, as in previous years; but we have benefited, as you say, to some extent by the fact that a reserve which was accumulated for a particular purpose in the Scottish Districts has been used in this year.

2485. And, therefore, again following the Comptroller and Auditor General's observation, if you do that, you ought to make it quite clear?—That is shown in the published Accounts. That is the £3,000 shown in last year's published Accounts.

2486. But surely you must admit that in the result of the trading for the year there is this fortuitous figure of £1,100 odd which is included as a profit?—(Sir Gilbert Upcott.) The £3,000 taken out of Reserves does not in any way affect the Profit and Loss Account. It is a capital transaction.

2487. Surely it affects the Profit and Loss Account; but I do not want to press it at any great length. Probably you would like to look into it?—(Colonel Vince.) Yes.

Chairman.] I take it that neither witness has any further observation to make on that matter; because we have had a series of questions from Sir Isidore now which will be read later, and, if there is an answer to his point, it ought to be made now.

Mr. Mabane.

2488. There is one point I do not quite understand. You say that the reserves from profits for repairs and improvements are absorbed at Cromarty Firth by the building of a new hotel; is that correct?—Yes.

2489. It would appear to me, if you build a new hotel, you would require a greater, not a less, reserve for repairs and improvements?—This was a reserve accumulated for this purpose; it was a very substantial alteration.

2490. You have no other property?—We have other property there, but it was accumulated in order to effect an improvement to this particular hotel.

2491. And you now, having no reserve, cannot repair anything at all?—No; we can still continue repairs; it is only that the improvements to that particular hotel are now completed.

2492. It was not a new hotel?—No, it was an enlargement of an existing

hotel, and that particular work of improvement for which the reserve was accumulated has now been completed.

2493. I have always regarded a new building as a liability from the point of view of repairs and improvements?—(Sir Alexander Maxwell.) I understand Sir Isidore's point is that these figures are arranged in such a way as not to make it clear that we have swollen the profits by £1,100, because that has come out of a reserve that had been accumulated in previous years.

Sir Isidore Salmon.

2494. No; it has arisen because you have not put to reserve as much for repairs and improvements as you did in the year previous, and, as Mr. Mabane quite rightly says, if you had a certain number of new buildings, you would ultimately have to meet, as time goes along, more repairs. The more buildings you have, the more repairs and maintenance you have to meet; but you can easily see my point. Would you mind following that point by looking at the bottom of page 96?—(Sir Gilbert Upcott.) What the item on page 96 shows is not how much they put to reserve this year as compared with last year; all it shows is that a particular sum of £3,000 which had been allocated to reserve in previous years was in that year consumed.

2495. But does not the wording say: "Reserves from Profits for Repairs and Improvements"?—Yes; that line shows the amount accumulated from profits of previous years to reserve. The sum of £3,000, which last year stood to that Account under the heading of "Cromarty Firth" was in the course of the year consumed.

2496. But the fact remains that, when you arrive at your balance sheet showing your profit, you do take into account the fact that your profits are swollen by the figure I have mentioned?—But this is a Capital Account. This does not show the provision made to reserve from year to year. This shows in the Statement of Liabilities and Assets what remains from the provision which has been made in previous years.

2497. The point I am trying to make is this, that, had you put to reserve the same figure as you did the previous year, that would in turn have affected your profits?—I suggest that what you wish to ascertain from the witness is what

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figure they put to reserve in 1935 and what figure they put to reserve in 1936?

2498. Surely that is here before us?—That is not shown there. That is not shown on this Account.

Sir *Isidore Salmon*.] I would very much like to ascertain that from the witness.

Chairman.

2499. Can that figure be obtained?—(Sir *Alexander Maxwell*.) Yes; we will certainly obtain that figure.

2500. You have not got it available now?—No. (Mr. *Brittain*.) I do not think anything was put to reserve. (Colonel *Vince*.) £1,000 was put to reserve in this year, but I have not the figure for last year. (Mr. *Fraser*.) I gather Sir *Isidore*'s point is that they took £3,000 out of reserve and, if they had not taken it out of reserve, they would have had to take it out of somewhere else?

Sir *Isidore Salmon*.] Yes; and therefore they would not have had as much profit; that is the whole point in a nutshell.

Mr. *Pethick-Lawrence*.] If it is a capital expenditure, it is quite clearly not a trading loss. I do not see that you can possibly argue that an amount of capital spent from reserve ought to have been charged to the Profit and Loss Account of the year.

Sir *Isidore Salmon*.] It is for repairs and improvements.

Mr. *Mabane*.] It all depends what it was for.

Sir *Isidore Salmon*.] If it is a capital expenditure, as Mr. *Pethick-Lawrence* says, it ought not to be lumped together as "Repairs," but here, if you look at the bottom, it says: "Reserves from profits for Repairs and Improvements."

Mr. *Pethick-Lawrence*.

2501. It depends what you mean by "Improvements."—(Sir *Gilbert Upcott*.) It is described as a reconstruction scheme. It is not merely normal repairs and improvements but a reconstruction scheme.

Mr. *Mabane*.

2502. There is a sum of £15,911 for Carlisle. Is that being accumulated to build new buildings?—(Sir *Alexander Maxwell*.) Yes.

2503. And for no other purpose?—

New buildings in the sense of entirely new constructions and reconstruction schemes.

2504. Not in the least for repairs?—No, not ordinary repairs.

2505. Then I suggest, if it is not in the least for repairs, it is most misleading for those who read this document to have the repairs referred to. It is really a reserve from profits for fresh capital construction?—(Colonel *Vince*.) That is an old phrase that has been in from the beginning of the Account. The reserve was originally started to provide for repairs which had to be deferred during the War owing to the shortage of labour.

Mr. *Mabane*.] Maybe, but I am asking what it is for now.

Chairman.

2506. The question is: Is that phrase now applicable, and, if it is not and it misleads the Committee, ought it not to be adjusted in some way?—(Sir *Alexander Maxwell*.) I am sorry if we have used a phraseology that is misleading; we will look into the whole thing, furnish you with a note on it, and see if we can improve the Account.*

Chairman.] Thank you.

Sir *Isidore Salmon*.

2507. Mr. *Mabane* asked a question about the amount of food that was sold in 1936 against the amount of food sold in 1937. Would the witness kindly tell me if the prices that were charged in 1937 were a higher figure than those charged in 1936?—The prices for food?

2508. Yes?—No; the prices for food were unchanged.

2509. That is to say, the retail price was not changed?—No.

2510. Is it not a fact that the amount of liquor that has been sold in 1937 is £13,528 more than the year previous, while food is only, taking it at its best, £2,776 more than the year previous?—That is correct.

2511. What strikes one is this, that the percentage, that is to say, food expressed as a percentage of liquor, in 1936 was 10.38; in 1937 it is 10.76, and it does seem a very small increase, having regard to the total increase of trade, in the receipts for food only; the amount of takings for food has been so small?—We have increased the takings on food by nearly £3,000.

* See Appendix 9.

17 March, 1938.] Sir ALEXANDER MAXWELL, K.B.E., [Continued.
C.B., and Col. W. B. VINCE, D.S.O., O.B.E., M.C., T.D.

2512. And you have increased the liquor by nearly £14,000—£13,528?—Yes.

2513. My whole point is: Ought not steps to be taken to see that a larger percentage of food consumption is encouraged in these different houses?—I think we do what we can. There is always food available and food displayed, and notices up about tea and coffee, and so on, but in a great many of the districts where these inns are, it is not the habit of the frequenters of the inns to take their food there. They are not the sort of people who take their food in inns.

Sir *Isidore Salmon*.] I do not want to criticise the position generally, but I am bound to say there is very little inducement for people to take food or even to take tea. I am bound to answer Sir Alexander's point when he says there is an inducement given. I think myself more could be done in that direction, and that is the main object I have in raising it from time to time, because I do think, if the State are justified in maintaining a place of this sort, they should be able to show the rest of the country how food can be sold in place of liquor.

(*The witnesses withdrew.*)

Adjourned till Tuesday next at 2.30 p.m.

TUESDAY, 22ND MARCH, 1938.

Members present:

Mr. MORGAN JONES in the Chair.

Sir Irving Albery.

Mr. Benson.

Sir Edmund Brocklebank.

Mr. Culverwell.

Mr. Lathan.

Mr. Mabane.

Mr. Pethick-Lawrence.

Mr. Wilfrid Roberts.

Sir Isidore Salmon.

Sir Robert Smith.

Sir GILBERT UPCOTT, K.C.B., Mr. W. R. FRASER and Mr. H. BRITAIN, called in and examined.

CIVIL APPROPRIATION ACCOUNTS, 1936.

CLASS VI.

VOTE 5.

EXPORT CREDITS.

Mr. F. H. NIXON, C.B., called in and examined.

Chairman.

2516. We will take first this afternoon the Export Credits Account. Will you please turn to page xx of the Comp-

Sir *Irving Albery*.] May I point out to Sir Isidore that this concern has a brewery, but it has not got a tea plantation? It is supposed to be on a business basis.

Sir *Isidore Salmon*.

2514. May I be permitted to say this seriously: I suggest to you that the percentage of food receipts to the total amount of money taken in the different houses is a very small percentage? That is the gravamen of my case?—I agree we should like, if we could, to increase the food business; there are many social advantages in that. We are doing our best.

Sir *Irving Albery*.

2515. Under the heading of "Charges" in the Carlisle Account, there is glassware, china, furnishing, uniforms; I was thinking more particularly of glassware and china. Is all china and glassware which is purchased put to the debit of the expenses of the year; it is not included in anywhere else; you have no Capital Account for it?—(Colonel *Vince*.) No, it is charged to the Trading Account.

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Mr. F. H. NIXON, C.B.

[Continued.]

what these transfer guarantees really are?—(Mr. Nixon.) Yes, Sir. Very briefly, the transfer guarantees are an attempt to help our traders to make quite certain that when they export their goods, if they invoice them in sterling, they will be paid in sterling within a definite period. A great many traders have been hesitating to continue their export trade because they find that foreign countries are putting on exchange restrictions or tightening up their exchange restrictions or there are moratoria or other obstacles to the transfer of money from the currency of the country that has imported the goods into sterling, and we are working a scheme whereby, provided the goods are invoiced in sterling and provided the exporter complies with certain conditions, we guarantee to him that he will, in any case, whatever the foreign country may do, get 75 per cent. of the invoice value of his goods within a certain fixed period after the date on which that money should have been paid by the foreign buyer.

2517. Would you tell us something about the particular case which is referred to in paragraph 39?—I would be very glad to do so. We have the thing constantly under review and from time to time we are able to offer transfer guarantees for trade with a country which we had hitherto not felt able to cover, and occasionally vice versa; this particular case is the case of Spain. For a long time we had been considering the problem and had not been able to do a great deal in the way of transfer guarantees with that country, but early in 1936 we were able on certain conditions to offer those guarantees and we did so for a certain period; I cannot tell you exactly when it was, but some time early in 1937, I should say about May or June, 1937, we came to the conclusion that the situation was too dangerous to go on with and we stopped from that time onwards giving transfer guarantees.

2518. From when?—I cannot remember the exact date, but it was some time, I should say from memory, about May or June, 1937. Naturally we were liable for the guarantees which we had already issued, and it is on those guarantees that we are making these payments.

2519. I think we understood originally that this scheme would be self-sufficing. Do I understand that it is so now?—Self-sufficing is a very difficult term to define.

2520. How would you define it?—We define it as doing our best to make it self-sufficing. Clearly nobody could be certain in setting up a scheme of this kind that over a short period it would be self-sufficing, but we have, I should say at a guess, 60 countries on which we are covering transfer risks of varying amounts and we have received premiums on all that business which, up to the moment, I should say (perhaps not on the 31st March, 1937, but up to the present moment), just about balances what we are paying out. That does not mean that we may not have some more losses to-morrow but the whole scheme is under the most careful and constant consideration. We have two Committees constantly watching the thing and changing our premium rates and conditions every week in accordance with all the information we can get. It is certainly of very great use to traders and I do not think even this particular section of our business is likely, in the long run, to run us into any appreciable loss.

Mr. Culverwell.

2521. Is that the total liability, £31,661?—No, there is a certain amount which comes into this year's accounts which are not yet completed.

2522. What will be the total loss in that particular country?—I cannot tell you the total loss, but the total amount we may have to pay out will be between £60,000 and £70,000 I should estimate. It is coming into this year's accounts; whether that will be a loss will depend on what recoveries we eventually make from Spain.

2523. Even paying that out you will just about balance?—Paying that out we shall about balance within a few thousand pounds.

Sir Edmund Brocklebank.

2524. You guarantee 75 per cent. in sterling?—Yes.

2525. If the trader were to be able to get some of the rest of it in the currency of that particular country he was trading with, how would your proportion vary?—Our proportion would not vary. We are liable to pay 75 per cent. of the sterling invoice value of the goods and we take as recoveries everything we can get. Whatever may come out from the other side goes first towards wiping out our liability. A great deal of that would definitely be in sterling, because when we instituted this guarantee on

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Mr. F. H. NIXON, C.B.

[Continued.]

Spain there was in operation the Anglo-Spanish clearing agreement which has certain balances in this country. We expect to have a certain share of those balances when eventually they are distributed.

2526. You had nothing to do with the clearing agreement?—Indeed we have. We should not have given our guarantees on Spain except as part of the transactions which come within that clearing agreement.

2527. That clearing agreement is not operating now, is it?—No, but it was when we gave our guarantees and we are entitled to some share of whatever may be distributed, whenever it is distributed, out of the sterling assets of that clearing agreement.

Mr. *Wilfrid Roberts*.

2528. Did I understand you to say that you undertook no fresh commitments after about May or June, 1937?—Yes.

2529. When the trouble broke out in Spain you did not undertake any further guarantees of this sort?—I am afraid I have got my years wrong. I meant when the trouble began in Spain, which was May or June of 1936.

2530. It was my mistake?—I think it was my mistake.

Chairman.

2531. You mean 1936?—Yes, I just got a year wrong. Since then we have given no guarantees.

Mr. *Wilfrid Roberts*.

2532. This figure of £31,000 is the amount that was outstanding then, is it?—No, it is the proportion of that amount which comes within this year's account. (*Sir Gilbert Upcott*.) To be exact the underwriting of risks stopped on the 4th August, 1936. (*Mr. Nixon*.) Thank you very much.

2533. These arrangements are not made with Governments but are made with private traders in England, presumably?—Yes, in England.

2534. But the payments are due from private traders in Spain?—Yes.

2535. I did not quite understand your original explanation. Is a transfer risk a different type of risk from the normal ones that you carry out under the Export Credit Guarantees?—Our business is now, as perhaps you know, on a very large scale, and we have a number of different sections to it. The business which you might consider normal,

though I do not know what would be considered normal in these days, is guaranteeing the solvency of the buyer. We have a great many millions of pounds of business every year in which we are assuring our British exporters that the particular individual who buys his goods whether situated in Panama, Paraguay or anywhere will be solvent, and, if he becomes insolvent, we pay up to 75 per cent., or whatever percentage we may agree in each particular case. It is a very large and complicated business, but only guarantees the exporter here against losses due to the insolvency of the buyer, and, if the buyer whilst being perfectly solvent is prevented by his Government's exchange restrictions from remitting money to this country—that is the problem of frozen debts—then our Transfer Guarantee may operate. It is an attempt to cope with the problem of frozen credits.

2536. Your work does bring you up against the question whether a Government abroad is willing to allow exchange to be transferred, whether the buyer is solvent or not?—It certainly brings us up against the effects of foreign Governmental action or inaction, yes.

Mr. *Lathan*.

2537. I take it, before the guarantee is given, you have some information with regard to the capacity of the buyers to meet their liabilities, apart from any Government arrangements relating to the export of cash?—Before we give a guarantee about the solvency of the buyer, we need to know about the standing and resources of that buyer, and we have a large status information section which is constantly keeping that information up to date.

2538. In regard to such arrangements, do you find the Governments of the countries concerned agreeable to provide assistance or information?—In regard to the standing of their individual buyers, we do not ask the Governments. We have other means of obtaining information.

Mr. *Benson*.

2539. Have you a dual insurance—one for the solvency of the buyers and the other for transfer risks?—Yes.

2540. Your normal insurance does not include both?—I do not quite know what you mean by the word "normal". We are prepared to insure the solvency of the buyer without insuring transfer;

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[Continued.]

we are also prepared to insure the transfer, if people wish it. We insure the solvency of a lot of buyers in the British Dominions, but very few of our exporters would ask us to guarantee transfer from the British Dominions. We are willing to do it if they want it, but naturally they do not ask for it.

2541. You said you guaranteed that within a certain period a vendor would get 75 per cent. in sterling. Does that mean that you have machinery for collection?—Yes.

2542. You would collect?—We should collect whatever we can.

2543. In the country?—Within the country, yes.

2544. And, if you cannot transfer, then you retain the cash balance in the particular country?—It may not be in the particular country because in some cases there is a clearing arrangement and there may be a certain amount of sterling in that clearing resulting from exports to this country.

2545. But there are only about three or four clearing agreements?—Yes.

2546. You cover some 70 countries?—Yes.

2547. What happens when there is frozen currency in a country where we have not got a clearing agreement? You pay the English vendor the 75 per cent. of the cash?—Yes.

2548. Then you take over his credit against the purchaser?—Yes.

2549. You collect that in the country?—We may collect it in the country, but we should probably just be one of many claimants—mostly people who are exporting to that country and who have claims on that country, and we should join up with all the other claimants on that country to ask the Board of Trade or the Treasury to bring some pressure to bear on the Government of that country to do something about this mass of debt which is getting frozen in that country.

2550. If you fail to succeed, you just hold the money in a foreign bank?—Yes; we might be able to get it out of the country, in one way or another, in course of time.

Sir Robert Smith.

2551. You say you have a great deal of information about the buyers in foreign countries. Is that obtained by a staff? Do you keep a staff in each foreign country?—Yes. We keep a large staff here and we have every possible

means of getting that information. Abroad, for instance, we have the Commercial Secretaries, Consuls, and so on.

2552. That is what I was thinking of?—Yes.

2553. You do through the Commercial Secretaries have the benefit of a great deal of their work, which would be really part of your Department's work?—Not a great deal, because it is spread over very large numbers, and we have many other sources of information; but certainly some of their work.

2554. Do you by any chance have a sort of travelling staff which you send in special cases or not?—We have not had a staff of our own to do that. We are part of an international group which we helped to form, which has its own inspectors who go round and also collect information on buyers.

2555. Are there in that group Departments working under other Governments?—Some are; some are private companies.

2556. How many other Governments will there be who have practically the same position as you in that way, not doing it privately?—I do not know whether I could tell you; a fair number.

2557. I suppose the whole idea is that, by joining together, greater pressure may be brought to bear on a country if there is any difficulty?—No. This little international group I was talking about does not deal with Governments or questions of pressure. It is simply to collect information. For instance, we want information perhaps on a country where there are no British banks. Our banking connections with that country may be very very poor, and, when the inspector of this international union goes there, he is introduced by us to our Commercial Secretaries and Consuls; by the French who are with us in this union to banks which have French connections, and so he is able to get all sorts of commercial information from those French banks which is thus made available for our use.

2558. I understood from what you said to Mr. Benson that if you could not get frozen debts in a country, pressure was brought to bear upon the country?—That is in a rather different field.

2559. It is very apt to come to that in the end, is it not?—It may.

2560. It of necessity comes to that in certain cases?—No; we have a regular stream of losses through the insolvency of buyers.

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[Continued.]

2561. As well as the other?—Yes.

2562. But a large amount is transfer?—I do not know. This is the only one we have had so far. I make that point clear, if there were any question about making representations to a foreign Government, we should not think of doing that except through our own Government. We should not think of asking an international union to do that. We should simply discuss that with the Treasury and the Board of Trade.

2563. I thought from what you said to Mr. Benson that you had formed a sort of "bloc" which along with the other Governments was able to bring pressure to bear?—No there has not been any question of that.

Mr. Mabane.

2564. This matter of dates is not quite clear. You said you closed down on Spain in May, 1937, and then you corrected it to May, 1936?—It is August, in fact. The Comptroller and Auditor General gave me the correct date.

2565. It is said here it was August that you closed down?—Yes.

2566. That is to say, just after the outbreak of the Civil War?—Yes.

Sir Irving Albery.

2567. With reference to the 75 per cent. guarantee, I do not know whether this would be necessary, but, if so, are any steps taken to make sure that the invoices which you guarantee are in fact genuine invoices? What is in my mind is that an exporter might infer to the importer: "Invoice me this at £1,000 instead of £750, and I will allow you a discount or something. I can cover it fully, and I am willing to do it. If I cannot cover it fully, I am not going to do it"; has that been considered?—Yes, very much considered. The best means that we have found of dealing with that—I am afraid it takes a little explanation because our business is now rather complicated—

2568. Unless the Honourable Members of the Committee desire it, if you say that that matter is adequately dealt with, I do not want to pursue it further?—We have certainly considered it very fully, and we have machinery which we think gives us protection against those dangers.

2569. As regards the Dominions, has it always been customary to include the Dominions in this procedure? I always

thought it was applied to foreign countries?—No. I will not say "always," but for very many years, certainly since 1926, this has been open to the whole world.

2570. Would the Free State, for instance, be included?—Yes.

2571. It would be?—Yes.

2572. And the Colonies?—And the Colonies, certainly.

2573. In fact, it comes to this, that a trader desiring to trade can now insure his exports to any country?—To any country.

2574. The only way he cannot insure them is if he is trading in the British Isles?—That is so; with us.

2575. As long as he goes outside the country, he can cover his liability for trading and the solvency of his buyer?—Yes; this is a scheme to assist export trade.

2576. Can you tell us approximately what is the total outstanding liability as regards Spain on the transfer guarantees?—I think it is the figure that I have mentioned.

2577. That was for a year?—On the 31st March, 1937, the total outstanding liability was £62,000.

2578. That is the total commitment, looking ahead?—Yes, £62,000, and some hundreds of pounds.

Sir Isidore Salmon.

2579. You said in one part of your evidence that you did take care to see that the conditions under which you advanced amounts of money were fairly looked into before advancing it, as far as it was possible?—Yes, before giving guarantees; we do not make advances.

2580. Do you limit yourself to the amount of liability you will go to as regards any particular country?—Yes.

2581. If you had an offer for an abnormal amount of trade in one country, you probably would refuse it because it exceeded the particular limit you had set upon that country?—We might refuse it because it exceeded a particular limit, and we might refuse it simply because it was an abnormal risk.

2582. Assuming there was no abnormal risk, you still have at the back of your head a limit to what you will guarantee?—Yes, a limit that may be constantly changing. We have a Committee that meets every week to review all these countries, and we have our ideas of what a limit may be, and possibly the next

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[Continued.]

week we may cut down that limit if the situation has got worse, but there is very definitely a limit.

2583. The limit is an elastic limit?—An elastic limit.

2584. So that you really in fact have not any definite limit at all. You just deal with the case as it arises?—Yes. We are bound to deal with the total business as it arises because our total business that comes to us is constantly increasing. Every year for the last few years, it has been increasing, and we could not tone it down to a particular limit to-day without finding we were being unfair to certain traders to-morrow.

2585. You do trade in 72 countries?—Yes, actually over 100.

2586. I do not know if, as a matter of fact, when you are asked to guarantee an abnormal amount of money to a very solvent country, as a principle you may say: "We will not go so far as that because that is beyond the figure that we want to go in any one country"?—Yes, we should certainly say that in a great many cases.

2587. But not generally?—It would depend on the country.

2588. There are certain countries, therefore, where you would give an unlimited figure?—No; there are no countries in which we should give an unlimited figure. We should not be asked to give an unlimited figure, but we should look at the figures which we were given in relation to the whole figures of a particular country—to its export and import figures, and the clearing agreement, and so forth.

Chairman.

2859. Each country is dealt with on its merits?—Yes.

Sir Edmund Brocklebank.

2590. Or demerits?—I am not sure that I have still got Sir Isidore's point.

Sir Isidore Salmon.

2591. What I had in mind was that you might be called upon one day to meet a very large liability because you had gone much too far in giving credit or guarantee to a particular country?—Yes.

2592. And it would throw out of gear your calculation, having regard to the trade you are doing in 72 countries?—We have that point very much in mind. We have constant watch on the spread of the whole business. We have these tables always in front of us.

2593. Presumably it would be possible for an exporter to come to you, and, if he were prepared to pay the premium, you would undertake to guarantee under two or three different heads, charging a special premium, whatever it may be, for that particular thing you were asked to guarantee?—I have not quite followed your question.

2594. For instance, with export trade, frozen credit is one premium you ask for?—Yes.

2595. In another section of your business, you may ask for another premium?—Certainly.

2596. You would not object to the one client asking for guarantees under the different heads so long as he paid the different premiums?—No; in fact, we think it is probably desirable that a man who is asking us for a guarantee on transfer should ask us for a guarantee on the solvency of his buyers. We like that because it gives us a much closer control of the business.

2597. But you do not make it a condition?—We make it an absolute condition that we will not give a transfer guarantee unless we are also guaranteeing the solvency of the buyers, because in that way we get to know the nature of the stuff and to whom it is going, and so on.

Chairman.

2598. Shall we turn to page 265, Class VI, Vote 5, Export Credits Account. On sub-head C, Mr. Nixon, I gather that the bulk of this £41,000 is paid in respect of the transfer guarantees, is it?—Yes, that is so.

2599. On the other side of the page—this is only a short Account, so we will take the whole Account—page 266, there is a note (a) "A sum of £166 13s. 4d. received in addition to these premiums, was paid to a bank abroad as consideration for assuming a share of the risk on a transaction and for safeguarding the Department's interests therein." Mr. Nixon, is it not rather unusual for this to appear as a deduction from the receipts and not to appear in the body of the Account?—Subject to correction we thought that the method (I say subject to correction because we have perhaps had a little correction since) that we had followed in the Appropriation Account was quite proper, or, shall I say, was not improper.

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[Continued.]

2600. My point was not whether it was proper or improper, but whether it was usual or unusual?—It is unusual and the transaction itself was quite unusual for us.

2601. I wonder what you have to say to that, Mr. Comptroller and Auditor General?—(Sir *Gilbert Upcott*.) I thought it necessary that this transaction should be mentioned specifically in the Account so that this Committee might have an opportunity of considering it. The deduction of a payment from receipts is certainly very unusual and I felt some hesitation in certifying the Account without qualification lest I might be thought to countenance what I regard as a very unorthodox proceeding. There is, however, some justification for the method adopted, in that the Act of 1920 (the original Act of this Department) contains a Section which says that any premiums received by the Board of Trade may be applied in payment of any expenses incurred in connection with the business of insurance. With that section in view I did not take specific objection to the method adopted. I have my own doubts whether that section was really intended to mean more than that the premiums received might be used as Appropriations in Aid of the Department's expenditure, but I did not wish to press that point further because that section has now been repealed by the Act of 1937 which provides specifically that all sums received shall be paid into the Exchequer subject to any direction given by the Treasury. Therefore as I received an undertaking from the Treasury that this transaction should not be regarded as a precedent I felt satisfied on that particular point of procedure.

2602. Would you, Mr. Nixon, just give us the reasons for the transaction?—(Mr. *Nixon*.) Yes, Sir. This was a transaction with a country in which there is one important British bank, or bank with important British offices here, and the bank was very ready to help us in carrying out certain things that had to be done in that country. We had to get a mortgage and the bank had to look after the mortgage, and so on. We were very glad to have the bank in as partners with us in the transaction; it reduced the amount of our risk and they were able to render services on the spot which we could not very easily render.

But the bank were anxious for their own reasons (and it is one of the difficulties of trying to squeeze commercial operations of the kind that we do into the four corners of an Act of Parliament) not to appear in the discussions between ourselves and the traders and not to receive this premium direct; they wanted us to receive it and to pay over their share of it to them; that was for reasons of their own which they did not even disclose to us, but which they stuck to very definitely. Our Committee, thinking of this as bankers and business men, thought it was very desirable that we should have the bank in as partners with us and were very glad to make any practical arrangement with the bank that would ensure that.

2603. It is odd, is it not, that you should have thought it necessary for the Government to re-insure with a foreign bank. That is rather unusual, is it not?—I deprecate the term "re-insurance." It is not at all unusual for us to have a bank in a transaction of this kind as partners with us. My Committee and I would not think it odd in any business sense. We think, generally speaking, that if we could have a reputable British bank which has been established in a country for a long time and knows the customs and methods of handling things, we are much more likely to be able to conduct a particular piece of business without loss, than if we, as innocent civil servants, were to march into this foreign territory.

2604. Have you anything to say on this matter, for the Treasury?—(Mr. *Fraser*.) No, Sir, we do not think that what was done in this case is really in breach of the general rule that the Government does not insure because, as Mr. Nixon says, we got services for the amount spent and, as regards the showing of the amount, we took the view that if it was shown to Parliament clearly it was not worth while doing anything more about it. It was an isolated transaction and certainly was not worth opening a special sub-head.

Mr. *Benson*.

2605. I should like to ask in connection with this Account on the separate paper, apparently the surplus income which was paid separately into the Exchequer for the year under review

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[Continued.]

was £248,000, the final figure on page 265. Is that for the following year, 1936, on this paper?—(Sir Gilbert Upcott.) I think, if I may say so, you will find it quite impossible to relate the paper you have before you to the Appropriation Account, because the Appropriation Account is an account of cash receipts and payments and that is a trading account.

Chairman.] I was going to take that with the Trading Accounts.

Mr. Pethick-Lawrence.

2606. There is one point about the matter we were discussing just now about which I would like to be clear. Was there actually any default in that matter in which the bank stood in with you?—(Mr. Nixon.) It has not yet entirely run off, there has been no default up to the present.

2607. If there should be a default, does the form in which you have carried through this transaction affect the method of recovery. May I put it a little more clearly. If the bank stood in for part and if you stood in for part practically I imagine that any recovery that has taken place would *pari passu* have affected you and the bank; but, as I understand the transaction in the way it was carried through, you would become liable and then you would have the right to recover it from the bank; am I correct?—Yes, but on the same *pari passu* basis.

2608. But it would have taken the form of a recovery in the first instance from us and a recovery by us, the Nation, the Export Credits Department, from the bank. Is that the position?—The bank undertook in consideration of a premium, which was one-third of the total amount (we took two-thirds of the premium and the bank took one-third) to assume *pari passu* with the Department in all respects, one-third of the risk guaranteed by us, so we should, first of all, have to repay and then we should have to recover from the bank.

2609. So, although it would not affect the substance of the transaction it would affect the method of recovery?—Yes.

2610. It does amount to something very nearly re-insurance?—Yes, only re-insurance raises so many other technical questions. What I had in mind was this: we should not ever contemplate re-insurance except after a study of all the technical problems of

re-insurance. This was just one isolated transaction; such isolated transactions frequently occur between banks and financial institutions without this broad consideration of re-insurance which you find in the insurance companies, and involves a rather different technique—the spreading of risks, and so on.

Mr. Mabane.] Could you say a word about the difference between the estimated receipts from premiums and the realised receipts from premiums, the difference between £248,000 and £334,000?

Chairman.

2611. That is on page 266?—I do not think I can say much more than this, that on the one hand our business during all this period has been increasing very rapidly. The estimate has to be made, as you know, in about October preceding the financial year, so that it begins 18 months before the close of this financial year and during that time our business increased more rapidly than we had estimated in the previous October.

2612. I observe that last year you said that from March, 1936, there had been a sudden and remarkable increase in your business. Have you any special reasons in your mind as to why that should happen? I ask that because quite clearly an increase in security would affect your business, would it not? It would make most people more anxious to insure with you but it would not necessarily make it more desirable that you should insure them?—No.

2613. Therefore I am asking you whether you can suggest any special reason for this sudden and remarkable increase in your business as from March, 1936?—I am not sure that I would put such a definite date to it as that.

2614. You did last year in your reply?—Thank you, I was not aware of that. (Sir Gilbert Upcott.) Mr. Nixon explained last year that there was a very large increase of business in 1935 as compared with 1934.

2615. If there is no special reason for this remarkable increase, I have finished?—Mr. Mabane is quite correct. Mr. Nixon did say "the figures have continued to rise every year quite remarkably, and have risen since the 31st March, 1936, in a most astonishing way."

2616. "And have risen since the 31st March, 1936, in a most astonishing way"?—Yes.

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Mr. F. H. NIXON, C.B.

[Continued.]

2617. The word is yours?—Yes, since 31st March; I did not mean that there was a sudden break in the continuity but that the graph has gone up more and more. There is no doubt in our minds that the reason for this constant increase in our business (I am sorry to put it in these terms) is the excellence of the product that we have to sell. We have spent a great many years studying with Chambers of Commerce and our men all over the country what sort of protection traders want in helping them on export business and what sort of protection we can give which would not involve too much liability on the Exchequer and it took us a good many years of study to work that out, but since we have had what we call our comprehensive guarantee which enables a trader to insure the whole of his business over the whole world we have found that that is spreading at a tremendous pace. That is the substantial reason for this tremendous increase.

2618. Then your answer to me is that the increase in the realisation over the

estimate is not in the least due to an increasing sense of insecurity on the part of those engaged in the export trade as from about March, 1936?—No, I would not put it nearly as strongly as that. I would say that the major factor is that we have been able to put on the market a thing that is wanted. The factors that make it wanted were always there, but they may have become a little more intensified by the increased insecurity of trade in the last four or five years.

Sir Isidore Salmon.

2619. Do I understand you to say that you have no objection to a limited partnership in a particular transaction?—Broadly speaking, if the partner is one whom we approve, yes.

2620. I think it is a very good proposition, but I only wanted to know if that was your outlook?—Yes, very much, if the partner is one whom we approve.

Chairman.] May I take it that this Account is approved. (Agreed.)

TRADING ACCOUNTS AND BALANCE SHEETS, 1936. EXPORT CREDITS GUARANTEE DEPARTMENT.

Chairman.

2621. Now please take the Trading Account, and with this we take the document which has been circulated to members of the Committee. Are there any questions on the paragraph on pages 68 and 69? I would like to ask one question on page 69. Could you tell us in respect of Item (a), the note at the bottom, what is the period of these liabilities that are referred to?—(Mr. Nixon.) The liabilities referred to in the note (a)?

2622. Yes?—The maximum liability—there were a large number of liabilities of all kinds—would be for 8 years.

Chairman.] Are there any questions on pages 68 and 69 with the separate paper?

Mr. Lathan.

2623. There is some reason, I take it, for showing the 3 years together. Is that in order to get a better perspective?—In the account?

2624. In the Account?—That was the system laid down for us. It was in order to give the Committee a view of the business for 3 years; if we were to go back for 8 years this account would be very cumbersome and would be of little interest.

2625. And to take 1 year would not give a sufficiently comprehensive picture?—That is so. (Sir Gilbert Upcott.) It is common underwriting practice. (Mr. Nixon.) In marine underwriting.

2626. Until 1934 there was an "Underwriting Reserve Suspense Account" and for 1935 and 1936 it is called "Underwriting Account". There was a change of method I take it?—We have an "Underwriting Account" which covers the 2 years you have mentioned and if we had anything which arose in an earlier year we put it in the Suspense Account. (Sir Gilbert Upcott.) The Underwriting Reserve Suspense Account is shown on the lower part of pages 68 and 69.

2627. The two Accounts cover different responsibilities, do they? I am assuming for the moment that there is some relation in this connection between the balance of income and the maximum liabilities?—(Mr. Nixon.) I think I should explain that we put ourselves in the position at 31st March, 1937, which is the end of the account you have under review, and looking back there we take you year by year over the business we did in each of these previous years.

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Mr. F. H. NIXON, C.B.

[Continued.]

2628. There is no relation between the balance of income and the maximum liability?—No. (Sir Gilbert Upcott.) It is a question of date or time. (Mr. Nixon.) It is purely a question of time.

Sir Irving Albery.

2629. On page 69 I should like a word of explanation about note (a), "In respect of these premiums the Department had undertaken liabilities aggregating at the maximum £12,480,499 on contracts and policies amounting to £35,184,065". That is not quite clear to me. What is the meaning of that?—I suppose you are thinking that the liability is small in relation to the total figure.

2630. Yes?—Perhaps I could explain that portion of our business which leads to the liability being relatively small. That is on our comprehensive guarantee and I could easily explain it to you. If a trader in Manchester, for instance, is doing an annual turnover of £100,000 on which his goods are going out on say 90-day terms, at any moment he will only have £25,000 outstanding, as a general sort of rule—it may be rather more or less according to whether his trade is seasonal and so on. So if we are covering 75 per cent. of £25,000 all through the year, we enable him to do the whole of his £100,000 of exports without assuming any greater liability than I have mentioned, so that we can issue a policy for £100,000 of exports on which our liability might be about £20,000 continuously outstanding, because his turnover is always coming in and going out again.

2631. You have made that quite clear, but the reason it puzzled me was that I have always understood that in ordinary policies you insured what was likely to be your liability and not your turnover; you do not usually take out an insurance policy for a larger amount than you are likely to be involved in at any given time?—No.

2632. The highest liability is usually the figure chosen for insurance and that was rather puzzling me?—That is the first figure of £12,000,000 but the exports are the £35,000,000; we say the policies amount to £35,000,000.

2633. The second part of the note really has not any meaning, has it?—Yes.

2634. Unless you are going to give a figure which shows the total amount of business which is involving credit. It

is transacted during the year by the trader, but that does not affect you as insurers. Your liability is the amount you insure, not the trader's turnover?—The liabilities, of course, we have to insure, but the liability varies from case to case. We might offer one man a 75 per cent. guarantee and another a 60 per cent. guarantee so that the invoice value of the goods is the only constant feature of the business.

2635. That is the point I am trying to make. You quote this figure of £12,000,000 and the figure of £35,000,000 but, as I understand it, you are insuring £12,000,000, not £35,000,000?—We are taking a risk of £12,000,000.

2636. Only? Not £35,000,000? That does not concern you?—It concerns us very much. Ministers and Parliament are very anxious to know what quantity of exports are being helped by us and it is the £35,000,000 that is being helped by our guarantees.

Sir Irving Albery.] It may be interesting from that point of view but I do not see that it concerns the accounts. I may be wrong.

Mr. Pethick-Lawrence.

2637. Would it not be better if you had put in these words: "In respect of these premiums the Department had undertaken liabilities aggregating at any one time at the maximum £12,480,499 in respect of contracts and policies amounting over the year to £35,184,065?" Do not you really want "at any one time" and "over the year" in the second place? If your explanation is the explanation, would not those two sets of words help the argument very much?—I think it might. This note has been there for some years. I do not know who was originally consulted in settling it but I will certainly go into that.

2638. It is rather misleading; it does not suggest that the contrast is between "at any one time" and "over the year" in the second place, which is what I understand you to say it is?—I would be very glad indeed to consider that suggestion.

Sir Irving Albery.

2639. Do traders who insure with you and who have a good record and do not land you with any bad debts get a no-claims bonus?—They never fail to come and ask for a reduction of premium.

2640. Do they get it?—Generally speaking, they get it.

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Mr. F. H. NIXON, C.B.

[Continued.]

Sir Isidore Salmon.

2641. Do I understand from this separate document that we have before us, where it deals with the maximum liabilities that the £13,249,320 is a similar figure to that which you refer to in note (a): "In respect of these premiums the Department had undertaken liabilities aggregating at the maximum £12,480,499," are they comparable figures?—No, the figure referred to in (a) is just the year's business for 1936. (Sir Gilbert Upcott.) The figure of £13,249,320 appears in the footnote on page 70 of the printed Account.

Chairman.

2642. I understand that these figures show the balance as to early years which is held against risk of loss on subsequent years. Is that not so?—(Mr. Nixon.) Yes, I think you could say that.

2643. As regards 1933-4 for what periods do these liabilities run?—They may run for some years. I think I can tell you exactly. They run to 1940 or 1941, I think, as far as I have the figures here.

2644. As to the table which you have handed to the Committee this afternoon, may I take it that we shall be able to have this continued in future years, Mr. Nixon?—If you wish it, Sir.

2645. You are not looking forward to it with great excitement?—No, because I think it is partly difficult to understand and partly very apt to mislead people.

2646. Are there any further questions on this paper? Let us take the Accounts, pages 68, 69, 70 and 71. Are there any questions?—The answer to the question you just asked me about the period was 1942. I said 1940 or 1941.

Chairman.] Are there any questions on pages 70 and 71?

Sir Irving Albery.

2647. On pages 70 and 71 this is described as the "Export Credits Guarantee Department, Profit and Loss Account for the year." It only appears to me to be a statement of the interest received on moneys invested and costs of administration which are apparently more or less paid for by the interest. Is that what it is?—That is so; the idea in drawing up this account was to keep the underwriting business, which you see in the previous page, to itself.

2648. Can one properly describe this as a Profit and Loss Account? Profit and Loss Account seems to me to imply the Profit and Loss of a Trading Account, but there is no trading involved in this. There is no business transaction of any kind that I can see involved in it. It is simply a Reserve Fund?—If we were to take out of our Reserve something which might be called a profit and put it into the right hand side of this account then it would be, I take it, a Profit and Loss Account.

2649. I have not quite got that?—The only income we have in the business is either from our premiums or from our interest.

2650. In your Profit and Loss Account there are no premiums?—No, because we had not taken any money out of our premiums to put into our Profit and Loss. (Sir Gilbert Upcott.) His premiums are in the Exchequer and he is credited with interest on what he has in the Exchequer. That is sufficient to cover his operating expenses.

Sir Irving Albery.] But this account, as far as I can see, is nothing but the interest on the funds which have been put to reserve on Premium Account and nothing else. You are just paying the expenses out of your interest on the Reserve Fund and calling it a Profit and Loss Account. I may be quite wrong, but I cannot see that it is a Profit and Loss Account at all. It is only a technical matter. It is quite clear what you have said. It is all there; one can see what it is.

Chairman.] You think "Profit and Loss" is a misnomer?

Sir Irving Albery.

2651. I should have thought so?—We had very expert advice on these things. Lord Plender and others advised on these accounts.

2652. If you say that, I have no more to say; I cannot claim to be an expert but it is one of the most curious Profit and Loss Accounts I have come across.—(Sir Gilbert Upcott.) This form was approved by the Treasury after consultation with Lord Plender.

Mr. Pethick-Lawrence.

2653. What exactly is the interest?—(Mr. Nixon.) The interest is a calculation of the interest. (Sir Gilbert Upcott.) Interest credited on the amount in Reserve which is in the Exchequer.

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Mr. F. H. NIXON, C.B.

[Continued.]

Mr. *Lathan*.] Surely there is some income to this account apart from interest?

Sir *Irving Albery*.

2654. I want to say this in conclusion. This is in a sense a trading concern. The accounts are in the Trading Accounts and Balance Sheets and the trade of this concern is insurance. If actuarial calculations are made there will be a profit or a loss. But describing the account as the Profit and Loss Account of the Export Credits Guarantee Department which takes no account whatever of the results of its trading seems to me to be a misnomer, to put it mildly, and this account takes no account of it whatever; there is nothing to do with trading in it. There is no account of a profit, there is no account of a loss. The main function of the department is not included in that in any way?—(Mr. *Nixon*.) No. I think you will find, generally speaking, in insurance companies' accounts the main function of the company is shown on the Underwriting Account and not on the Profit and Loss Account.

2655. I suppose they take a profit from the Underwriting Account and transfer it to the Profit and Loss Account and then you get a true Profit and Loss Account?—Yes.

2656. That is what you have not done?—We have not done anything of that kind.

Mr. *Lathan*.

2657. I feel a similar difficulty to that which Sir Irving Albery indicated. This account which is described as a Profit and Loss Account appeared to me to be a Trading Account?—Yes.

2658. At any rate it contains the items which normally appear, so far as my limited experience goes, in Trading Accounts. Is it not usual to include in a Profit and Loss Account items of profit which are made by way of credit and to debit that account with losses which are incurred and to leave everything else out?—Yes, I think so, except that in insurance business those losses which are a regular part of the business (it is losses we are dealing in) come into the Underwriting Account.

2659. The only item of profit which is referred to here is an item of £957 and a total income and expenditure of £66,000?—Yes.

47855

2660. Do I gather you are acting under the advice given by Lord Plender?—Yes; I think the point is that an insurance company might put something on the right hand side of the Profit and Loss Account out of what we have put into Reserve.

2661. Do you suggest that a Profit and Loss Account of an Insurance Company is a different kind of account from that of a trading concern?—Yes, because the Insurance Company has to do a great deal of its business on the Underwriting Account, that is where its risks are and its income mostly is.

2662. I am at a disability in entering into a discussion on that, but I should have thought that an Insurance Company, whether out of Underwriting or anything else, would make profits and would incur losses?—That is another point; that is not so much a question of form but of substance but on the form we took advice from Lord Plender.

Sir *Irving Albery*.

2663. I notice in this Profit and Loss Account there is only a difference of about £957 profit. In other words for that year the interest just covers the administrative expenses?—Yes.

2664. I do not want the exact figures but in the last two or three years have you had just a normal profit like that?—That sort of thing.

2665. In other words, your administrative expenses exactly rise in the same proportion as the interest on your Premium Fund?—Alas, no, they have risen much more rapidly and are likely to go on rising.

2666. Before, there was a bigger profit?—Yes, which you see was £45,000 brought in from 2 or 3 previous years.

2667. I am only asking for information. I do not want you to think I am trying to pretend I know how insurance accounts ought to be kept because I do not, but this is a published account and I do think it is of interest to this Committee, if it can be known, to know whether a profit or loss is being made on the trading transactions of the Export Credits?—Yes.

2668. It does appear to me that you have got certain transactions which have been completed?—Yes.

2669. You have collected your premiums and your liability has run out?—Yes.

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Mr. F. H. NIXON, C.B.

[Continued.]

2670. Therefore, it seems to me possible on those transactions to say that we have made such and such a profit or such and such a loss up to that date?—Yes.

2671. I should have thought, that unless there is any adequate reason for not doing it, the Profit and Loss Account ought to show something of that sort?—It is only at the last point that we are not in agreement. I should agree with everything you have said up to the last point.

2672. But not that the Profit and Loss Account ought to show it?—No. (Sir Gilbert Upcott.) The question you have asked is answered by that paper which you had before you just now. (Mr. Fraser.) The question really is whether he should declare a dividend at any time. He does not think so nor do we.

2673. Is there any reason, if there is a profit, why the profit of the Exports Trading concern should not be shown or if there is a loss why it should not also be shown?—There is no profit yet.

2674. Is there any document or any account in the Trading Accounts which shows the position?—(Mr. Nixon.) Yes; this account shows that at the 31st March, 1937, the Exchequer was liable through us for £13,000,000 odd.

2675. That is quite clear?—£13,249,000 and all that we had been able to accumulate by 10 years of effort towards meeting that liability was £2,342,000. This account does not disguise from you that which is the outstanding dominating fact of all our business, that we have long term liabilities and a great many millions of pounds weighing on us the whole time, and we are doing everything we can to provide a cushion between us and the taxpayer in respect of those liabilities.

2676. I gather that the short answer is that the procedure which you are following is the procedure which is followed in insurance practice?—I do

not know whether some insurance companies might not be prepared to estimate what their outstanding liabilities are a little differently from what we are, and declare a dividend. I do not know; it depends on each company.

2677. I understand the difficulty about estimating outstanding liabilities but I cannot quite understand why a definitely achieved and ascertained profit cannot be disclosed?—If I may put the point in this way: for the very good reason that we are not a company trading for profit. The whole purpose of our institution is to help the export trade of the country and our people have always taken the line, first of all, that we must do what we can to protect the taxpayer against the big risks we are carrying, and secondly if we should make in one particular year, what you would call a profit but what I should call a surplus, we should put that back into the business and not distribute it to, I would say, our shareholders, only we have not got any.

Sir Irving Albery.] The Exchequer. I quite see that point.

Chairman.

2678. The appropriate conundrum is: When is a profit not a profit; when is it a surplus?—Absolutely.

Sir Isidore Saimon.] I think the line that Mr. Nixon has taken is a sound one from the point of view of the country.

Mr. Lathan.] I think Mr. Nixon in the observations he has just made has made the position much clearer, and not only that but he has satisfied us in a very large degree and I entirely agree with what Sir Isidore has said, that the policy is a sound one.

Chairman.] Then you are prepared to approve the Accounts, are you?

Mr. Lathan.] Yes.

Chairman.] May I take it that these Accounts are approved? (Agreed.)

(Mr. Nixon withdrew.)

CIVIL APPROPRIATION ACCOUNTS, 1936.

CLASS III.

VOTE 4.

PRISONS, ENGLAND AND WALES.

Mr. H. R. Scott, C.B., called in and examined.

Chairman.

2679. Turn please to page 110, Class III, Vote 4, Civil Appropriation Accounts, 1936. I have just one question

I would like to ask Mr. Scott on the note at D which says "Due to staff economies." Could you tell us what these economies are?—(Mr. Scott.) I

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[Continued.]

think it was due to having estimated for additional staff in order to increase the length of the working day in various prisons and we were not able to recruit and train additional staff quite as quickly as we had hoped we might do when we were drawing up the estimates.

2680. The point of my question was this: you used the words "staff economies." The words "staff economies" usually have a connotation of their own. It implies that you have cut down your staff; at least I imagine that is what it normally means. Is that what is signified here?—No, I think "economy" is probably an unfortunate word. It means that we have not used staff up to the amount we estimated for.

2681. I asked that because, as a matter of fact, your expenditure is up on 1935, is it not?—I think so.

2682. So it was not an economy, was it?—No.

2683. Will you please, on page III, kindly give us just an explanation of what that special grant is that is referred to in note S, at the bottom, the last sentence?—The question of the organisation of work of Prisoners' Aid was gone into by a Departmental Committee under Sir Isidore Salmon some 4 years ago and they made certain recommendations for the reorganisation of the central body. Those suggestions were not altogether welcome to the Aid Societies and they decided to make counter suggestions and set up a Committee of their own. This Committee produced a report that seemed to us to form the basis on which we might perhaps come to some agreement with them, so we had discussions with the Aid Societies on the basis of their own recommendations and we came to substantial agreement. The special grant was a part of the agreement. It involved the reorganisation of the staff and premises of the Central Society which has now become the National Association in London. It also involved a reorganisation of the work of Aid on discharge for the special prisoners at Wakefield. This was the first part of the special grant. It was for about December to March, 1936-37.

2684. You are assuring us that my colleague on my left did not propose this extra expenditure?—He proposed a good deal more, Sir.

47855

Sir Isidore Salmon.

2685. On that, is it not a fact, Mr. Scott, that the recommendation of that Committee had the effect of getting the Aid Societies to take a more progressive interest in the work that was very desirable, and that you have got, by other means, a working arrangement now which can be used to great advantage to the prisoner on discharge?—Yes, I think the effect of your Committee was to administer a very much needed jolt and the result has been that we have arrived, by a slightly different route, at the objective you were aiming at.

Mr. Benson.

2686. On sub-head D, could Mr. Scott tell us what is the effect of the new minimum-security Prisons on the amount of supervision labour that is required?—I am afraid it is not "prisons" yet. There is only one as yet, New Hall Camp, and there the number of officers in proportion to the number of prisoners is less than at the other type of prisons. That is, of course, due to the fact that the prisoners who are sent to the camp are specially selected men whom we have reason to think will respond to the different kind of treatment. We could not apply those methods to everybody.

2687. On that point, have you ever made an estimate as to how many of your normal prison population could be put on minimum security, and what saving could be achieved in salaries?—We have not attempted any estimate, but certainly 2,000 or 3,000 or more perhaps could be dealt with in that way.

2688. And on those there would be a considerable saving in supervision charges?—Yes, there should be.

2689. Sub-head E, Victualling; what steps are taken to provide adequate supplies of green vegetables? Prison diet used to be very short on that side?—We have done a good deal in the last few years to acquire more land wherever it was possible, and we are actually growing a good deal more of our own vegetables than we were. In addition, of course, a good deal is bought locally.

2690. Obviously, a good deal must be bought locally but where you have land in the neighbourhood, do you use it?—We develop it to the greatest possible extent to grow our own vegetables.

2691. And you supply that to the prisons?—Yes, the New Hall Camp near

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[Continued.]

Wakefield sends vegetables into Wakefield and Leeds. Feltham sends vegetables into the London prisons and so on.

2692. Is there any citrus ration of any kind for the long term prisoners?—No.

2693. With regard to new buildings, sub-head O, I see you are spending money on Pentonville. You have spent practically £5,000 on Pentonville new boilerhouse. Is it not generally considered that Pentonville will have to be given up as a prison at a very early date on account of its being completely out of date. I was just querying the wisdom of spending so large a sum as £5,000 on a prison which I will not say is obsolescent but obsolete?—Part of the expenditure on Pentonville was unavoidable because the chimney was going to fall down. It had to be taken down and other things appeared, as they usually do, when once you start on an old building, and that was the origin of the change in the boilerhouse, I think. Pentonville is criticised a good deal, mainly I think owing to its location. I think it is the location of Pentonville which is mainly against it and we should be very pleased to have another in place of it; that depends on being given the money to provide it.

2694. One does not suggest a new prison in the Pentonville style?—No.

2695. If you can collect all your London prisoners who are capable of minimum security and put them into cheap army huts as you do at Wakefield, you do not need another prison of the Pentonville type, you can make vacancies?—You can make some vacancies; I think you would have to have some provision in place of Pentonville. We have been looking for some time for a suitable site for another camp on the New Hall Camp model in south England. Not everybody wants a prison as his next door neighbour, and the landlord is not always willing to sell for that reason. We are trying actively to find a site.

2696. If your prison is falling down it is time you found a site?—The prison is not falling down; only a particular chimney. This was the effect of the drought on the underlying clay. Many buildings in the London area were similarly affected after the drought of 1930 and 1931.

2697. With regard to the prisoners' earnings they are allowed to spend in the canteen, are they not?—Yes.

2698. I do not see any details as to the purchases and sales of the canteen; is that a separate item?—Yes, it does not come into the Public Accounts. In some places it is done in this way, that a local tradesman sends in a stock and is simply paid at the end of the week for such articles as have been bought and the ones that have not been bought go back to him and a fresh stock arrives next week; in other cases a simple account is kept by the Steward which does not come into the Public Accounts.

2699. Does the tradesman who sends stock in sell at ordinary prices?—At retail prices, yes.

2700. They can buy anything but forbidden articles?—It is rather a list of approved articles but we have tried not to make the list too rigid. Anything reasonable a man is allowed to have.

Sir *Irving Albery*.

2701. Mr. Scott spoke about seeking a new site for a prison camp. Are not there such sites available from some of the other Government Departments or land which is already possessed by other Government Departments?—As a matter of fact, that is a line of enquiry that I am going to follow up to-morrow. In many cases the other Departments want the land for their own purposes.

2702. May I suggest that was the line of enquiry which should have been followed up first, before trying to buy from outside?—No, I think not necessarily because we had our ideas of the area in which we wanted to have the Camp and in that area, so far as we knew, there was no Government land.

2703. You say you are to-morrow going to enquire whether such a site can be obtained from a Government Department?—Outside the area in which we were originally looking; it is the second best.

2704. I should have thought it would have to be a very weighty consideration which would cause your Department to try to buy private land when there were public lands which existed?—We were not necessarily going to buy, we might have leased as we do in Yorkshire. There is a weighty consideration, which is that it is far easier to run a camp of this sort near an existing prison than many miles away where we have to start from nothing.

2705. I have put that question before, because I was not sure whether the matter was always considered in that

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Mr. H. R. Scott, C.B.

[Continued.]

light, and I could not help feeling that your statement rather increased my doubts on that subject?—Yes?

2706. On sub-head G on page 110, "Materials and Tools" is £269,000, and under receipts "Proceeds of manufactures and farms supplied to other Government Departments" is the item of £218,000. Would it be difficult on future occasions, if there is no objection, to put, possibly in brackets, or above that amount of £218,000, the value of produce which was manufactured and consumed by your own department so that we could compare the two figures, showing that the material actually cost so much and the result of it. We should then see the result of the value. As the figures are at present there is no comparison. The figure you give of supply to other Departments is presumably only part of what you have done with the material you purchased?—(Mr. Brittain.) The estimates give an estimate in advance for the two classes. They show separately what is for use in prisons and what is for other Departments. (Mr. Scott.) On page 112 the amount received for Supplies for other Government Departments under sub-head U was £218,000.

2707. That only gives what has been supplied to other Government Departments. If one were to take that as the figure one would arrive at the conclusion that the materials you purchased, after they had been manufactured, were worth less than the raw materials were?—Yes, but sub-head G as it stands on page 110 is not split up; in the estimate it is

(Mr. Scott withdrew.)

CLASS VII.

VOTE 13.

STATIONERY AND PRINTING.

Sir WILLIAM CODLING, C.B., C.V.O., C.B.E., called in and examined.

Chairman.

2711. Civil Appropriation Accounts, 1936, Page 419, Class VII, Vote 13, Stationery and Printing. On that there is a note I at the bottom of the page "in respect of press advertisements." Last year I think it was £34,000; how much is it this year, can you tell me?—(Sir Gilbert Upcott.) That was the total last year. (Sir William Codling.) I think, speaking from memory, it was something like £60,000.

2712. Could you tell us what Departments are mainly concerned?—The Admiralty, an expenditure of £6,126, the

split up into the details. In the Estimates you will find details of that expenditure.

2708. If it is in the Estimates I do not want to pursue it?—It is given in much greater detail. (Sir Gilbert Upcott.) The actual figures would not be given in the Estimates, only the estimated figures. (Mr. Scott.) No, but we separate expenditure on materials for articles manufactured for other Government Departments and expenditure on materials for our own consumption. I can give you the figures for this last year if they would be of any interest.*

2709. The only point I wanted to arrive at was whether the ultimate disposal of manufactured material, wherever it goes to, whether it is farm produce or otherwise, was in excess of the purchases of that same material unmanufactured?—May I give this figure which perhaps answers your question. As far as manufactures for other departments are concerned, I have the actual costing return for the last three years which you will not find in this document. The actual profit on manufacturing work for other departments was £33,146. That compares with £26,896 in 1935 and £19,221 in 1934.

Sir Isidore Salmon.

2710. Are the Government Departments giving you all the work that you require to keep the prisoners properly employed?—Yes, we have been very well off for work.

Chairman.] May I take it that this Account is approved? (Agreed.)

Ministry of Agriculture and Fisheries £14,310, the Air Ministry £18,525, the Bankruptcy Department £725, the Civil Service Commission £1,470, the Post Office £6,014, the War Office £4,512, Works and Public Buildings £1,240, and Miscellaneous £6,866, making a total of £59,788.

Chairman.] Are there any questions on pages 419 and 420?

* Note by Witness.—The actual expenditure on materials and tools for manufactures for other Departments in the year ending 31st March, 1937, was £197,490.

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Sir WILLIAM CODLING, C.B.,
C.V.O., C.B.E.

[Continued.]

Mr. Benson.

2713. How much printing is done in prisons? I believe that a certain amount of your printing work is actually done in prisons; is that not so?—Very little is done which is charged to the Stationery Office Vote. Most of the prison printing is done for the prisons themselves.

2714. Do they approach you as to giving them printing?—Yes.

2715. Do you keep them fully occupied?—We give them as much as we can. It is a very simple form of printing that they do; mostly memorandum pads and all that sort of thing.

Chairman.

2716. Are there any questions on pages 420 and 421? Would you please

explain item (m) to us a little, on page 421, Repayment, under sub-head L, Appropriations in Aid?—That is the amount assessed by the Ministry of Labour in regard to the services in connection with Unemployment Insurance and Unemployment Assistance. The cost of those services is recoverable by the Stationery Office Vote from the Unemployment Funds, and the Ministry assesses the cost of the supplies from the Stationery Office to be charged for those services out of the total Stationery Office charge against the Ministry.

Chairman.] Are there any further questions? Are there any questions on page 422? May I take it that this Account is approved? (*Agreed.*)

TRADING ACCOUNTS AND BALANCE SHEETS, 1936.

STATIONERY OFFICE.

Chairman.

2717. Turn please to the Trading Accounts, page 98, Stationery Office Printing and Binding Works. Could you give us some particulars of the increase in credits for work executed, on page 99?—(*Sir William Codling.*) That increase is caused entirely by the increase in the amount of work done.

Chairman.] Are there any further questions on those two pages, the Amalgamated Accounts? Turn to pages 100 and 101, Balance Sheet. Are there any questions? May I take it that this Account is approved? (*Agreed.*) Pages 102 and 103, Foreign Office Press. Are there any questions? May I take it that these Accounts are approved? (*Agreed.*) Pages 104 and 105, Pocock Street Press. Are there any questions? May I take it that these Accounts are approved? (*Agreed.*) Pages 106 and 107, Harrow Press; are there any questions? May I take it that these Accounts are approved? (*Agreed.*) Pages 108 and 109, Kingsway Press. Are there any questions? May I take it that these Accounts are approved? (*Agreed.*) Pages 110 and 111, War Office Press. Are there any questions? May I take it that these Accounts are approved? (*Agreed.*) Pages 112 and 113, British Museum Binding Works.

Mr. Lathan.

2718. The rates of profit, I see, vary very considerably between one Press

and another. Is that accounted for by the different character of the work done?—Entirely.

2719. Entirely by that?—It is the different character of the work done.

2720. Does one carry a larger measure of profit, or what you assess as profit, than another?—Yes.

2721. Are the figures on which the calculations are made, which enable you to determine whether or not a profit is declarable, figures relating to outside prices?—Yes.

Chairman.] May I take it that these Accounts are approved? (*Agreed.*) Pages 114 to 117, Stationery Office Sale Offices.

Sir Irving Albery.

2722. "Publications (net value)": how is that value taken—retail and wholesale?—That is the net value of the publications issued, the retail at 25 per cent. discount and the wholesale at 33½ per cent.

2723. Is that 25 per cent. discount off the selling price?—Off the selling price.

2724. What relation would that have to what you might call the manufactured price?—To the actual cost of production we add 50 per cent. to arrive at the selling price, and that allows for a discount for the wholesale trade of 33½ per cent., which brings it back to the original cost of production, and 25 per cent. is allowed to booksellers.

22 March, 1938.]

Sir WILLIAM CODLING, C.B.,
C.V.O., C.B.E.

[Continued.]

2725. In the wholesale figure, how is that arrived at?—The wholesale figure is 33½ per cent. under published price.

2726. At what price is that taken in the accounts? I understand that this figure is 25 per cent. under the retail selling price?—Yes, and the wholesale will be 33½ per cent.

2727. Under the wholesale selling price?—No, under the selling price marked on the publication.

2728. Is that stock—wholesale and retail?—The retail goes to the Sale Offices. This is only the account of the Sale Offices.

2729. Those figures represent stock, do they not?—Yes. (Mr. *Brittain*.) The amount brought in during the year for sale on the left hand side, and the amount sold by the offices on the right hand side.

2730. They are brought in at that price and sold at that price?—Yes.

2731. The publications covered by those figures have been disposed of, in other words; is that right?—(Sir *William Codling*.) Yes.

Mr. *Benson*.

2732. I am not quite sure where it comes in, but I want to link it up with Surveys. Do the Stationery Office do the actual printing of the Ordnance Maps?—No, we have nothing at all to do with it. It is a separate Vote separately administered.

2733. Another point arises. We have a number of Branch offices up and down the country; there is a Branch Office in George Street, Manchester. If you want an Ordnance Map which is printed by the Government, you go there and cannot buy it. You have to go to a stationer who has a bookshop in the town, who apparently has a monopoly of selling Government publications which the Stationery Office Branch itself cannot sell?—We do sell some Ordnance Survey Maps, but they are sold as an agency; we sell them for the Ordnance Survey Department because we have a sub-office. We sell them on agency terms.

Mr. *Lathan*.

2734. Does not some other Department than yours control the sale of Ordnance Survey Maps?—Yes, the Ordnance Survey Department. (Sir *Gilbert Upcott*.) It is under the Ministry of Agriculture.

Mr. *Benson*.

2735. Have you not suggested to the Ordnance Survey Department that they should give you the right to sell Ordnance Maps?—We do act as their agent.

2736. That is not much use if the ordinary man in the street cannot go and buy one?—I suppose the trouble is that we have not the space to carry every map they have got. We carry a great number; but we can always get a particular map.

2737. There is the Ordnance Survey of Manchester, the 6 in., the 25 in., the 1/2500 and the 1/500. I do not think you even stock the 6 in.; you certainly do not stock either the 1/500 or 1/2500 which is limited to Manchester; you do not stock the maps of the Manchester area?—That is by arrangement with the Ordnance Survey; that is all we are able to stock.

2738. It seems to me that it is ridiculous that two Government Departments should work at cross purposes in this way.—(Mr. *Fraser*.) I do not think they are at cross purposes; there has been plenty of consultation between the two Departments as to the right way in which to sell the Ordnance Maps.

2739. There has?—Yes.

2740. What is the reason that the Ordnance Survey will not sell their maps through a Branch Stationery Office?—The Ordnance Survey appoint agents for the sale of their maps, and the agents have to sell their maps all over the country, whereas the Stationery Office only operates in part.

Mr. *Benson*.] In Manchester you have one bookseller who sells Ordnance Maps.

Chairman.] If you are asking why the Ordnance Survey do not give the Stationery Office the agency, you must ask the Ordnance Survey.

Mr. *Benson*.

2741. I am asking why the Stationery Office does not see that they get the agency?—(Mr. *Brittain*.) There are 200 agents altogether. (Mr. *Fraser*.) The Stationery Office would have to provide a great amount of extra accommodation if they were to take over the sale of the Ordnance Survey Maps.

Mr. *Lathan*.] If they take an order, that could be executed.

Mr. *Benson*.

2742. If you want an Ordnance Map in Manchester of an area which is outside the Manchester area, you have to

22 March, 1938.]

Sir WILLIAM CODLING, C.B.,
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[Continued.]

order it; there is a certain amount kept in stock, but not a very big number; there is not a very big amount of space involved, and I do not see why the Ordnance Maps which apply to Manchester should not be kept at and sold through the Stationery Office Branch in Manchester?—(Sir William Codling.) I think the explanation is that when the Stationery Office offered to sell Ordnance Survey Maps the Ordnance Survey agreed, in so far as their current contracts were not infringed, that is, we can only sell maps which are not covered by the exclusive right of the local people to sell, and until those contracts expire I do not think the position can be altered.

2743. If contracts are running, yes, but have you an arrangement whereby, when contracts lapse, they shall fall in to you in districts where you have branches?—No, but that will be considered when the contracts do lapse.

2744. Provided another contract has not been fixed up?—I do not think it will be.

Chairman.

2745. What is that bad debt that you have on page 114, Sir William?—The most of that amount was caused by the failure of a firm named Thacker & Company which went into liquidation in October, 1931, owing the Stationery Office the sum of £484 1s. 3d. This debt was subsequently reduced by £69 19s. 7d., being credit for publications returned to the Sale Office and 9s. 2d. a counter claim on the Stationery Office, leaving a balance due to the Department of £413 12s. 6d. Dividends of 3s. 4d. and 1s. 2d. and a final dividend of 1s. 3d. in the £ were paid, a total of £118 18s. 5d., leaving a balance unpaid of £294 14s. 1d. The firm had dealt extensively with the Wholesale Sale Office for a number of years and their liquidation in 1931 was due to the bankruptcy of Messrs. Thacker, Spink & Company of India who were indebted to the London firm to the extent of about £10,000.

Chairman.] May I take it that these Accounts are approved? (*Agreed.*) Pages 118 and 119, Manchester Sale Office. Are there any questions on pages 120 and 121?

Sir Irving Albery.

2746. I want to ask Sir William—I do not want to pursue it, but I think it was brought up last time—these outside offices in Edinburgh, Cardiff and

Manchester only sell products of the Stationery Office, do they not?—We only sell Government publications in the Sale Offices there.

2747. Do they perform any other function beyond the distribution of the products of the Stationery Office?—No.

2748. I think last time you pointed out the necessity for there being, for the convenience of the public, distributing centres in these other towns?—We have distributing centres there for the convenience of the public service.

2749. Is it considered necessary, and does it prove economical, for you to have your own offices? Could not these publications be distributed more economically by some other means?—We only have Sale Offices where we have a Branch of the Stationery Office for other purposes, so that we can run a Sale Office economically in conjunction with the Branch Office there.

2750. What would the Branch Office's other functions be?—The supply of stationery to the public offices in the North of England from Manchester: the distribution of forms and so on.

2751. Is that necessary any longer? Could not they indent on London? It does not take long to send it up?—No, it does not take long, but we find that it saves cost in carriage to take paper to Manchester and print on it at Manchester and distribute it from there to the area rather than to take paper all the way to London and issue it from stock in London.

2752. The total sales in all the other centres are small?—Yes, but there would be Branch Offices in those districts in any case, apart entirely from the Sale Offices; the Sale Offices are only there because there is the necessity for a Branch Office for other purposes.

2753. I follow that, but what is the necessity for the Branch Office for other purposes?—Because we find it economical to have a distributing centre in the North of England for the North of England, instead of doing it all from the South.

2754. That is the point I am trying to ask. Is it possible to say why you believe that is economical?—Yes, because we save so much in carriage. There are something like 20,000 separate offices, that is, taking approved societies as offices, to which we distribute insurance cards and so on; 20,000 separate distributing points in the North of England; and the aggregate saving in carriage is quite large.

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Sir WILLIAM CODLING, C.B.,
C.V.O., C.B.E.

[Continued.]

Chairman.] Manchester Sale Office Accounts.

Mr. Lathan.

2755. The net profit appears to be rather meagre in the case of Manchester, and also, if I may anticipate, in the other district Sale Offices as well; is there any information that you can give us in regard to that?—Yes, the margin of profit, if one can call it profit, in the provinces is always very very small. We regard these more as a service than as a profit-making establishment; in fact, the whole of the Government Sale Offices for Government publications we regard as a service and try to do it as nearly as possible at cost. The margin of profit on the amalgamated account is something like £5,000. That is on a turnover of something approaching £200,000 a year. It is very difficult to get it lower and to be on the right side.

2756. To get it lower?—Lower than £5,000 profit, to be on the safe side.

2757. You would not desire to get it lower, would you?—I think it is very satisfactory myself.

2758. It is a service?—We regard it as a service rather than as a money-making matter.

2759. I do not object to that for a moment, except that I thought I heard you say a few moments ago that an allowance was given of 33½ per cent. in favour of the retailer, between the declared retail cost and the wholesale price?—There is 33½ per cent. to the wholesale trade of the Stationery Office, out of which it has to allow 25 per cent. to the bookseller. It has to work on a margin of 8½.

2760. Would we be correct in deducing from that, that the goods that you sell in the Sale Offices carry for you a 33½ per cent. profit?—No; they carry 25 per cent. discount on retail sales. Then again we are rather bound by the trade agreements, the publishers' agreements and so on in regard to discounts.

2761. I am not raising the question of discount. I am raising the question of the narrowness of the profit on the turnover, having regard to what is allowed in the retail price for profit for the ordinary retailer; I was seeking to understand rather than to criticise?—As I said before, we regard our primary function as a service in regard to the distribution of Government publications.

(*The witnesses withdrew.*)

(*Adjourned till Thursday at 2.30 p.m.*)

(*Sir Gilbert Upcott.*) Wages and all that kind of thing have to come out of it.

2762. Quite; so they would in the case of the ordinary retailer who gets 25 per cent. or 33½ per cent. off, and since the products that you vend carry either 25 or 33½ per cent., the question naturally arises as to the comparatively small margin of net profit which is declared at the end of your trading period?—(*Sir William Codling.*) Yes.

Chairman.] Are there any further questions?

Mr. Lathan.

2763. I am afraid you have not made quite clear to me in what respect you suffer from a disability in regarding yourselves as a service rather than as a trading concern, if the facts which I have just mentioned in regard to the margin of profit are correct?—Shall I put it this way, taking the Kingsway Sale Office: In an ordinary bookseller's shop a customer goes in and asks for a certain book to be got for him. In Kingsway a customer goes in and does not know what he wants. The staff there regard it as their function to spend a lot of time trying to elucidate what his real requirement is, and that costs money.

2764. Yet the Kingsway Office makes a profit of £5,000?—Yes, quite.

2765. On a turnover, it is true, of somewhere about £150,000 or £160,000. In regard to Kingsway, since we are on that, *Mr. Chairman*, there is an item here of repaying services £22,486. That is on page 131. What is the nature of that service?—That is very largely supplies to Colonial Governments and that sort of thing.

2766. Repayment for publications?—Publications we sell to them.

2767. I see on the left hand side, on page 130, you get £19,652 and on the opposite side £22,486?—Yes; one is the supplies into stock in one particular year and the other is the supplies out of stock in one particular year.

2768. Not necessarily the same things?—No, not necessarily the same publications.

Chairman.] Pages 122 and 123, Cardiff Sale Office, pages 124 and 125, Cardiff Sale Office Balance Sheet, pages 126 to 129, Edinburgh Sale Office, pages 130 to 133, London Sale Offices. Are there any questions? May I take it that these Accounts are approved? (*Agreed.*)

THURSDAY 24TH MARCH, 1938.

Members present:

MR. MORGAN JONES in the Chair.

Sir Irving Albery.
Mr. Benson.
Sir Edmund Brocklebank.
Mr. Culverwell.
Mr. Peat.

Mr. Pethick-Lawrence.
Mr. Wilfrid Roberts.
Sir Isidore Salmon.
Sir Robert Smith.

Sir GILBERT U^oCOTT, K.C.B., Mr. W. R. FRASER, and Mr. H. BRITAIN, called in and examined.

TREASURY MINUTE ON PARAGRAPH 19 OF THE SECOND REPORT OF THE COMMITTEE OF PUBLIC ACCOUNTS, 1937.

Sir PATRICK DUFF, K.C.B., K.C.V.O., and Mr. A. G. BARNETT, C.B.E., called in and examined.

Chairman.

2769. Office of Works Vote: turn please to the Treasury Minute dated 8th November, 1937, on the Second Report of the Public Accounts Committee, 1937, paragraph 19. Might I ask the Treasury, have you anything to add to the Note which appears in the Minute?—(Mr. *Fraser.*) No, Sir, except that the result of the change is in the Accounts that are now before you.

2770. Mr. Fraser, will you please accompany me for a minute to page 346 of the Civil Appropriation Accounts. I would like to ask a question or two about it. You see on page 346 that we have A II and A III, then we pass to A IV and, if we turn to page 347, you have under A IV "Repayment Services," "Observations." Then it says "See details following"; but they do not follow. You then go on to A III again, and then you go on over the page and finally you come to A IV. I was wondering, Mr. Fraser, whether we could not just as easily have got what appertains to A III on page 347, to follow immediately the paragraph A III on page 346?—May I ask Mr. Britain to deal with this?

2771. Yes, please?—(Mr. *Britain.*) I quite agree it is rather misleading and jumpy at the moment.

2772. It would be simpler, would it not?—I think we should like to consider if we can help you that way.

2773. I think it would be more helpful to the Committee; otherwise it is a little

confusing?—I quite agree, if I may say so.

Sir Isidore Salmon.

2774. On that point, I notice that in the heading it says on the top part of page 346 "Total for work," whatever the figure may be, and when we come to A III or A II for an explanation, it says "Total estimate." Is there a different meaning in both those figures?—(Mr. *Fraser.*) The total for work is an estimate.

2775. Why do you use different wording if it means the same thing?—It has "Estimate" at the top; it is the total estimate for work. (Mr. *Britain.*) This provision for works costing between £500 and £2,000 was purely a lump sum in the original estimate. You did not have an estimate for 1936 for each item. You do not have one of the four columns that you have on page 346; you only have three. You are really missing out the first column "Estimate for 1936," therefore you would have "Estimate, total for work," and that is contracted to just "Total estimate;" that is the reason.

2776. Is that after the work is finished or previous to the work?—It may be an estimate made during the year, when the work is begun.

Chairman.

2777. As far as the make-up is concerned we will leave it in this position: you will consider between now and next year whether you can make that readjustment, Mr. Britain?—Certainly.

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Sir PATRICK DUFF, K.C.B., K.C.V.O.,
and Mr. A. G. BARNETT, C.B.E.

[Continued.]

CIVIL APPROPRIATION ACCOUNTS, 1936.

CLASS VII.

VOTE I.

ART AND SCIENCE BUILDINGS, GREAT BRITAIN.

Chairman.

2778. Turn to page 342, Class VII, Vote 1, Art and Science Buildings, Great Britain. I shall take the pages 342 and 343. On page 343 "Details of Receipts" the second item in respect of the Royal Hospital School Buildings at Greenwich, you had a discussion last year I understand (I was not present) as to the private donor. Could you tell us, Sir Patrick, how much this private donor is giving altogether?—(Mr. *Brittain.*) About £130,000. (Sir *Patrick Duff.*) I think the amount he gave for the buildings was about £60,000 (that is furniture and all) and then, in addition to that, he gave a collection of things called the Macpherson collection which, I think, it would be very difficult to put a price on at all.

2779. I am not thinking of the collection, the furniture, so to speak; I am thinking of his total commitment in respect of the building?—(Mr. *Brittain.*) I think it is just over £100,000.

2780. Is it an expanding commitment according to what the building would cost?—(Sir *Patrick Duff.*) It is about £54,000 for the building; the furniture came on the top of that, say £60,000, and he is just, as a matter of fact, contemplating a further gift of opening up another wing of the old school buildings at Greenwich.

2781. The point I am really trying to get at is this: did this donor undertake to bear the whole cost of the building whatsoever it might be, or did he say "I will provide X pounds"?—No: he said "I will provide the building."

2782. In regard to Note G could you tell us something about why this was necessary?—The French Institute were living in Nos. 1 to 7 Cromwell Road and paid us a rent. On December 31st, 1936, they were due to move and, in fact, two-thirds of them did move into new premises in September, 1936. One-third was left behind. They appealed to us as to whether, while that one-third had to stay behind in the building, we could not waive the rent because it meant that they had to pay twice over for that one-third. We did

not lose anything by having the building inhabited; in fact, it was rather an advantage. It was quite plain that with the depreciation of the franc they were in great difficulties in paying twice over for this section; and also we have a British Institute in Paris and they give us the site there, so it seemed gracious on the whole to waive the rent.

2783. A *quid pro quo*. Do I understand that they have now finally moved?—Yes, they have moved and the buildings are, in fact, down.

2784. What have you done with the site?—The site was sold to the National Theatre.

2785. This is the site for the National Theatre?—This is the site.

2786. For how much?—It was sold under sealed tender; it will be in next year's accounts; I think it is £70,000. (Sir *Gilbert Upcott.*) £75,000.

Sir Isidore Salmon.

2787. On the details of receipts, how is it that for certain work done for the Imperial College of Science for heating and lighting, you estimated £5,905 and, in fact, you received £7,000 odd. How is it that you were so much out in your estimate?—£5,905 is a composite sum.

2788. And so is the total amount of what you received, a composite sum is it not?—There are three composite elements, but it is shown separately as regards the receipts.

2789. It is £7,000 receipts as against £5,900; the only point that occurred to me was that, as you were going to get repayment, you would get nearer to it?—(Sir *Patrick Duff.*) "Old materials and miscellaneous" are rather difficult things to estimate for; I think that accounts for it.

Chairman.] May I take it that this Account is approved? (*Agreed.*) Pages 344 and 345, "Statement of Expenditure on New Works"; are there any questions? Pages 346, 347 and 348. Are there any questions? May I take it that these Accounts are approved? (*Agreed.*)

24 March, 1938.] Sir PATRICK DUFF, K.C.B., K.C.V.O., [Continued.
and Mr. A. G. BARNETT, C.B.E.

VOTE 2.

HOUSES OF PARLIAMENT BUILDINGS.

Chairman.

2790. Page 349, Class VII, Vote 2, Houses of Parliament Buildings. Are there any questions? On page 350, "Statement of Expenditure on New Works." I see "Urgent unforeseen works" in A III; you estimated £500 for 1936; the expenditure in 1936 was £2,862. Could you tell us why there was that vast difference between the estimate and the expenditure?—(Sir *Patrick Duff.*) It was a complete shot, the figure we had to put down for the reconstruction of the Strangers' Gallery and for the reconstruction of the Press Gallery. They were both jobs sprung on us rather at a moment's notice, and the estimates were a round-figure shot. In fact, the work turned out to be done at a good deal less expense.

2791. That brings me to the next question. Why was this so urgent and unforeseen?—There was a great deal of pressure put on us (there has been for some time) to increase the room in the Strangers' Gallery and it was felt that with the Coronation coming on this year, there would be so many more visitors who would want to go into the Gallery that really something ought to be done to make a little more room and, while we were on that, there had been a good deal of complaint also of the Press Gallery. Therefore the opportunity was taken (this would be in August, I suppose, when the House was up) to rush the work through.

2792. But this is not a new story by any means, is it—this complaint about the accommodation in the Gallery; I should have thought your office would have been looking at this for a considerable time. It is odd that they suddenly decided to spend this money in this way without any preparation of any sort?—It had been looked at from time to time and, I think, it had been generally felt that there was not a great deal of latitude to be had in alterations, but on this occasion, with the Coronation coming on, it was thought even for fifteen or twenty places it was worth doing something.

2793. I am not complaining of what was done; I think it is a substantial improvement, I must say, but I could not understand why it was unforeseen

and urgent?—It was urgent in the sense that there was a time limit against it.

Sir Irving Albery.

2794. What was the actual amount of extra accommodation made available by this expenditure?—I am afraid I cannot remember the number of places. It was not very considerable. I should think about twenty places in the Strangers' Gallery and it might be ten in the Press Gallery.

Chairman.

2795. You have added another row to the Press Gallery?—Yes.

Sir Edmund Brocklebank.

2796. Was this sum of £2,862 the total cost and was there nothing in that £2,800 except the Press Gallery and the Strangers' Gallery?—That is all.

2797. It seems to me to be a terrific cost for the amount of work. I have examined it rather carefully in both places and it seems to me to be an incredible sum for the amount of work that has been done?—I know it took a very long time to do and I suppose working in the confined space, and so on, increased the cost.

Sir Edmund Brocklebank.] Practically £3,000; it was really only one bench put in the Strangers' Gallery and there were nothing like twenty places; I think there were three or four places in the Press Gallery at one corner.

Chairman.] There is more than that. There is also a sort of railing put on top of each bench.

Sir Edmund Brocklebank.] Yes, but a railing on top of each bench would not cost much.

Chairman.

2798. Is it not a rather special type of railing? It is not an ordinary railing; it is rather ornamental?—It had to fit in so as not to look like an excrescence.

Chairman.] Merely adding that item to what Sir Edmund said, I agree that £3,000 is rather a good deal.

Sir Edmund Brocklebank.

2799. I should like to see the complete details myself?—I can gladly furnish them.

24 March, 1938.] Sir PATRICK DUFF, K.C.B., K.C.V.O.,
and Mr. A. G. BARNETT, C.B.E.

[Continued.]

2800. Could we have the details?—Yes, I could easily furnish the details. I am told it looks a more simple operation than, in fact, it was, but I cannot recall what made it so expensive.*

Sir *Irving Albery*.

2801. Was it a contract job?—I think it is a job we may have had to do by direct labour, but I could not say off-hand. (Sir *Gilbert Upcott*.) It was done by direct labour.

Chairman.

2802. What is the first item in A III, "Extension of the King's lift in the House of Lords"; what does that mean?—(Sir *Patrick Duff*.) It means carrying it up another floor.

Chairman.] Are there any other questions on that page?

Sir *Robert Smith*.] There has been a good deal of re-arrangement of the

lavatory accommodation in the Houses; does that appear in this Account or has that all been done since?

Chairman.

2803. That is this year?—I think that follows on a Select Committee of both Houses which considered the lavatory accommodation in the Palace of Westminster, and the changes will come on next year's Accounts.

2804. That expenditure and that on the dining rooms all comes into next year's Accounts?—Yes.

Sir *Robert Smith*.

2805. Some of those off the Division Lobbies were done a good deal earlier?—(Sir *Gilbert Upcott*.) The provision is in the estimates for 1937.

Chairman.] May I take it that this Account is approved? (*Agreed*.)

VOTE 3.

LABOUR AND HEALTH BUILDINGS, GREAT BRITAIN.

Chairman.

2806. Paragraph 52 of the Comptroller and Auditor General's Report, page xxvi. This relates to two Votes, Vote 3 and Vote 7, "Labour and Health Buildings, Great Britain" and "Public Buildings, Great Britain". On the first subparagraph, Sir Patrick, is not this a somewhat curious arrangement? If the Office of Works had bought or built this place, or a new building, they would have had to show the particulars, but by this method they are putting it on rent, so to speak, and so the particulars are not shown. Is not that rather unusual?—(Sir *Patrick Duff*.) Do you mean that rents are different from buildings, in that rents are wrapped up in a big figure?

2807. I know they are different; that is the point I am making. If you put it into rent you put it into a lump sum and there it is, but if you were building a new building you would have to show the particulars in more detail?—Yes.

2808. I should think this is rather unusual, is it not?—(Mr. *Fraser*.) It is not unusual. (Mr. *Brittain*.) It is hardly usual to specify the rent for a particular building in the estimates.

2809. It struck me as being a little unusual?—(Sir *Gilbert Upcott*.) Taking

a building by rent is a usual thing, but what is unusual about it is the provision for a large capital expenditure by the lessor. That is the speciality about this.

2810. I did not express myself very clearly perhaps. Here is the lessor undertaking to spend a certain sum of money upon the building which he is going to rent; is not that so?—(Sir *Patrick Duff*.) Yes.

2811. It seems to me quite clear that the lessor is going to recoup himself through the rent for the money he spends upon this re-adjustment of the building, so to speak. If you had had to do it yourself you would have had to show the particulars, would you not?—Yes, we should have had to take money for doing the adaptations.

2812. And you would have shown it in detail?—But it is quite a common thing when we do rent buildings; one can do it either by saying "Adapt that building to my needs and I will rent it" or you may say to yourself "Will it be cheaper if I rent the buildings and do the adaptation myself?"

2813. Are you of opinion that, in point of fact, it is cheaper? Will not you, on account of this way of doing it, be mulcting yourself in an increased rent?—No, because when that work had

* See Appendix 10.

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[Continued.]

been done by the lessor the rent that we are going to pay still compares very favourably with the average rents in the middle of London.

2814. It does?—Yes.

Sir *Irving Albery*.

2815. On the same question, it seemed to me, following up what the Chairman said, that you would have been able to get a reduction in rent if you had done the work yourselves, and that as money would probably be less costly to a Government Department than it would to the lessor, it probably would have been cheaper to do it the other way. You certainly could have got a reduction in rent if they had not had to do that work but if you had had to do it instead of their doing it. They would have to charge more, as the Chairman said, in rent, for the money they were laying out, than the money it would have cost you if you had laid it out. On the other hand, it may be that they can do it more economically; I do not know?—On the other hand, it saved a considerable capital expenditure there and then.

Mr. *Benson*.

2816. Could we know how much the sum spent on that building was?—About £60,000.

2817. Had you a quotation of rent before the building was altered and afterwards?—I cannot say; I do not recall.

Chairman.] Sir Patrick, I think we ought to have that information.

Mr. *Benson*.

2818. What is the rent you pay for the building now?—It works out at 5s. a foot.

2819. The gross amount?—£36,000.

Mr. *Benson*.] I think we ought to know what rate of interest we are paying on that £60,000; what, in effect, we are paying for that £60,000 expenditure by the landlord.

Chairman.

2820. Could you, in point of fact, tell Mr. Benson, to return to the last question but one, whether the Office of Works did inquire what the rent would be, or would be likely to be, if you had done the work yourselves?—Yes, I could easily furnish that; I cannot say at this moment because I am afraid I do not know.

2821. You did inquire?—I do not know whether we said to them “How much would it be to rent the building as it stands?” or “How much will it be for you to put the building into shape and then we rent it?” I do not know if we got the two figures to compare them first.

2822. That is vital, Sir Patrick, is it not?—On the other hand, if one finds a large block of office buildings, or a block which might be office buildings, offered to one at what is a favourable rent, then it seems to me that one does quite well to take it at that favourable rent.

2823. The point is, is it a favourable rent as compared with what you might otherwise have had to pay if you did the job yourselves?—I would like, if I could, to put in a note on that, as to what our calculation was as to the reactions it would have on our total expense had we done the work ourselves instead of getting the lessor to do it.

Mr. *Pethick-Lawrence*.

2824. There is another aspect of it; you were only leasing it for 26 years. If you had paid the money yourselves, at the end of the 26 years the lessor would have had the benefit of the whole of your alterations if they were of any use to him?—Yes.

2825. Are the alterations that he has made for you improving the premises for himself at the end of the 26 years?—They will certainly improve them as office buildings but, I suppose, it might be said that, in fact, we are paying for the alterations made in the sense that a comparable added sum comes on to the rent.

2826. My point is this: supposing the landlord contemplates the use of the building in the present form, instead of merely for 26 years, for 50 or 60 or even 99 years, then presumably he is charging you a rent on the first 26 years and he will be able to exact a similar rent from some other tenant at the end of our tenancy?—Yes.

2827. Whereas, if you paid the money —?—It is gone for good.

2828. You would have to make some arrangement with him that it was all counted to your credit that you were making those alterations?—Yes.

Mr. *Pethick-Lawrence*.] It is not like a 99 years' lease.

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Chairman.

2829. I wonder if I have got your point, Mr. Pethick-Lawrence. Suppose the lessor at the end of 25 years, which is a year short of the end of the lease, said "You made me alter this thing to suit you," are you guarded against the expense of putting it back again?—Yes, he alters this; this is his look-out. He makes these buildings fit for us to rent and he offers them to us at what we consider a reasonable rent.

Mr. Pethick-Lawrence.

2830. My point is this: surely if you take a 99 years' lease, the tenant may very likely wish to pay the whole money, but when you are taking a comparatively short period for the Office of Works of 26 years, is it not usual in those cases for the landlord to do the alterations, in view of the fact that you have only got such a short lease?—I think it is always a matter of negotiation as to which way you are going to get your accommodation cheapest.

Sir Robert Smith.

2831. You say you were getting these premises at a figure which you considered was reasonable and would pay you. By that figure would the lessor be entirely repaid for the cost of his alterations in the 26 years or less?—I fancy he would be entirely repaid, or it would not be a commercial proposition for him to have done the job at once.

Sir Robert Smith.] Why not? As Mr. Pethick-Lawrence said, at the end of 26 years, he gets a building up-to-date, only 26 years old, which he has a chance of letting, probably at an enhanced rent from what he got before, which is done entirely at your expense.

Sir Irving Albery.

2832. Possibly they have taken the whole of the balance of the lease which the lessor has?—I think that is so.

Sir Robert Smith.

2833. That certainly would make a difference, but I was assuming the other way. The paragraph says "It was a condition of the tenancy that the lessors should bear the cost of the necessary works of adaptations up to an agreed figure." That figure might be the whole cost or not. Was it the whole cost of the adaptation or had you a certain amount to do yourselves?—We had about £200 more to do beyond that figure.

2834. You had a little more to do?—Only very little: about £200.

2835. I suppose the ordinary maintenance and repairs rests entirely upon you, does it?—Yes.

Chairman.

2836. On the second sub-paragraph I see that you assured the Treasury at the time that in your opinion there was no risk of the building becoming surplus to requirements before the end of the lease. On what assumption was that based?—On the assumption (well, in fact, we know) that we have a number of buildings on our books which will stand in at possibly higher rents than what this building does, so that by the time the new Whitehall Buildings were up, which was the primary cause of this being taken, if we found that we had no one to put in the Metropole Buildings, which does not look like being the case now, we should simply take advantage of our breaks in other buildings which were more expensive or not so convenient and fill up the Metropole again.

2837. I assume that they will fit in appropriately on the matter of time, will they? You can shift from these other buildings in there quite conveniently without interfering with present arrangements, can you?—It is a question of about 1,300 staff and it may be that there would be a little hiatus before a break in another lease fell in.

Chairman.] Are there any further questions on this paragraph?

Mr. Culverwell.

2838. Were any attempts made to purchase the building outright? It looks to me from what you suggest that you will always want this extra accommodation?—No, I do not think we contemplated that.

2839. I should have thought that might have been considered; it might have been cheaper in the long run to have bought it outright instead of leasing it?—No, we did not contemplate that.*

Chairman.

2840. Turn to page 351, Class VII, Vote 3, Labour and Health Buildings, Great Britain. On pages 351 and 352, I just want to call your attention to two figures, Sir Patrick. On page 351 the

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sum total of those figures shows an overspending of £31,064; turning over to page 352 we have in regard to sub-head O an underspending of £43,416. That is a somewhat unusual transfer, is it not, as to the amount?—Do you mean the overspending is exceptionally large?

2841. Yes?—It is an overspending of £31,000 on a total of £639,000. (Sir Gilbert Upcott.) It is a rather large exercise of virement; that is what the Chairman is referring to.

2842. It is the transfer I am referring to; you have transferred £43,000 from sub-head O in order to make up the overspending on the other side or *vice versa*?—(Sir Patrick Duff.) Do you mean we ought to have gone for a Supplementary to make up for the £31,000 overspent on part of the Vote?

2843. It might have been done that way, because it is a big sum of money?—But if I had gone for a Supplementary to make up this £31,000, I should have had a big throw up on the Vote as a whole.

2844. Still it is a substantial transfer?—(Sir Gilbert Upcott.) Virement within a Vote of this magnitude is fully within the discretion of the Treasury. I do not think the Committee as a rule would expect a Supplementary Estimate to be taken instead of virement, but they would expect a better estimate to be made next time.

Chairman.

2845. Yes, thank you, Sir Gilbert. Are there any questions on pages 351 to 354? May I take it that this Account is approved? (*Agreed.*) I propose to take these next Accounts from pages 355 to 367; that brings us down to the end of A III, but I want to ask one question, if I may, on page 360. It is in regard to item 77, Sir Patrick, "Purchase of site and erection of Divisional Offices and Employment Exchange." The note says "The scheme is undergoing revision"; £33,503 has already been spent. Could you tell me whether the revision contemplates a further expenditure, or is that £33,000 spent and you stop?—(Sir Patrick Duff.) The £33,000 represents the purchase of the site.

2846. That is the site?—Yes.

2847. But the site is no longer going to be used for the purpose for which it was bought?—Most certainly it is going to be used, but the Ministry of

Labour have been somewhat in a state of flux as to the amount of accommodation they want to put on that site. Questions have arisen as to whether they are to have accommodation for theatrical and for film workers and whether they are to take in domestic service work there, and, indeed, whether they are going to have any scheme for black-coated workers. They have not made up their minds exactly how much accommodation they want. I think, in all probability, it may be that they will want a somewhat larger site, but meanwhile we have been unable to start work because the dimensions of the needs have not actually crystallised themselves.

2848. How long have they been contemplating or cogitating on this thing?—We bought the site in March, 1935.

2849. And they have not made up their minds yet as to what they are going to do with it?—No.

2850. Are there any outgoings on the site?—No, none. Of course, they know perfectly certainly that an employment exchange and some office accommodation will be needed on that site. If it is said "But why buy the site until you knew more precisely what your requirements were?" the answer is that you cannot keep the site waiting till you have made up your mind.

2851. The note seems to indicate a change of mind of some sort—a revision of the ideas. What has caused them to change their minds?—I think the wording of the note must be a bit unfortunate "The scheme is undergoing revision." The change of mind simply is that, instead of being able to say "An employment exchange of such and such a size; so much office accommodation; get ahead with it," they say "We are thinking whether we may not have to add a new type of service here; we are not quite sure whether an employment exchange of the size we contemplated in 1934 is really going to fill our needs, and therefore you had better wait and not start building until we know a little more clearly where we are."

Sir Irving Albery.

2852. Is the work, or most of the work, which it is contemplated will take place in this new building when erected, being done somewhere else at the present time?—It is Ministry of Labour work.

2853. It is intended to erect a building on this site for certain functions to take place in that building. They are

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most of them taking place somewhere else at present?—I am afraid only the Ministry of Labour can answer that. I am not quite sure what they do for theatrical or for film workers in the way of placing, at the moment. They may have a Divisional Office staff somewhere in another part of London which they want to bring into this central part, but I am afraid I cannot answer on such domestic arrangements of the Ministry of Labour.

2854. It would be rather interesting to know if, in addition to having this site vacant, they are either renting or paying for some other accommodation somewhere else?—(Mr. Fraser.) They have a Divisional Office already and I think it is in rented premises.

Sir Irving Albery.] I should like to ask if we can have some more detailed information about the delay in making use of this site?

Mr. Pethick-Lawrence.] I should like to support Sir Irving's suggestion that we get more information about this.

Chairman.

2855. Have the Treasury any information on this at all?—(Mr. Fraser.) No, Sir. On the last point there certainly is a Divisional Office already which this is to replace and, I believe, it is in rented premises. It is in Queen's Gardens, Bayswater.

2856. I speak subject to correction, but I should think most members of the Committee will feel that there ought to be some explanation as to why there is this delay, three years have gone by now; there is money being spent on the rent for this other building and the site is being kept unoccupied. There must be an explanation somewhere?—The Treasury sanctioned this in 1934, but what the present position is, I am afraid I do not know, without inquiry.

2857. Who will find out? We should like to have a Note?—We will find it out. (Sir Patrick Duff.) I think the real answer is that the Ministry of Labour requirements have now increased so much that this site is not going to be quite sufficient.

2858. That means that they may abandon the site?—No; it will be needed anyhow for an Employment Exchange. Whatever happens it will be needed.

2859. But if they do not want it for the original purpose it might very well be that they would not want so expensive a site as this?—I think the case will be (but I shall have to get it from the Ministry of Labour) that undoubtedly this site will be needed. It had to be got when it was got because it would not be available indefinitely.

Chairman.

2860. Pages 361 to 369. I will ask the same question as we usually ask on page 369. How is this Edinburgh Office scheme progressing?—They are on the superstructure work now.

2861. How long have they been on the superstructure?—I have not got the actual times with me, but it is being built by an eminent outside architect and he was undoubtedly slowed up in his work owing to the extreme difficulty in getting draughtsmen in these days, which is a difficulty that I have experienced myself, so that he was late in finishing the superstructure drawings. We had no expenditure on the superstructure in 1936 which I had anticipated having, and that accounts for this large throw-up.

Chairman.] Are there any questions on page 370? May I take it that this Account is approved? (Agreed.)

VOTE 4.

MISCELLANEOUS LEGAL BUILDINGS, GREAT BRITAIN.

(On this Account no questions were asked.)

VOTE 5.

OSBORNE.

Chairman.

2862. Page 375, Class VII. Vote 5, Osborne. On this Vote, Sir Patrick, I believe there was discussion last year

(I was not present) and I think you said in your evidence that there was an increasing difficulty in getting the place filled with convalescent officers; is that

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not so?—(Sir Patrick Duff.) Not an increasing difficulty, but there was a disappointment that we were not able to keep every bed in the house full every day in the year.

2863. I thought you indicated that the number was declining?—No; this particular year it has gone up by about an average of two a day. (Sir Gilbert Upcott.) Sir Patrick said last year that the number of men sent to Osborne by the Ministry of Pensions was declining.

2864. Is there some new decision taken as to the kind of admissions that shall take place into Osborne?—(Sir Patrick Duff.) Yes; in this year we made our numbers of 35 which we budgeted for, but, in fact, there is room for more like 42 or 43 in the house and, as we are not getting near reaching that through the Services, in spite of having quite a good quota from the Army, it was decided that it should be made available for the Home Civil Service at home in the same way as it is available for the Home Civil Service serving abroad, and an Order in Council to that effect was passed only last week, I think.

Mr. Benson.

2865. The 35 or 40 is the daily average population and the total cost is £16,000, which works out at about £400 per head per bed. There is a museum attached to it, I understand. Does that add very much to the cost or is there a very heavy charge per bed here?—The actual division of expenditure between the convalescent home and the grounds

and the State Apartments is shown in a little Note at the foot of the page. This place can hardly be regarded as one of which the entire purpose is that of a convalescent home. I would rather put it this way, that King Edward VII left it to the Nation and the Nation being left this Palace and grounds and, so to speak, museum, to make an extra use out of it made it a convalescent home for officers as well.

2866. The question is, are we getting value for money?—I should say that we are. Osborne itself, as a museum, is a very interesting place, and increasingly interesting, and I should say that, because of the number of officers, even though they are not as many as we should like them to be, who pass through the Home and who return to duty quicker than they otherwise would, it is a very valuable asset.

2867. The question is, could that be done more efficiently and expeditiously and cheaply elsewhere?—I do not know of any place at all comparable which is devoted to convalescence.

Sir Edmund Brocklebank.

2868. What kind of things are in the museum?—Lots of pictures.

2869. Valuable things?—Things that are of a good deal of value from sentiment; a good deal of presents from Indian Princes that have been given at Indian Durbars; a great deal of the Prince Consort's collection.

Chairman.] May I take it that this Account is approved? (Agreed.)

VOTE 6.

OFFICE OF WORKS AND PUBLIC BUILDINGS.

Chairman.

2870. On page 376, Class VII, Vote 6, Office of Works and Public Buildings, there is a note DD at the bottom in regard to some cash being purloined by somebody. Could you give us some details of that?—(Sir Patrick Duff.) It was pay day in one of the depot offices and there were two clerks making up the pay into envelopes, the pay just having been brought in by the Assistant Superintendent of Works. They were, as a matter of fact, very short-handed. The Assistant Superintendent of Works was in his room interviewing someone. One of these

clerks went down to another office and one man was left behind making up the pay. He said to the Assistant Superintendent of Works "I am just going out and the other man is just in" and he walked off with the money. He was a man who had an exemplary record; he had not been with us very long but he had been in the Army for I think 13 years and for some of them in the Army Pay Corps, and his references from the Army were absolutely first-rate, so that it is one of those sad cases in which it is quite impossible to explain what came over the man.

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Mr. Peat.

2871. Was there any suggestion of collusion between the two?—No, none whatever.

Mr. Pethick-Lawrence.

2872. Had he spent the whole of this money before you got on his tracks?—I am afraid he did not get arrested, or rather hand himself over, till about three months after, and there was not any money left.

2873. In the meantime he had got rid of the whole of the money?—Yes.

Mr. Benson.

2874. What was his salary? Was that just a week's wages, £4 16s. 4d.?—It is the balance of his wages; I suppose it is a week's wages.

Chairman.

2875. May I ask the Treasury if they had anything to say on this case?—(Mr. *Brittain.*) We naturally inquired of the Office of Works how it came about that this Superintendent and his deputy should be absent, and also we raised the question whether this was really proper work for a temporary clerk. On the first question the Office of Works assured us that it was rather a chapter of unusual circumstances and that, in fact, explicit instructions had been given

which it was hoped would avoid the Superintendent and his deputy being away at the same time in future. The question whether a temporary clerk should have been allowed to handle this money raises a question whether you can, in the nature of the case, provide established clerks in all these small outlying offices. As far as possible that is done. An established civil servant is less likely to be tempted to do this kind of thing than a temporary clerk.

2876. So you are taking what steps you can to avoid this kind of thing in future?—Yes.

Chairman.

2877. May I take it that this Account is approved? (*Agreed.*) Pages 378 and 379, Summary of Expenditure. On page 379 I have one little question. You will see the summary of Administrative Expenses comes to £863,000 odd. The gross total of the Vote is £7,735,000. Could you tell me if the cost of administration is coming down as a percentage of the gross expenditure?—(Sir *Patrick Duff.*) Yes, in fact, it is coming down, though our agency fee is, for the time being, remaining the same.

Chairman.] Are there any further questions? May I take it that this Account is approved? (*Agreed.*)

VOTE 7.

PUBLIC BUILDINGS, GREAT BRITAIN.

Chairman.

2878. Page 380, Public Buildings, Great Britain, Class VII, Vote 7, pages 380 to 383. On page 383 I would like you to explain this moving of Loch Doon Castle?—(Sir *Patrick Duff.*) What happened was that the Galloway Water Power Company brought before Parliament a Bill and their proposal was to raise the level of the water in Loch Doon. That would have had the effect of submerging this interesting Castle which was in the middle of the Loch. Eventually the Company agreed that they would pay for the transfer of the interesting part of that Castle from the middle of the Loch to the shores of the Loch, which we estimated would cost them about £3,000. It was actually done under the supervision of the Office of Works at the expense of the Water Power Company, and the job, which I

have not seen but which I believe has been very successfully done, was done within that money.

2879. Within £3,000?—Yes, which was all paid for by the Water Power Company.

2880. Will you explain to us the second item in the "Receipts of other Classes" £14,145. The point that I am directing myself to really is whether it is usual for a sale transaction to take place between the Office of Works and the Post Office. Is there any reason for this?—I think it is a Treasury regulation that the Post Office have to pay. (Mr. *Fraser.*) It is due to the special relations between the Exchequer and the Post Office Fund.

2881. That is because of the new arrangement?—The fixed contribution.

Chairman.] Are there any further questions?

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Sir Irving Albery.

2882. To whom does Loch Doon Castle now belong; is it an Ancient Monument?—(Sir Patrick Duff.) I think it will have been handed over to the charge of the Office of Works as an Ancient Monument. There was a little change on this £3,000 which they very generously let us spend on laying out the ground round the remains of the castle.

Chairman.

2883. Will you be drawing the revenue from the visitors?—I hope so.

Mr. Benson.

2884. With regard to the various Ancient Monuments, have you a general policy of improving the accessibility of them to the public? In spite a number of these places for instance car-parking is very bad; there is a little castle off the main road between Lancashire and North Wales, where you have just a tiny little place of that kind, no convenience of any kind, whereas a car park would attract people and picnickers. It is agricultural land. You might get a considerable revenue?—The difficulty is the old one about money. Where we can make arrangements for a car park fairly cheaply, we always do, but in many cases it means money and, while we have so many of these ancient buildings to try to rescue from entire oblivion before they tumble down, the money we get we spend more on the actual preservation than on car parks and lavatories and things of that sort. As regards notice-boards and attracting people I have sought to get the Automobile Association to come in and help and they are helping a good deal about the country in putting up A.A. signs which are much more attractive to the visitors than Governmental signs to these places. The revenue is progressively going up.

Chairman.

2885. Are there any further questions? May I take it that this Account is approved? (Agreed.) Page 385, "Statement of expenditure on new works." Pages 386 and 387. On page 387 I have a note on two or three of these items. First in regard to item 10. Is there any progress being made now with the actual building or is it merely the preparatory work?—The demolition of part of the present buildings should be starting in June.

2886. It is merely demolition at the moment?—At the moment we are just taking out anything of value in the way of fireplaces; we are arranging for an auction and the work that this relates to here is the diversion of a sewer which ran under the site.

2887. In items 12 and 13, could you tell us something about those two items?—About the reason for there being a Supplementary on item 13?

2888. That is perhaps the best thing for you to do?—The main reason that there was a Supplementary was that the Home Office decided that they wanted to have twice as many people in the school as they had originally thought they would want.

2889. What precisely does this Manchester Factory do?—No. 12?

2890. Yes?—It makes gas masks or assembles them. (Sir Gilbert Upcott.) It does not make them; it assembles them.

Mr. Benson.

2891. Is that another one, or is that the Blackburn Factory?—(Sir Patrick Duff.) No, it is the same one. (Sir Gilbert Upcott.) This is the factory to which reference was made when the Home Office witness was here the other day. This is the money for the purchase and adaptation of it. They had the money for the use of it.

Chairman.

2892. Is item 13 a new one?—(Sir Patrick Duff.) Yes, it is the second one. Falfield was the first and this is the second.

Sir Irving Albery.

2893. Is No. 12 a distribution centre for gas masks?—No, it is for the actual assembly of the various parts of gas masks into one mask. When they are made they go out to stores.

Chairman.

2894. Page 388, item 14, "Richmond Terrace: Consideration payment to the Commissioners of Crown Lands on transfer of a site." How was the price fixed?—Estimated by the Chief Valuer.

2895. I would like to ask one other question: Sir Edmund was raising a question as to the cost of some work in the House of Commons; would you mind telling me what kind of house they have provided for this gentleman at Holyhead? Is it a mansion? £2,365?—I should have to put in a note giving particulars as to the expenditure on that.

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2896. It seems to me to be a very substantial price to pay for a house out there unless the materials are not available or anything of that kind. They may have to carry them a long way or something of that kind?—May I put in a note of the detail because I have not got the details in my head.

Sir Edmund Brocklebank.] There are always great storms on the north-west coast of Wales.

Chairman.] Yes, but we can defy the storms at a cheaper price.

Sir Irving Albery.] Is that for the building?

Chairman.] It is building a house, I take it. It is an official residence.

Sir Irving Albery.

2897. I was wondering what the remuneration of the Captain of the Port was; it gives one a pretty good idea of the kind of house he is entitled to?—I am afraid he is not on my establishment.

Chairman.

2898. Pages 389, 390 and 391. The Air Raids Precautions Department, Derby Street, Manchester, is a different thing from that which we were discussing a few moments ago, obviously, is it not?—(Mr. Fraser.) That is only a local office, I think, not a factory.

2899. The second item, Air Raids Precautions Department, tells us what that is for: "Storage of respirators," but they only tell us in the first item that it is adaptations. It is adaptations of the buildings, I suppose?—(Sir Patrick Duff.) Yes, it is adaptations of the building, but what the building is for I am afraid I do not know exactly. I think it is for offices.

Sir Irving Albery.

2900. On the item "Air Raids Precautions Department, Alperton, Middlesex: storage of respirators"; is that to be a district store or a local store?—It is one of the stores serving a district.

2901. The reason I asked was because I understood that local authorities had to make their own arrangements for storing when the respirators were handed out to them, and if that is a building, it

seemed a very small amount for one which was to handle the respirators for several local authorities. It seemed rather difficult to place what it really is?—It actually is a perfectly plain store, Sir Irving Albery.] For a whole district?

Chairman.

2902. Could you let us have a note upon that—what it is for?—Yes. You want to know the size of the district that the Alperton store is to serve?

2903. Yes, you might do that?—I can do that.

Sir Irving Albery.] £700 is an estimate for constructing a building. That is right, is it not?

Chairman.

2904. Are you constructing a building with that £700?—Yes, this is money for our engineers—an addition to a building which is being rented by us. It has been run up specially for our requirements and is being rented. The money is for certain engineering work which has been done by us.

Sir Irving Albery.] It is really an adaptation. The note by itself is rather puzzling. If "Adaptation" or something of that kind had been put in, the question might not have arisen, but by itself it is rather puzzling.

Chairman.

2905. Perhaps you will let us have a note about that?—On Derby Street?

2906. No; Alperton, Middlesex?—A note to say what district Alperton serves with the respirators it contains?

2907. Yes, and what the estimate of £700 is to cover?—I know the money is for certain engineering work: I suppose not for air conditioning but for heating in the store.

2908. Perhaps you will let us have that note, will you?—Yes.

Sir Irving Albery.] Perhaps in future the note can be made a little better; it will save time; we should not have to ask the question if we knew what it was.

Chairman.] Are there any questions on pages 392 or 393? May I take it that this Account is approved? (Agreed.)

VOTE 8.

PUBLIC BUILDINGS OVERSEAS.

Chairman.

2909. Page 394, Class VII, Vote 8, Public Buildings Overseas. Sir Patrick, you do not seem to have been very

much more lucky this year than you were last year in regard to your estimating. Previously it was an over-estimate and this time it is an under-estimate and

24 March, 1938.] Sir PATRICK DUFF, K.C.B., K.C.V.O., [Continued.
and Mr. A. G. BARNETT, C.B.E.

you have surrendered £34,000?—(Sir Gilbert Upcott.) I think the Office of Works have always explained that this is one of the most difficult estimates to get right, on account of the scattered nature of the work.

2910. That is obvious; that is quite true?—(Sir Patrick Duff.) A large fraction of that £34,000 was due almost to a technicality in regard to the payment for the site at Nanking.

2911. We are coming to Nanking in a minute. May I take it that this Account is approved? (Agreed.) Page 396: may I take Athens, which is referred to in item 1 of A.II, "Proposed Works," and item 8. It is quite obvious that they have changed their minds about this thing, have they not, because they took in regard to item 1 an estimate of £7,250 for 1936 and nothing was spent, so they must have changed their minds?—What happened about Athens was that the Legation which we had was in a part of the town which was rapidly deteriorating. We had looked about for years to find another site and eventually in despair we had said "We shall have to make the present house a little more commodious than it is." We therefore prepared plans for adding to it and for rejuvenating it, because nothing had been spent on it for years. Then suddenly Mr. Venizelos died and his admirable house fell into the market. It was offered on rather favourable terms to us, and we went for a Supplementary estimate to buy it, and we did buy it, and, of course, all the adaptation of the old house immediately became nugatory.

2912. Then we will fly from Athens to Nanking. Can you tell us something about this expenditure, Sir Patrick?—We took a Supplementary Estimate in July of 1936 for £13,000 for the acquisition of the site. We had been negotiating about this since about October of the year before. Under Chinese law, apparently, the Chinese Government have power to expropriate privately owned lands, and part of this site was privately owned lands. We wanted the Chinese Government to complete this transaction before the end of the financial year to avoid a throw-up, and the Ambassador secured a document from the Chinese Government which he thought was a sufficient guarantee of the security of their tenure. The cheque was handed over, but, in fact,

they had not got the title deeds, and, inasmuch as we were not absolutely certain that the property did belong to us, we could not pay for it. Therefore the payment fell into the next financial year, by which time they did produce title deeds that we regarded as satisfactory, but, of course, it meant that we had to delay and, instead of paying for it before 31st March, it fell over into the next year.

2913. I agree, Sir Patrick, but is it not a queer thing that you should have handed over that money without being quite sure that the *quid pro quo* you were getting by your title deeds was a sound one? I am not blaming you; it is not your fault, I daresay, but someone is to be blamed, surely?—The document appeared to bear the assurance of the Chinese Government that here was the land, signed, sealed and delivered. It seemed to be the Chinese equivalent of title deeds.

2914. But it was not all done in a day; surely they could submit that document to some legal expert to guide them on the point as to whether it was a watertight document or not?—It was eventually thought that it was not quite good enough to constitute title deeds.

2915. Yes, eventually?—And therefore the cheque was not paid.

2916. It was not paid?—No, the cheque was not cashed till about July of the following year.

Mr. Benson.

2917. I understood you to say that the cheque was handed over; did you mean handed over from the Treasury to the local Chinese representatives?—I think it was handed over from us to the Ambassador. Whether it was handed over to the Chinese Government I do not know, but if it was, it was not cashed. Arrangements were made that it should not be cashed, and it was not cashed until, as I say, three or four months later.

Chairman.

2918. Suppose we pass from that; now tell us what the present position is. Are you going to spend this £100,000 on this job now in the present situation?—No; I am afraid the situation will be that we have a site and we shall have to wait till the situation clarifies itself a little before we commit ourselves to putting further money into it.

Chairman.] I should think so, indeed.

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Sir Irving Albery.

2919. Do I understand that, if things settle down and this work goes on, it is intended to spend £190,000 on this Legation at Nanking?—It will be a large

compound with, I should think, 10 to 15 houses in it. It is not just one house, as in European countries.

Chairman: May I take it that this Account is approved? (Agreed.)

(The witnesses withdrew.)

(Adjourned till Tuesday next at 2.30 p.m.)

TUESDAY, 29TH MARCH, 1938.

Members present:

MR. MORGAN JONES in the Chair.

Sir Irving Albery.

Mr. Benson.

Sir Edmund Brocklebank.

Mr. Culverwell.

Mr. Mabane.

Mr. Pethick-Lawrence.

Sir Assheton Pownall.

Mr. Wilfrid Roberts.

Sir Isidore Salmon.

Sir Robert Smith.

Sir GILBERT UPCOTT, K.C.B., Mr. W. R. FRASER, and Mr. H. BRITAIN, called in and examined.

CIVIL APPROPRIATION ACCOUNTS, 1936.

CLASS VI.

VOTE 13.

FORESTRY COMMISSION.

Sir ROY ROBINSON, O.B.E., called in and examined.

Chairman.

2920. Forestry Commission Accounts: turn please to the Civil Appropriation Accounts, 1936, Class VI, Vote 13, page 303. Sir Roy, I see that the Forestry Fund Grant-in-Aid this year is £700,000; last year's figure, I believe, was £400,000?—(Sir Roy Robinson.) £450,000.

2921. Anyway it is a big increase in the Grant; was that connected with schemes in special areas?—Yes, the grant was increased in respect of special areas work.

2922. Could you tell us how much you spent on Special Areas schemes?—It is difficult to keep the two things exactly separate, but I can say this, that the whole of that £200,000 was not spent. If you wish to have details I would prefer to put them in.*

* Note by Witness.—The net expenditure in the year actually amounted to £655,000 and as an approximate estimate it would appear that about £120,000 may be regarded as appertaining to Special Areas.

2923. All right: could you tell us something about the progress of the schemes?—Taking it right up to date?

2924. Yes?—The first thing to do was to begin to acquire land.

2925. When did you begin?—Some-time after February of the year of the Report; that is when we got authority to go ahead, but naturally we had to set up an organisation. We have been very busy examining land and altogether we have looked over something like half a million acres; actually it is over half a million acres. We have acquired to date only 30,000 acres and we have approved (but the legal formalities have not yet gone through) another 15,000. Then, of course, there is a vast area which is under negotiation at this particular time. That is the present position with regard to the acquisition of land. With regard to the establishment of holdings, which was part of the special areas scheme, we have com-

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Sir ROY ROBINSON, O.B.E.

[Continued.]

pleted or have in construction the buildings for 100 holdings. We have approved the plans for a further 85. As regards actual afforestation work we were able to do nothing last season because we had not the supplies of plants, but this year we are afforesting roughly 3,000 acres in the Special Areas, apart from our normal programme, and that will be increased because we are now getting up a very fine supply of plants for planting. That is roughly a resumé of what has been happening.

2926. I gather from the name of it that it is a scheme for training people in the Special Areas, is it?—It is a scheme for employing people as near their homes as we can get them.

2927. Do they respond pretty well or is it too early to say?—So far as South Wales is concerned, where we have put in a number of holdings, we have been fairly well satisfied with the people we have got; they seem to be settling down. Of course the difficulty is with the older men.

2928. What is the size of a holding?—The holdings are quite small; they are the ordinary forest workers' holdings, not exceeding 10 acres of land, a cottage and garden, and some outbuildings for pigs and a cow or hens and chickens.

2929. Would these be in the uplands mostly?—Not necessarily. As a rule they are attached to the actual planting areas which are mostly hill country. Actually in South Wales, we have made a big nursery not very far from Cardiff, and we have put down I think 17 holdings there on that flat shelf along the sea coast.

2930. On item D under Payments in the Deposit Account, "Acquisition of land, buildings and timber", I see the estimate was £200,000 and you actually spent £173,216 17s. 2d. Could you indicate to us why it was that you did not spend the whole money?—We were underspent £27,000 on £200,000. It is a very difficult item to estimate the acquisition of land, because the actual amount which is spent depends so much on things like the examination of title and the completion of a purchase within the financial year; partly that and partly the land did not come along as nicely as we had hoped it would.

2931. On E, I see you spent more than your estimate on Forestry Operations.

I have been looking at the estimate, E, item 12: there was a new item there, was there not, "National Forest Parks"?—Yes.

2932. Could you tell us what that is and what is being done in respect of it?—The amount involved in that is about £5,000. It was incurred in respect of an area which we have taken in Argyllshire with the object of utilising the unplanted land for recreational facilities. It has involved the establishment of camping grounds and the turning over of certain buildings to the Youth Hostel and the opening up generally of the top land to the public. How it will work out financially I cannot tell you at the moment. It is in the nature of an experiment, perhaps. But I can say this, that the scheme has got going and the results for the first year from the public point of view at least are very encouraging. We had no less than 20,000 accommodation nights on that area (that is to say, if a man stops there two nights that is two accommodation nights) which was an increase of fifty per cent. over the previous year, so I think on the whole the experiment is going to prove satisfactory, so much so, that we have made similar enquiries in the Snowdonia region and we are also about to investigate the possibilities of the Forest of Dean.

2933. But this is the only one actually in operation?—It is the only one actually going; it is the only one I can give you working details about.

2934. I would like to ask you a question before I pass to the other page. I am interested in this problem: what progress is being made with getting hold of common lands for afforestation. I believe there are difficulties?—No progress whatever. The taking of common lands for afforestation purposes is such a formidable undertaking, that, situated as we are at the moment, expanding and very urgently requiring to get on with our job, we think it is not worth our while to waste time on it. It would require legislation, I think, in the long run. I can give you some indication of the size of that problem when I tell you that out of 588,000 acres which we investigated as *prima facie* suitable for afforestation (say 600,000 acres) no less than 152,000 or rather more than one quarter was common, so that we simply had to put that on one side.

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Sir ROY ROBINSON, O.B.E.

[Continued.]

2935. Does your answer mean, Sir Roy, that you are abandoning the idea of using common lands at all, on account of the difficulty, or is it that you do not feel prepared to go for legislation as yet?—I would put it this way, I think, that as things are at present, with so much enclosed waste land in the country, it is a better proposition, shall I say, for the Forestry Commissioners to stick to the freehold land but I think that sooner or later Parliament will have to face up to the better utilisation of these very extensive common tracts. That is the way I would put the present position.

2936. Some of this common land, so far as its geographical position and situation is concerned, would be much nearer areas that will require timber 30 or 40 years hence?—Quite; you have only to take the great massif of the Brecon Beacons which overlook South Wales. There is a great area of plantable land round them but you cannot get it because it is commonable.

2937. One other question: you see the middle paragraph on the next page, "The following amounts have been written off": there is £1,003 15s. for refund of grant for afforestation purposes; would you explain that a little to us?—That was a case in Scotland where a man had taken a grant for planting, which anyone can get, had not carried out his obligations under the grant and was called upon to refund the money. We did not get the full amount because he was bankrupt, I think, and only paid 10s. in the pound, but our claim ranked against his estate and we did recover half the amount due.

Sir Assheton Pownall.

2938. On page 304, Sir Roy, "the following loan was outstanding," £31,500; have you told the Committee about that before and in what circumstances the loan was made?—That is the Princess Royal mine in the Forest of Dean. I think I have explained to the Committee on previous occasions the whole history of that loan. (Sir Gilbert Upcott.) It has been repaid, and the repayment was mentioned last year. It was repaid in April, 1937.

2939. It has been repaid since?—Yes. (Sir Roy Robinson.) In full. (Sir Gilbert Upcott.) Sir Roy mentioned the repayment when he was before the Committee last year.

2940. I thought I had a recollection of it. You mention here the giving away of rabbits. Do you sell game at all or what do you do with game?—(Sir Roy Robinson.) We sell all the rabbits that are trapped and they are very numerous, unfortunately; they are sold where they are saleable. There might be an occasional gift of rabbits to people who have been helpful to us.

2941. But normally you sell them?—Yes, they are all accounted for.

Mr. Culverwell.

2942. Under F you have an estimate of £47,600 and spent £28,594 14s. 5d. Did I understand you to say that the explanation for that was that you could not get the trees?—No; sub-head F is for the establishment of Forest Workers' holdings; I can only say that that was a bad estimate, for we did not get on as quickly as we ought to have got on.

2943. I thought you put it down to the fact that you could not get the trees?—No, sub-head F makes provision for building cottages and forming forest workers' holdings. It is tied up in part with the provision of sufficient land. It is dependent, for example, to some extent, on sub-head D, there was a deficiency there; but, apart from that, we did not make the progress we hoped to have made and ought to have made.

2944. Is it because you cannot get hold of suitable applicants or because you had not got the land?—No; the explanation which we offer to you in the notes is that progress was delayed by weather conditions, but perhaps that is a little too categorical. There were other things as well.

2945. You said you could not make as much progress as you had hoped because of the lack of trees?—That was in the planting programme.

2946. Where do you get the trees: do you grow them all yourselves?—We raise them all ourselves. It takes us at least three years to raise suitable trees and you cannot improvise a three year old tree in a year; you have to go through with it from the seed beds to lining them out and that takes three years. As I explained earlier we are now in a very satisfactory position with regard to supplies of small trees.

2947. One other question that I asked last year, about Halton Moor, the land belonging to the Air Ministry at Tring; you then told me you had consulted

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[Continued.]

with the Air Ministry and you were going to take over that land; have you done so?—I cannot tell you whether we have taken it over, but I can tell you that, so far as my knowledge goes, the whole of the formalities for taking it over are completed.

2948. It seems to take an unconscionable length of time; we spoke of this in 1934, I think; I am not sure?—If I may say so, there are complications in taking over a place like that, especially in these days when you do not know what you may want a piece of land for, if it is attached to a camp. I myself, although I have been directed to take it over, would not press things too hard at this stage. They may want to burrow into the hill or anything in these days. Only yesterday I saw a great hole in the ground which I was told was wanted for War purposes and though I did not like it there is nothing more to be said. For that reason I think, provided the thing goes forward, we might be allowed our time to make the necessary and reasonable adjustments.

2949. I do not want to press the matter, but we had a long discussion about it, as I expect you remember?—Yes, I remember.

2950. And we came to the conclusion that it was not being properly utilised and last year you said the Air Ministry agreed to turn those woods over to the Forestry Commission?—That was so and still is so.

2951. And in effect it would be under your management?—Yes, but one or two points have come up since, as to the sort of thing I have mentioned. (Sir *Gilbert Upcott*.) Apart from the details, it is a matter which, as a formality, requires an Order in Council. (Sir *Roy Robinson*.) The provision is made in the Transfer of Woods Act for that Order to be made.

Sir *Edmund Brocklebank*.

2952. You are pretty well off for plants now, but what will you do when you have a surplus, as you probably will have?—In that event we shall have to destroy them when they are quite young. It does not cost much to raise little plants; you begin to spend money on them as they grow bigger, and this year, unfortunately, we have had to destroy 1,500,000 little seedlings, but it is incidental to large scale production.

Mr. *Benson*.

2953. What price per acre are you paying now, on an average?—I can give you the figures for the last year. The all-in price was £5 per acre taken on the plantable area; that included any agricultural land, any buildings and any unplatable land, the total divided by the area of plantable land. If you value the plantable land stripped of everything, buildings, timber and everything else, the price was £3.

2954. Is the price moving up against you at all, or are you maintaining the price?—No, I do not think it is. It fluctuates naturally from time to time but it always seems to come back round about that figure.

2955. Is the moorland land in the Pennines no use to you?—The Pennines are a very difficult proposition from our point of view; the southern end is in the smoky area which does not help the trees to grow. A lot of the Pennines is very elevated and when you get further north into the Durham country a great deal of it is subject to common rights so, although we have tried hard to get land in the Pennines, we have been quite unsuccessful.

2956. What about Ennerdale, are you still developing there?—We are still planting at Ennerdale.

2957. Does it ever happen that you and the Royal Air Force want the same beauty spot?—No, I think they get all the beauty spots and we are left with the remainder.

2958. With regard to forest produce, on page 303 it is given as £187,507—forest produce and rents?—Yes.

2959. On your Trading Accounts I cannot make it quite come to that amount?—(Sir *Gilbert Upcott*.) It is for different periods; you could not possibly reconcile them.

2960. They are both for twelve months; does that mean that there has been a large increase recently? There is roughly £130,000 or £140,000 in your Trading Account which ends in September, 1936; this Account ends in March, 1937. They are both for a year; does that mean that since September, 1936, you have sold more than normal?—(Sir *Roy Robinson*.) No, there is a steady increase but there is nothing exceptional. Nothing to which I need draw attention, I think.

Mr. *Benson*.] It seems rather a large discrepancy.

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Sir ROY ROBINSON, O.B.E.

[Continued.]

Sir Isidore Salmon.

2961. I should like to understand, Sir Roy: you told Mr. Benson that the average price of plantable land was £3; is that correct?—Stripped of everything.

2962. But, if I remember correctly, you told the Estimates Committee a year ago that the price of plantable land averages £2 11s. 9d. an acre?—Yes.

2963. Is there any reason for the increased sum?—There is apparently an increase of 10s. or 8s. 3d. I think it is probably due to the fact that we are operating rather more on the Special Areas and we wanted to get on with the job.

2964. When you say you want to get on with the job, I understood you to say also that it takes three years for you to grow suitable trees for you to plant?—Yes.

2965. How many years do you anticipate it will be before you will be able to plant the necessary trees, if you acquire the amount of land you hope to acquire in the Special Areas?—We shall get at it. I think we are doing over 3,000 acres this year. If we have the land we shall do 6,000 next year and work it up in a progression of that sort.

2966. What is the amount of planting you can do with your present stock in the next three years in any particular year?—On our present stock of plants?

2967. Yes?—I have not worked out this naturally and I have to call on my memory, but I should say, provided we have the lands, the labour, the supervision and everything else we might very well work our planting programme next year up from 25,000 acres this year to 28,000 acres, and the year after to 31,000 acres, but I do not promise those figures.

2968. But that is really your maximum possible output?—If you wish to know what our maximum possible output is I would like to sit down to it, but if you ask me what I think, as a reasonable man, we can do, those are the figures I give you.

Mr. Benson.

2969. How many trees per acre do you plant?—The average is about 1,800.

2970. Have some to be weeded out as they grow?—Yes, the ultimate number will perhaps be 180 to the acre.

Sir Isidore Salmon.

2971. Dealing with the question of planting, I suppose your experience has proved that a certain amount of planting has not been up to expectations?—Quite; we are only human in that respect.

2972. Do you find that that adds to any large extent to the cost of planting per acre?—Yes, I think you can say that any work which is an initial failure always costs a great deal more to put right and to bring into proper condition. That is particularly true when you are dealing with any biological work; if anything goes wrong you have to pay for it afterwards.

2973. When you give a figure of what the value of your plantable land is, have you taken into consideration the loss up to that particular date?—The cost of our plantations?

2974. Yes?—Yes, that is taken into account.

2975. So one year may vary from another?—Yes, quite. If you get a good year your losses are small; if you get a bad year, a drought year, up they go.

2976. They go up much more than you ever anticipate?—Yes.

2977. What is the proportion of hard wood and conifers that have been planted?—I can give you the figure for this year; we are planting something over 25,000 acres in all and the area of hard woods is just over 3,000 acres; it is 12 per cent.

2978. Would it be fair to say that it is the same ratio on the land you have already planted?—No, it is an increasing ratio.

2979. Of the existing plantations, what would roughly be the percentage of hard wood?—I am afraid I have not got that in my mind, but I can say that, whereas the proportion this year we will say is 12 per cent., it was less last year probably and less the year before. We are gradually increasing the proportion.

2980. From the vast experience you have had how much land is now producing saleable timber?—It is not easy to answer that because any plantation is producing saleable timber, although the material may not have got to saleable size, but if you ask me this question: "How much of it has got to utilisable size, how much of it is pit prop size, for example?" I cannot give you that specifically, but I can say it is a relatively small proportion.

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Sir ROY ROBINSON, O.B.E.

[Continued.]

Chairman.

2981. It is too early, is it not?—It is too early.

Sir Isidore Salmon.

2982. As to that which has got near it, have you satisfied yourself that it is up to your original programme and what you thought would eventually result from the planting?—You mean the rate of growth?

2983. Yes?—The rate of growth is very pleasing.

2984. Is the price you are getting the figure you thought you might get?—Yes; of the stuff we have been able to sell (naturally it is not much) we are quite pleased with the prices and the demand.

2985. When you say you get 3½ per cent. on your money, you think you will get it by the experience you have had of timber that you have sold at the price?—Yes, it is rather better than that 3½ per cent. basis, as far as we have gone.

Chairman.

2986. I am interested in the last discussion. What timber do you sell?—We are selling of course from the old Crown Woods which were turned over to us, some 60,000 acres; we are selling all sorts of timber; we are selling oak which was grown to supply the Navy.

2987. But nothing you yourselves have put in?—No, nothing we have planted. We are selling telegraph poles, sawn timber and pit props; but from our own woods (by which I mean the Commissioners' woods) the only things that we are selling are pit props in small numbers and a good deal of small stuff like pea sticks and bean sticks and fencing stakes, but with an amazing variety of markets opening up as we investigate.

2988. Have you got a market for these small plants that you speak of?—Only as Christmas trees; I think we sold about £5,000 worth of Christmas trees last year.

Sir Assheton Pownall.

2989. About how long will it be before an appreciable proportion of your post-war plantings will come into commercial sale, as it were?—You mean by that, which would be available, we will say, as pit props?

2990. I do not mind what the purpose is?—That is the first useful purpose which our plantations will serve; they

will be a reserve against emergency in the case of pit props; out of them will begin to come small timber, small poles for rustic work, fencing posts, pit props.

2991. About when?—It is beginning now.

2992. About 17 years after the original planting?—After 17 years.

2993. And after 30 years or so there ought to be an appreciable amount?—After 30 years there ought to be quite an appreciable yield of pit props, fencing material and so on.

Mr. Benson.

2994. You said you are selling off from the old Crown Woods. Do you take an area and denude it or do you just take a tree here and there and maintain the woods?—There are various ways of doing it. For the most part it is clear felling in a small area and replanting or natural generation. In some of the small areas we do what you suggest, take out a crop and let the young crop come under it and finally remove the last of the old ones.

2995. You are retaining the amenities as far as possible?—As far as we can.

2996. If it is a case of amenity or sales, which is the more important to you?—That is a dilemma which does not exist in practice. If the work is nicely done it need not be ugly.

Sir Robert Smith.

2997. Last year you told us you had sold a great deal more of the younger stuff; I understood last year that it was from planting which you had done yourselves?—We were making a beginning then.

2998. That is what I thought you told us. Has the market kept up just as well?—Yes, there has been a good market over the last year.

2999. I notice your sales are up from £30,000 to £42,000?—Yes.

3000. Is that mostly of old timber, oak or otherwise in the Government forests?—Yes, the main return from forest produce is from the old Crown Woods, but now our own plantations are beginning to take a very slight hand in it.

Sir Robert Smith.] Can you tell us roughly what will be the return from the wood which has been planted by yourselves?

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Sir ROY ROBINSON, O.B.E.

[Continued.]

Chairman.] Are you asking questions on the Trading Accounts?

Sir Robert Smith.] I thought we were on the Trading Accounts.

Chairman.] No, we are not; I thought you had anticipated me a little.

Sir Robert Smith.

3001. On page 304, what was the gift of 120 rabbits? For what purpose was that gift accepted? I should have thought they would have been obtain-

able without gift. I am told they were given away; they are not gifts received?—I am informed that we acquired an estate on which the owner previously gave 100 odd rabbits to a school and it looked a little abrupt to stop doing it. (*Sir Gilbert Upcott.*) It was in Aberdeenshire, *Sir Robert.*

Chairman.] One should never look a gift rabbit in the mouth. May I take it that this Account is approved? (*Agreed.*)

TRADING ACCOUNTS AND BALANCE SHEETS, 1936. FORESTRY COMMISSION.

Chairman.

3002. Turn to the Trading Accounts; pages 74 and 75. I want to compare page 75 with page 77 for a minute, *Sir Roy.* It is merely to direct attention in a way to the item in respect of transfer from Insurance Account in respect of loss of plantations by fire, which was £18,808; then turn over to page 77, Insurance Account: you started with a balance of £17,433?—(*Sir Gilbert Upcott.*) A debit balance.

3003. A debit balance of £17,433, yes. Then there were losses of £18,800, the provision made during the year was £15,425, and so we come to the net amount of £20,823. Have you anything to say upon that point?—(*Sir Roy Robinson.*) On the face of it it would look as though we are not making enough provision, but we adjust the insurance rate from time to time, so that over a period of years the thing comes out about square. I find that going back and taking the years 1934 to 1937, that is four years, our losses worked out at £33,400 and our provision was £54,000, so that, although we may lose one year, it is our intention to keep the account square by increasing or diminishing the rate as may appear necessary.

Sir Irving Albery.

3004. Over what period was that?—That is over four years.

Chairman.

3005. Have you been troubled very much with fires?—Yes, we have had a dreadful year this year.

3006. In the year of account?—No, the current year. (*Sir Gilbert Upcott.*) The rate was put up in 1935.

Sir Isidore Salmon.

3007. *Sir Roy,* you say you have had a dreadful time this year. Will the amount of money that you have got surplus in your Insurance Fund be eaten up by the damage this year?—(*Sir Roy Robinson.*) No, I think our present rate of premium is sufficient even to cover the present year, but there is a deficit which we are overtaking as shown in this Account.

Sir Irving Albery.

3008. You have not any surplus Insurance Fund, have you? There is a debit?—We have a debit.

3009. You have no surplus?—But take the year 1937, I will give an extreme example; our losses were only £2,700 but we made provision for £17,000.

Sir Isidore Salmon.

3010. Would it not be wise, having regard to your experience, to get someone (I do not know which Department it would be) to advise you what would be a reasonable charge for insurance every year so as to meet the ups and downs you have to meet?—This is fixed after consultation with the Treasury.

Chairman.

3011. And quite recently?—It was last adjusted in 1935; it was raised from 2s. 6d. to 4s. per cent., but, of course, when you get a fluctuation of 300 or 400 per cent. in your losses, as we do, according to the season, it is purely a matter of trial and error to get the thing right in the long run.

Sir Irving Albery.

3012. It seems to me that in an Insurance Scheme one would make the rate in the early stages considerably

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Sir ROY ROBINSON, O.B.E.

[Continued.]

heavier than the anticipated loss until one had a reserve in hand, and then bring it down?—My own opinion is that we shall get to that stage pretty quickly.

Sir *Isidore Salmon*.

3013. Have the Treasury any point on that?—(Mr. *Brittain*.) The Forestry Commission are in close touch with us. The rate was raised from 2s. 6d. to 4s. per cent. in 1935, and in a year or two's time, if even that increase does not prove to be sufficient on experience, then no doubt we should consider with the Forestry Commission whether to raise it again. (Sir *Gilbert Upcott*.) It appears from the Commission's records which I have seen that the experience of the last 16 years has included about twice as many droughts as one would expect on the experience of the previous century or so. They have had a very unfortunate experience in those 16 years.

Sir *Irving Albery*.

3014. Is that due to the fact that people get about more?—(Sir *Roy Robinson*.) I do not think it would be due to that. In the last 10 years we have had four bad fire years—1929, 1933, 1936 and the present one, 1938. The thing that makes it difficult is a period of prolonged drought with east winds when the whole countryside gets inflammable.

3015. What is the biggest surplus you have ever had on Insurance Account?—I could not tell you that.

3016. Have you a rough idea? I take it that when you do not have so many fires you have a surplus. In which year did you have the biggest surplus, and how much was it?—I can give you that. In 1937 the damage was just over £2,000, whereas the financial provision was £17,000.

3017. That is not what I meant?—You mean the fund as a whole.

3018. Yes; I meant in what year had you the biggest surplus in the Insurance Account?—That I cannot tell you. I will put in the figure, if I may.* Naturally I have not got the whole Account at my fingers' ends.

3019. The only point is that we seem to be having to increase the insurance to reinstate the Insurance Fund, and it seems to me that the process ought to have been the other way—the rate of

* See Appendix 12.

insurance ought to have been sufficiently high to build up a reserve, and we now ought to be decreasing it?—May we look into that, Sir?

Chairman.

3020. Certainly.—We will take it up perhaps with the Treasury and see whether any further adjustment is necessary.

3021. And bring it up next year?—Yes; we will bring it up next year.

Mr. Pethick-Lawrence.

3022. I suppose, as the plantations are growing, the value of the plantations is very much greater and, therefore, quite apart from the rate, the amount of money you are having to credit to Insurance is continually increasing year by year?—Yes; that is so.

Mr. Benson.

3023. On this Insurance question, the Comptroller and Auditor General has told us that they have had double the number of droughts in the last 18 years, and apparently the Insurance Fund is only 1½ premiums down after a very unusually bad period. It seems to me that, whoever is responsible for the fixing of premiums, has been extremely accurate?—Of course, this is not the whole story. The cost of a fire to you is not only the actual damage that is done. You have to include in it the cost of protection. There comes a point when it does not pay you to incur the cost of protection. It is better to have a fire occasionally, and that would have to be taken into account. There is no money involved in this. It is a paper transaction. It is not altogether a question of drought years, numbers of fires, and so on. There is also another factor, that we have increased our efficiency in fire protection. If I were to attempt to give you a statement of the whole position, I should have to take into account the cost of that extra fire fighting equipment, organisation, and so on.

Mr. Wilfrid Roberts.

3024. On page 75, the sales are increased £12,000. Is that an increase of output or is it mainly attributable to the increased value of timber?—"Sales of Forest Produce, £42,000"?

3025. Yes?—Yes. There was an increase in sales due to more timber being sold, in part: due to better prices, in part.

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Sir ROY ROBINSON, O.B.E.

[Continued.]

3026. Another item of income is: "Farming, £1,975". Do you farm on your own account as well as creating the forest holdings?—No, we never farm a farm as such if we can possibly avoid it. Sometimes we have to take and manage a sheep farm with sheep stocks on it, but if we can possibly get out of it we do not do that. It is not our business.

3027. What does this item stand for, this £2,000?—Undoubtedly due to the fact that we had sheep farms in hand.

3028. Are those carried on at a profit?—No, that is one reason why we like to get out of them as quickly as we can; we estimate in our working expenses that we are not going to make a profit on our sheep. In fact, we estimate that we are going to make a loss and that loss is carried to the capital cost of the land when we are making acquisitions.

3029. Are the total costs of farming shown on the opposite side as £4,813; is that the figure? That is half way down the page. Can one compare those two figures? It is under miscellaneous expenses?—I have the figures. I am asking myself whether they are strictly comparable as expenditure and receipts. I prefer not to answer that question with a yes or no, if I can avoid it.

Sir Irving Albery.

3030. Going back to the question of fires, is there any appreciable difference in the amount of fires you get in those parts of your forest where you have forest settlers and those where you have not?—No, I do not think so; I cannot think of any reason why there should be.

3031. I thought perhaps you might have less loss where you had settlers because they would be at hand to put out fires?—Yes, one would expect that but it is very difficult to generalise on matters of that sort.

Chairman.] May I take it that this Account is approved? (*Agreed.*) Pages 78 and 79, "Income and expenditure account". Are there any questions? May I take it that this Account is approved? (*Agreed.*) Pages 80 and 81, Forest Workers' Holdings Account.

Mr. Wilfrid Roberts.

3032. Is the net loss on creating these holdings £29,394?—Yes, that is the loss when full interest charges are incurred. You can put it this way, that the holdings pay for themselves, but do not pay for the interest. That is about what it

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amounts to. (*Sir Gilbert Upcott.*) In other words, there is no return on the capital. (*Sir Roy Robinson.*) There is no return on the capital.

3033. Are you finding these holdings a success; I had an idea now that the technique of Forestry was changing and that your workers are tending to be employed all the year round?—There is a tendency that way, because rural labour is getting difficult these days and unless you can keep a man going all the time and he has got a house, he is apt to go off on munitions or aerodromes or something of that sort. These holdings are a great stand-by to us and I think, sooner or later, they will have to be developed much more extensively than they have been, which, at the right time would be a good thing, I think.

3034. Can you give an estimate of what an average income from the holding is for the men concerned? Do you know what they get? Have you any estimate of the extent to which they supplement their wages?—No; you have to get the information from the holder himself and, although we have some accounts of people who are doing well, we have not enough to give a complete story. So much of the produce of a holding is consumed on the holding itself and is not given a cash value by the producer, who is the consumer.

3035. Why do you really think they ought to be extended?—I was thinking of it more from the point of view of working the forests. We find, as our plantations grow up, we want stabilised labour and we want more than we anticipated we would want.

Sir Isidore Salmon.

3036. What about the distance going from place to place as you spread apart; would it not be rather difficult?—They can get a long way on bicycles; a man will go four or five miles on a bicycle to work.

Mr. Wilfrid Roberts.

3037. I should have thought you would have had a more continued stable labour force if you were able to employ them all the year round instead of expecting them to survive on rather small holdings for a part of the year with a rather uncertain income?—Yes, it works both ways, I think; some men like to have time to work their holdings and

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Sir ROY ROBINSON, O.B.E.

[Continued.]

to have their steady wages, when others do not care so much about their holdings and prefer to work full time in the woods. It depends on the man and it depends even more on his wife, what happens on a holding.

Mr. Benson.

3038. How would you pay your men? Are they paid on an hourly rate or a weekly rate?—In Scotland they are paid for the most part on an hourly rate and in England and Wales on a day rate.

3039. You employ the men just as you want them and turn them off when you do not want them?—Not quite as abruptly as that.

3040. They know naturally, roughly, what it is going to be, but there are periods of the year when they merely live on their holdings and you make no wage payments to them?—That is so. If they do not work for us, if they are working on their holdings, they are not paid by us. Generally you can see your work three months ahead and the men know roughly where they are.

3041. During what period of the year will they work for you?—Some will work full time and some will work half time and it is anything between the two extremes.

Mr. Wilfrid Roberts.

3042. Are the wages based on the agricultural rate of wages?—Yes, it is rather better than the agricultural rate. We have what we call a standard minimum rate, which is 37s. a week, which is well above the agricultural minimum except in one or two industrial counties. Over and above that workmen are given an opportunity to earn another 25 per cent., say, 45s. by piece-work wherever possible.

Sir Irving Albery.

3043. Do these holders pay rent for their holdings?—Yes.

3044. What rent?—An average rent of about £14 a year.

3045. That is, I take it, the item in the Accounts "Rents receivable"?—Yes.

3046. I do not know whether you think I ought to ask you this, but you may be able to answer. Compared with the farm holdings this is a much more economical way of setting people on the land as regards capital outlay and so forth?—I have not followed the farm settlements in great detail, but the great

merit about this is that the man has two strings to his bow; he can produce on his holding and he is certain of a wage; that is to say, whatever happens there is cash coming into his home.

3047. The capital outlay is not big?—The capital outlay is small.

Sir Isidore Salmon.

3048. Does he pay rates in addition to the £14 a year?—Yes, I think so, in most cases. Mr. Chadwick tells me that we pay the rates, but I was not quite sure about that.

3049. What does it cost the State in the way of the amount of money? They have put up the building to start with, for the man; it has cost X pounds?—You can say the settlement of a man on these terms costs £500.

3050. The capital sum?—That is the capital sum. That is the outlay on the houses and buildings. Let us put in another £50 for things I have not reckoned. The account shows that if the fund is in by that amount it will keep itself going.

3051. What was that?—The holdings account will not pay you interest on that £500, but it will not cause you any loss. I think you can deduce that fairly.

3052. By an income of £14 a year that balances it?—Yes, that keeps the thing going but does not pay interest on your capital.

Mr. Wilfrid Roberts.

3053. That £500 includes land and buildings?—No, I put on the other £50 in case I had missed out anything. It includes buildings and land.

3054. Not the man's house, of course?—Yes.

3055. Where he lives?—Yes.

Sir Robert Smith.

3056. £500; may I ask the size of the house?—A cottage.

3057. What does the cottage contain?—I think the best thing for me to do would be for me to send you a plan.

Sir Robert Smith.] As far as we know the cost of building at the present time, for a cottage which would meet the requirements of agricultural workers at the present time, £500 would go nowhere.

Sir Isidore Salmon.] No.

Sir Robert Smith.] For agricultural workers.

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[Continued.]

Sir *Isidore Salmon*.

3058. Not in England?—There is a further explanation. The figure I gave you, £500, includes not only the new cottages but also what we call re-constructed cottages. There are a certain number of cottages which come to us in the purchase of an estate which are not up to the mark.

Sir *Robert Smith*.

3059. The new cottages?—They cost on the average £690 whereas the adapted ones cost only £340.

3060. What is the size of that £690 cottage; how many rooms does it contain?—There are several types, but, speaking from memory, three bedrooms, a sitting room, a bathroom, a w.c. and a larder.

Sir *Irving Albery*.

3061. Detached?—In pairs very often.

Mr. *Mabane*.

3062. They cost more in Scotland than in England?—Yes.

3063. Why?—More remote. More difficult to get labour to the places and all that sort of thing; I could add other causes.

Sir *Assheton Pownall*.] Higher wages.

Chairman.

3064. Sir *Isidore Salmon* asked about rates; whether you pay or the tenant pays, would you have the benefit of derating as a producer?—You have rather stumped me. I do not want to give a misleading reply and I think the best plan would be if I put in a note.

3065. It is not very vital; it is just a matter of interest?—It is different in

England and Scotland; in England and Wales the agricultural land is certainly derated; there have been attempts, I know, on the part of the rating authorities to extract a little more in the way of rates out of these places, but we have resisted it. (Sir *Gilbert Upcott*.) Rates would not be payable on the land; they would be payable on the house. (Sir *Roy Robinson*.) It depends whether it is considered as a residence or part of the farm.

Mr. *Benson*.

3066. I cannot understand these accounts; rents receivable £18,000 and rates and taxes £249. The rates supposed to be paid on these cottage holdings certainly do not appear on these accounts?—Which page are you looking at?

3067. Pages 80 and 81, Forest Workers' Holdings. You do not appear to be collecting the rates with your rents?—I think it is practically all derated and that £249 19s. 5d. refers mainly to Scotland, where the procedure is different.

3068. A farm house where a farmer lives himself is not derated, surely? He pays rates on that but not on his agricultural buildings or lands, but he pays rates on his house?—Yes.

3069. Surely you do not get any different treatment on the actual houses in which your tenants live?—I admit I am not very fluent on this particular point and I would prefer, if you would let me, to put in a note.*

Chairman.] Yes, Sir *Roy*. Are there any questions on pages 82 and 83. May I take it that these Accounts are approved? (*Agreed*.)

(Sir *Roy Robinson* withdrew.)

CIVIL APPROPRIATION ACCOUNTS, 1936.

CLASS VII.

VOTE 9.

ROYAL PALACES.

Sir *PATRICK DUFF*, K.C.B., K.C.V.O., and Mr. A. G. *BARNETT*, C.B.E., called in and examined.

Chairman.

3070. Page xxvi, Office of Works Accounts, Civil Appropriation Accounts, paragraph 53 of the Comptroller and Auditor General's Report, Class VII, Vote 9, Royal Palaces. Sir *Patrick*, could you tell me whether you regard

the £20,000 referred to in this paragraph as earmarked for internal works?—(Sir *Patrick Duff*.) That is so. It is for internal works.

3071. It is earmarked, is it?—Yes.

* See Appendix 13.

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and Mr. A. G. BARNETT, C.B.E.

3072. Could you tell us how much, in fact, was spent in this year?—Of the £20,000?

3073. Yes?—£18,179. (Sir Gilbert Upcott.) I do not know whether Sir Patrick understood you to mean that the £20,000 was earmarked in the year in question or was intended to be permanently earmarked for internal works.

3074. Did you so understand it, Sir Patrick?—(Sir Patrick Duff.) Yes. This £20,000 represents the old Civil List, Class IV, which was simply for the Sovereign's residential expenses.

Sir Isidore Salmon.

3075. Per annum?—Yes. Almost all of it goes in internal maintenance. It is the figure that has been arrived at over a number of years, and the proposition is now, instead of calling it Civil List, Class IV, to add it to Grant-in-Aid, and that it shall be kept separately in our books for internal maintenance alone, exactly as it was before.

Chairman.

3076. So I understand it quite correctly, that you interpret it as being specially earmarked for internal purposes?—Exactly. (Sir Gilbert Upcott.) It is an important point to me as an auditor, because in the Grant-in-Aid the figures appear as one lump sum of £65,000 a year.

Sir Isidore Salmon.

3077. Does that mean that the Grant-in-Aid of £65,000 must be spent in the year under review, or may any remnant be carried from one year to another?—(Sir Patrick Duff.) No; we have always carried forward any remnants both on the Grant-in-Aid side and on the Civil List, Class IV, side: so that in future, although the Grant-in-Aid is now £65,000, covering £45,000 which it was before, plus the £20,000 Old Civil List, anything that is saved on the £45,000 is carried on into the next year and anything saved on the £20,000 is carried on into the next year.

Mr. Mabane.

3078. Is the £45,000 for expenditure on other than internal works?—The £45,000 is for external works.

3079. The point raised by Sir Gilbert Upcott is the one that was worrying me as I looked at the Grant-in-Aid Account.

You say you spent £18,179 out of the £20,000?—Yes.

3080. Ought not that balance of £1,821 to be carried forward separately?—It will be carried forward separately.

3081. It is not plain from this Grant-in-Aid Account?—(Sir Gilbert Upcott.) Not from the Grant-in-Aid account.

3082. I was trying to find out where that balance of £1,821 was?—(Mr. Fraser.) It is carried separately in the Office of Works books and Sir Gilbert always has access to that particular sub-account.

3083. If we are responsible for seeing that it is so spent ought not we to see it there? Ought not the Grant-in-Aid account to be split up into £45,000 and £20,000 and separately carried forward? There would be no difficulty, would there?—(Sir Patrick Duff.) There would be no difficulty whatever. It is kept entirely separate in my office.

Mr. Mabane.] Do you not think we ought to have that?

Chairman.

3084. I wanted to ask a question on page 399 with reference to the second half of this paragraph. I see that that £17,361 referred to on page xxvii is not spent. Is it to be spent, can you tell me, Sir Patrick, or is it kept in reserve?—No; a good part of it is spent. There was the balance from the Old Civil List which had accumulated all through the years of King George V Reign and the Civil List Committee said "There are sure to be a lot of new works that are required on the change of Sovereign. This balance had better be handed over to be used as what one might call a nest egg to start off the new Reign with" so it is an extra to the annually voted £20,000.

Sir Isidore Salmon.

3085. So it is a non-recurring item?—It is a non-recurring item.

Chairman.

3086. Extra to the £20,000 plus the £45,000?—The £45,000 is something quite separate; that is the external Grant-in-Aid.

3087. On page 399 they are merged and they make that £65,000; is that so?—(Sir Gilbert Upcott.) They are merged in the Grant-in-Aid Account, but I gather they are kept separately in the books. (Mr. Fraser.) Although they are merged in the Grant-in-Aid Account

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[Continued.]

the Office of Works do keep the £45,000 and £20,000 separate in their books. (Mr. Brittain.) Also the extra £17,000.

Mr. Benson.

3088. Is Frogmore a National property or a private property?—(Sir Patrick Duff.) It is State property.

Sir Assheton Pownall.

3089. Is it in personal occupation?—It counts as personal occupation although it is not in fact occupied, the truth being, I think, that there are a good deal of defects in the house and it would be very expensive to put it into commission again.

Mr. Benson.

3090. York House, page 400, accommodation for the Duke of Gloucester, is that National property?—It is part of St. James' Palace.

Chairman.] Are you on page 399?

Mr. Benson.] Page 400.

Chairman.] Let us finish with Mr. Mabane's point.

Mr. Mabane.

3091. Would not it be quite easy to show those two items separately, the appropriation of the £45,000 and the £20,000, if they are for quite separate purposes, otherwise we, or our successors, would not know whether any balances had been confused or not?—It would be perfectly simple. They are kept separate and always have been in the books in my office.

Mr. Mabane.] Might I ask that that should be done.

Sir Isidore Salmon.] On that point I should like to say, for all practical intents and purposes, if any item left over as a remnant of the £45,000 or £20,000 can be used for the next year, what is the advantage of keeping them separate?

Mr. Mabane.

3092. It cannot be. That would be a breach of the undertaking, if you used that surplus of the £20,000. You have this year £1,821 left over. It would be quite improper to spend that £1,821 next year on external works, would it not?—(Mr. Fraser.) The Financial Secretary at the Palace would object to it very strongly.

Mr. Mabane.] That may be, but it is our duty to object.

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Chairman.

3093. What about Parliament?—The Treasury's and the Public Accounts Committee's interest is to see that the £20,000 is not exceeded.

Sir Isidore Salmon.

3094. That is what I thought?—The arrangements adopted do secure that end; whether the Public Accounts Committee want to see the thing not exceeded in black and white is another matter.

Chairman.

3095. Mr. Mabane's point, as I understood it, was this; he will correct me if I am wrong; supposing the £20,000 were not entirely expended, shall we say £2,000 was left, could that £2,000 be transferred to the external expenditure?—No.

Mr. Mabane.

3096. And if what Mr. Fraser says is correct, we have no interest in the Grant-in-Aid Account. If he says we have no interest in seeing the Grant-in-Aid Account—?—I did not say that.

3097. I thought you said our only interest was to see that the £20,000 was not exceeded?—I think that was the intention of the Select Committee on the Civil List, to see that this £20,000 went on in another form, but went on in exactly the same conditions as it had been paid on the Civil List before.

3098. Then I cannot see the relevance of your remark that it is not our duty to satisfy ourselves that a surplus of say £2,000 in one year is not expended in some improper way in the next year. You said the Palace would object and that would be sufficient and that we had no concern with it?—No, I did not want to suggest you had no concern.

3099. Those were your words?—But that it was unnecessary to feel any concern about it because, if anything like that were tried on, the Financial Treasurer of the Palace would step in at once.

Chairman.

3100. I am not concerned with what the Treasurer might think but what is the position of Parliament?—(Sir Gilbert Upcott.) In view of what has been said to-day it would seem to be my duty at once to draw attention to any transfer of money from one head to another.

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29 March, 1938.] Sir PATRICK DUFF, K.C.B., K.C.V.O.,
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[Continued.]

3101. That is to say you think it would be improper?—In view of what has been said to-day. (Mr. Fraser.) It is agreed on all hands that it would be improper and the Office of Works have assured us that it will not be done.

Mr. Mabane.] Sir Patrick has said it would be easy to show the Grant-in-Aid in two parts; I would ask that it shall be done in future.

Chairman.] We shall have to decide that when we come to our Report. Turn please to pages 398 and 399, Class VII, Vote 9, Royal Palaces.

Sir Isidore Salmon.

3102. Under the heading G, "Rents": rents for what?—(Sir Patrick Duff.) It is a rent for Schomberg House in Pall Mall.

Chairman.] Are there any questions on pages 398 and 399? May I take it that this Account is approved? (Agreed.) Statement of expenditure on new works, page 400.

Mr. Benson.

3103. York House: who is it that authorises, say, the Duke of Gloucester to live there and who decides how much the Duke of Gloucester shall spend on it when he is living there?—It is a Grace and Favour residence so that it is in the gift of the King.

3104. Who is it that can charge Parliament with the expenses?—Grace and Favour residences are always put into repair on each change of tenancy and that goes on the vote.

3105. And thereafter?—Thereafter the internal maintenance is the responsibility of the tenant. The external work still remains the responsibility of the Government.

3106. With regard to the original internal work at the beginning of a tenancy

is that liability statutory or customary merely?—There is nothing statutory; it is customary.

Mr. Benson.] Purely customary?

Mr. Pethick-Lawrence.

3107. All these Votes come before Parliament?—Yes, they all come before Parliament.

3108. They are not on the Consolidated Fund so they all come before Parliament?—Yes, and when one tenant has been in a house for 20 years and perhaps dies and it is given to another tenant, it seems a reasonable thing to recondition the place so that it can be occupied by the new tenant.

Mr. Benson.

3109. Accommodation for chauffeur; was that a new building?—No, there was not any room in York House and as there was a largish wing in Marlborough House the Duke of Gloucester's chauffeur and two male servants were put into Marlborough House.

Mr. Benson.] An expensive thing, £1,500.

Sir Irving Albery.

3110. On the bottom of page 400 I wanted to ask one question. At Hampton Court there are two cottages, the estimate was £1,200, the expenditure in 1936 and to March 1937 was the same. It says "Further charges to come." Are those completed or not completed?—The cottages are completed but sometimes accounts hang on to the next year.

Sir Assheton Pownall.

3111. Are there further appreciable charges to come? We have already spent over £1,000 on them?—The total estimate is £1,200 and I have no reason to think that is exceeded.

Chairman.] May I take it that these Accounts are approved? (Agreed.)

VOTE 10.

REVENUE BUILDINGS.

Chairman.] Page 401, Class VII, Vote 10, Revenue Buildings. Are there any questions on pages 401 and 402?

Sir Isidore Salmon.

3112. On page 402 I would like to ask Sir Patrick, with regard to the character and class of building put up for Post Office and Telegraph buildings, who settles the amount of money that should

be spent on a building and the elevation that it should have?—(Sir Patrick Duff.) The Post Office give me their requirements for the amount of staff and the amount of machinery and so forth that they require to put into the place. I then prepare an elevation and a draft estimate and it is discussed with the Post Office. The elevation is approved by the Post Office, but, in fact, all the

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[Continued.]

architectural part of the job is done by my Department.

3113. Supposing, for argument's sake, a Post Office is going to be built to cost £40,000, who would be responsible for saying "That is too costly a Post Office; the elevation is too elaborate; we ought to have something cheaper"? Whose job would it be to do that?—The Post Office draw their money from the postal loan so that their new buildings do not come before Parliament in the same way as all other buildings.

3114. That is why I am asking the question?—The Post Office themselves would say, if I served them up a building which worked out at what seemed to them an exorbitant figure: "It is too much and will you revise your designs and submit something cheaper."

3115. Then as a matter of fact, other than the Post Office themselves, there is no one who can cavil at the price of an elevation of a Post Office?—I think the Treasury have to pass the Post Office's propositions.

3116. Do they?—(Mr. Fraser.) Yes, subject, of course, to the limits of delegated authority.

3117. Is there any scheme laid down that a certain figure should be spent or not?—You have to remember that in these days the Post Office is considered to be a commercial concern and has a good deal of independence in these matters. That is deliberate policy but, of course, the Treasury sees the annual programme of buildings.

3118. Let us see what that means; you say the Treasury sees the programme of buildings, you mean the Treasury see a block vote that is going to be earmarked for Post Office or telegraphs or telephones, as the case may be; it does not do more than that?—I am afraid I am not familiar with the details of Treasury control over Post Office buildings, but I should expect it to be less strict than the control over ordinary buildings, because, since the Report of the Bridgeman Committee, it has been considered wise to keep the detailed control away from the Treasury.

Mr. Culverwell.

3119. Who selects the land for the Post Office buildings—the site; do you purchase the site?—(Sir Patrick Duff.) Yes, I find the site. But it is always very much circumscribed by the Post Office, who almost invariably say that they are confined to a certain area of

search owing to the way their communications come in, so that I generally have not an entirely free hand ranging over the whole of a town, and I have to go within a certain area.

3120. I asked that question because I have in view a site which I understand you have just purchased at Salcombe, in South Devon, and which is, I understand, an unnecessarily extravagant and expensive site for a Post Office. I was wondering who had actually selected that site, whether it was you or the Post Office?—The Post Office (I am talking of Post Offices and not telephone exchanges) do feel that they expect the Post Office to take rather a prominent site in any community, so it is undoubtedly the case that Post Office sites are apt to be prominent and therefore one might say, more expensive sites.

Sir Assheton Pownall.] And in the public interest too, very often.

Sir Isidore Salmon.

3121. I only raised this point because I wanted to raise it with the Post Office and I was told that you were the responsible official, and that is why I raised it to-day. I have no other reason for raising it?—If I had an elevation put up to me and I found the cube price working out very high I should say, "What is all this and why is it so very expensive?"

Sir Irving Albery.

3122. When the Post Office is contemplating a new building do they give an indication of the price they expect to get it for?—No, they leave that.

3123. Entirely to the architect?—Yes.

3124. They say "we want a Post Office," and Sir Patrick makes them a most beautiful one?—They say they want a Post Office, the accommodation is to be so-and-so, with so many rooms and a garage attached or not, and they leave me to make the best design I can for them.

3125. Very few people can afford to do that in building houses. You go to an architect and say, "I want a house with so much accommodation and I cannot afford more than so much." Some wealthy people to whom money is no object may do that, but I do not think other people to whom money is an object can do that?—They know in my

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[Continued.]

case what my standards and specifications are and that none of them are extravagant or elaborate.

3126. That would be on your cube measurements?—And all the materials.

Sir *Irving Albery*.] The cube measurements might be more than necessary.

Mr. *Benson*.

3127. What do you reckon your cube price? It varies enormously?—Yes, a cube price varies a great deal. If, for one instance, you have a building with a pitched roof, at once there is more cube space in the building and it may look a much cheaper affair on cube price than exactly the same size building, giving exactly the same accommodation, without a pitched roof on. Not long ago an elevation without a pitched roof was served up to me and I looked at pictures of the surrounding streets, and it seemed very unneighbourly and inappropriate not to have a pitched roof; the thing looked very harsh. "Very well," they said, "we can put a pitched roof on this if you wish." The net result was that it was a little more expensive to add the roof, but the cube price appreciably diminished. I mention this just to show that a cube price is a little misleading sometimes.

Chairman.

3128. Are there any further questions on pages 403 and 404? May I take it that this Account is approved? (*Agreed*.) Page 405, Statement of Expenditure on New Works, pages 406 and 407. The last item on page 407, H. II, item 3, Edinburgh "Purchase of site and erection of building"; what is this building, Sir Patrick?—It is a site in Waterloo Place next to the existing Inland Revenue Office, which itself adjoins the General Post Office in Waterloo Place.

3129. That does not help me very much; what is it for?—It is for a concentration of the Inland Revenue staffs.

3130. That is the purpose of it?—Yes. (Sir *Gilbert Upcott*.) The Scottish Headquarters of the Inland Revenue are in Edinburgh.

Chairman.] Are there any questions on pages 408 to 411?

Mr. *Culverwell*.

3131. On page 410 what is the provision of accommodation for Telephone Area Manager; is that a house?—(Sir *Patrick Duff*.) It is an office.

Chairman.] Are there any further questions? May I take it that these Accounts are approved? (*Agreed*.)

VOTE II.

ROYAL PARKS AND PLEASURE GARDENS.

Chairman.] Turn to page 412, Class VII, Vote II, Royal Parks and Pleasure Gardens. Are there any questions?

Mr. *Mabane*.

3132. With regard to the Open Air Theatre, last year you told us that the arrangement made in regard to the Open Air Theatre had been altered and it was being run by a Committee. I would like to ask about that but, before asking about that, I would like to ask whether you have received the £350 that you said last year you were seeking for?—(Sir *Patrick Duff*.) Yes, I have.

3133. With regard to the Committee, I asked you last year whether you were exercising any control over the price of the seats. I pointed out that you were letting them have it free and therefore it seemed to me right that you should have some control. You said "We are not but I am assuming that it will be run on the same basis as the Old Vic."

I think I am correct in saying that that was not the case. The seats were considerably more expensive than the seats at the Old Vic?—I think I was wrong when I said that we took no notice of what the seats were but expected they would be cheap; it is one of the conditions that we lay down that the charge for seats was to range from about 1s. to 12s. 6d. and the majority are the cheap seats, but I did not go into the prices of the more expensive seats because I assumed that, when they got exemption from the entertainments tax, that was a point on which the Customs and Excise would probably satisfy themselves.

3134. If you are letting them have the site free, and it is a very valuable site, would it not be more in keeping with that absence of charge if the seats were on the same basis as the Old Vic, as you intended? 12s. 6d. is a good deal more than the highest price of any seat

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at the Old Vic?—Yes, I think I confined myself to making sure that there was a majority of cheap seats.

Mr. *Mabane*.

3135. Could you tell us how the seats were distributed between the various prices; not now, but might we have a note on that?

Chairman.

3136. Certainly?—I could get a note from Mr. Carroll.

Mr. *Mabane*.] As to how many seats there were and how many at the various prices?—In the year 1936?

3137. Yes. I take it that it is in this year?—We will see if we can get it from him.

3138. You mean to say that he might not be willing to give the information?—He might not have the records, or it is conceivable that he might find some difficulty in providing me with them.

3139. Surely the number of seats at each price would not vary from performance to performance; it would be settled?—I will ask him if he can supply them.

Chairman.

3140. I thought you told Mr. Mabane that you had looked at this point and had specifically satisfied yourselves that there would be a certain number of cheap seats; surely if you did that you would have a record yourselves as to what the prices of seats are before you could determine the test which you yourselves put down?—I may have only said that there should be such and such percentage of the one shilling seats, but left it vague as to whether there should be 3s., 5s. or 12s. 6d. seats in addition to that.

Mr. *Mabane*.

3141. So really you do not know how the seats were distributed among the prices?—I do not know how they were divided up.

3142. I see last year you said "I am assuming that it will be run on the same basis as the Old Vic"?—Yes.

3143. You cannot say whether your assumption was justified by the event?—I think I said last year that I had taken no pains to see whether there were any cheap seats at all; I found that was wrong, that we had.

Chairman.

3144. What do you mean by a cheap seat, Sir Patrick, for your purposes?—I should call a 1s. seat a cheap seat. They are very high class performances.

Mr. *Mabane*.

3145. But they are paying no rental at all?—No rental.

3146. Last year you were asked if you had any knowledge of any contracts that were being made as to payments for management or anything of that kind. I think that the purpose of that question was that, whereas before Mr. Carroll was running it himself and undertaking to pay the rental, that arrangement came to an end. A Committee was formed and it seemed important for us to know whether that Committee was making a payment by way of management. Can you say whether any such contracts were made? You replied to the question last year by saying you would see the balance sheet. Have you seen the balance sheet?—(Mr. *Barnett*.) We saw a balance sheet and we saw the amounts which were paid to Mr. Carroll for management.

3147. May we ask what that figure was?—I have not the figure.

3148. Might we be told?—He was paid a certain amount for management and he was paid a certain amount for the use of his properties.

3149. So that the position before, was it not, was that Mr. Carroll was undertaking to pay a rental?—Yes.

3150. He was, according to the information you supplied us, making a loss?—In the previous year, yes.

3151. But you were getting something out of it; now you are getting nothing out of it. Instead, payments are being made by this Committee, running the thing in the interests of the public, to Mr. Carroll?—Yes. (Sir *Patrick Duff*.) I ought in candour to mention when we used the word "Now" it was the case in the year under review that the theatre was being run on the lines of the Old Vic, as I have called it, as a non-profit making affair. But, since the end of that season, that arrangement is altered. It is not any longer run by a Committee.

Mr. *Mabane*.] What happened last year?

Chairman.

3152. Will you complete your statement?—It is not any longer run by a

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Committee. Mr. Carroll came back and asked if he could have the theatre as before only without paying a rent, and, all things considered, as we knew that he habitually did make a loss, as we knew that the Exchequer would benefit from the Entertainments Tax if he had the theatre there, and as there was considerable feeling that there was a good deal of cultural advantage and educational advantage in having the theatre there, it was decided that he should be allowed the use of the theatre rent free although in fact it is not a non-profit making affair.

3153. As from what date?—That was the season after this one, 1937.

Sir *Irving Albery*.

3154. Does that mean paying Entertainment Tax or without paying Entertainment Tax?—Paying Entertainment Tax.

Mr. *Mabane*.

3155. I cannot understand this loss. I do not know whether we might enquire further about the reply to the question by Sir Irving Albery last year, that is, the payments under the contract made for management, because he is abandoning this and getting the theatre free?—Yes, and he has always, up to the present, made a loss which is fairly understandable when you think of the vagaries that he is up against in the matter of climate, and so on.

3156. He was not making a loss in the year when the theatre was run by a Committee, because he was being paid money for management and for the use of properties?—(Mr. *Barnett*.) He contended even that year that he was out of pocket because the amount of money available at the finish was not sufficient to pay him for management and for hire of properties.

Sir *Irving Albery*.

3157. I think in any event it is quite likely that there was a loss because I think they applied for subscribers almost for donations, so there may well have been a loss?—(Sir *Patrick Duff*.) If they make a loss when they are not paying Entertainment Tax, they are much more likely to make a loss when they have to pay it.

Mr. *Mabane*.

3158. The balance sheet you have seen shows a loss?—(Mr. *Barnett*.) For the 1936 year.

3159. On what amount?—For the year 1936 there was a loss in this sense. They agreed to pay Mr. Carroll so much for management and so much for hire of properties, and so on and the amount of money left over at the finish was not sufficient for them to pay him what they said they would pay him.

Mr. *Mabane*.] At any rate we might have a note as to the price of these seats.

Chairman.

3160. You will let us have that?—(Sir *Patrick Duff*.) Yes, I will try to let you have a note showing how the seats were divided up.

3161. On page 413, higher up, the licence for letting chairs, the receipts realised were substantially less than the estimate. Could you tell us why that was so, if there is any reason at all?—It is an interesting manifestation that if one looks down all these licences for chairs or boats or bathing they all show a decrease in this year and I think I can only put it down to a change of habit. I think that as many people as usual do not perhaps sit about in the parks or use them. Of course, it was a very cold year. The golf course receipts went up and in a hot summer golf course receipts are apt to go down, but otherwise all these, the tennis courts and so on, are down.

3162. Is that why the Serpentine bathing area produced so much less than the estimated receipts?—It is always difficult to fix on a cause for anything like that. I think the Serpentine is going down because there are so many other Lidos and people go to them rather than to the Serpentine.

3163. Can you tell me what is the position now about the letting of chairs. We have had some discussion about this before. Is Mr. Shanly the contractor now?—He is the licensee.

3164. Is he up to date with his payments?—Yes, we had some arrears which were entirely cleared off.

Chairman.] We have had questions about the theatrical performances.

Sir *Irving Albery*.

3165. On page 413, Regent's Park Theatrical Performances, £591 4s. 9d.; what are those receipts?—Those were amounts that he had owed us from the year before, plus some receipts from the chair licensee.

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[Continued.]

Chairman.

3166. Page 413: May I take it that this Account is approved? (*Agreed.*) Page 414, "Statement of expenditure on new works," page 415; are there any questions? I want to ask one question for my information. What do you mean by South African succulents?—They are horrible looking plants that live in

deserts and they are full of juicy material and, I think, covered with spikes.

Mr. Mabane.

3167. Prickly pears?—Yes, I think the prickly pear is a succulent.

Sir Irving Albery.] Cacti.

Chairman.] May I take it that this Account is approved? (*Agreed.*)

TRADING ACCOUNTS AND BALANCE SHEETS, 1936. OFFICE OF WORKS.

Chairman.

3168. Trading Accounts, page 134, Richmond Park Golf Courses. Are there any questions on pages 134 and 135? I see the green fees are up on the previous year, are they not—substantially?—(*Sir Patrick Duff.*) Yes.

Sir Edmund Brocklebank.

3169. To whom is the interest on the capital paid?—(*Sir Gilbert Upcott.*) It is not paid to anybody. (*Mr. Barnett.*) No, it is not paid; the Exchequer gets the benefit of it. (*Sir Gilbert Upcott.*) It is credited to the Exchequer.

3170. There are no bonds or anything of that sort which somebody has put up?—(*Mr. Barnett.*) The Exchequer originally advanced £7,296 for the purchase of the undertaking.

3171. You do not pay that off?—No. (*Sir Patrick Duff.*) They have interest on it and in addition they have received £12,000 odd. (*Mr. Barnett.*) We should like to be allowed to pay it off, but they do not agree.

Chairman.

3172. They have no complaint at all, have they, Sir Patrick?—(*Sir Patrick Duff.*) No.

Mr. Benson.

3173. I notice that the total receipts for the golf course are £8,400 iis. iid. on page 135, but in the Appropriation in Aid details the amount realised is £8,546, £146 more than the total receipts and this time it is for the same period ending 31st March?—(*Mr. Barnett.*) The explanation is that one is a cash account and the other is an appropriation account; they are not necessarily on the same basis.

3174. I know, but your receipts in your Appropriations in Aid are £8,500, the total receipts here are £8,400?—The Appropriation Account basis is the date

of receipt of the money; the income and expenditure account is on the basis of the amounts due during the year. (*Sir Gilbert Upcott.*) It is the difference between a cash account and an income and expenditure account. Take for example, one case on this very page, page 134: the caterer paid his rent in advance.

Mr. Benson.

3175. All your expenses are borne on the Vote?—(*Mr. Barnett.*) Yes.

Chairman.] Are there any further questions?

Sir Irving Albery.

3176. On page 135 I wanted to ask Sir Patrick about His Majesty's Office of Works current account, £5,601? Can you explain that a little?—In an ordinary commercial balance sheet that would be represented more or less by cash and investments. It is built up by the depreciation appropriations each year.

3177. Then it really comes to this, that the golf course owes the Exchequer £7,296 which it has borrowed, and of that £7,296, £5,600 is lodged on current account with the Office of Works?—It is true that if we wiped out that current account we could pay more over to the Exchequer but that is kept there as a reserve fund.

3178. Surely they do not need £5,000 reserve?—At some time or other there are a lot of buildings there which we shall have to replace.

3179. I see they pay 3 per cent. I suppose it is from one pocket into another but they pay 3 per cent. on capital account; what do they get from the Office of Works on current account?—Nothing.

3180. As a business proposition it might be good to pay £5,000 off?—(*Sir Gilbert Upcott.*) The Exchequer has had all the money in fact. What is on the right hand side is a note that, in point

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of fact, the Exchequer is prepared to find that sum of money for improvements because it has received that money for that purpose.

3181. It always seems to me a most amazing business in these accounts that you borrow money from one pocket and put it into the other pocket and charge your rate of interest to the pocket which borrowed it and you lend it to the other pocket at no rate of interest. All these bits get tucked away all over the Public Accounts; who knows what amount there must be tucked away in various pockets?—The money is not tucked away; it goes in and out of the Exchequer as it is required; these accounts are intended to show how the accounts would look if it were a trading concern.

Sir *Irving Albery*.] That applies to money affairs in ordinary daily life. The money is all somewhere.

Mr. *Mabane*.] It has this effect: Supposing one were considering whether it was worth while continuing this course, and supposing the balance were decided by a matter of £200 or £300, it might be simply by the loss of interest that you were guided in making your decision, and you might make it incorrectly thereby.

Sir *Irving Albery*.

3182. Sir Gilbert would not be guided by it, because these things are all clear to him, but it has fogged me?—I am not responsible for the form of accounts. That is decided by the Treasury.

3183. I should like to ask Sir Patrick and the Treasury whether they do not think it is desirable that this current account should be reduced and the loan account should be reduced?—(Mr. *Fraser*.) I should have thought there was something to be said for giving them some sort of interest on profits they have made in the past. (Mr.

(*Sir Patrick Duff and Mr. Barnett withdrew*.)

CIVIL APPROPRIATION ACCOUNTS, 1936.

CLASS VI.

VOTE 12.

SURVEYS OF GREAT BRITAIN.

Chairman.

3188. Page 300, Class VI, Vote 12, Surveys of Great Britain. This Vote, I think, Mr. Fraser, is going up substantially, is it not?—(Mr. *Fraser*.) Yes, about threefold in about three years.

Brittain.) In some cases we do now; in the Post Office accounts, which you had the other day, we allow the Post Office interest on amounts which are deemed to have been accumulated to represent depreciation, as is part of this sum of £5,000; but in some cases we have not done so; it is a little inconsistent.

3184. It seems to me to be such an unnecessary complication; there should be a debit balance of the amount that is owed and that is all?—I think it is inevitable from the nature of these accounts; these accounts are all artificial. That £5,000 does not exist anywhere. If we wanted to get it and repay the Exchequer advances, we should have to vote it out.

3185. We might pursue it on Treasury day?—(Mr. *Fraser*.) We might look into this, because while I agree with Mr. *Brittain* that these accounts are entirely artificial, that does not mean that they are entirely useless because I think they ought to show how the thing would work out if it were a private concern.

3186. It would not work like that if it were a private concern?—I am not holding any brief for this particular form of account. (Sir *Gilbert Upcott*.) The figure £7,296 shows what was originally provided for acquiring and laying out this course. It shows the amount of capital originally put into the concern.

Chairman.] Do you require anything to be done, Mr. *Mabane*?

Mr. *Mabane*.

3187. Mr. *Fraser* says he will look into it?—(Mr. *Fraser*.) We will certainly look into it.

Chairman.] We will leave it at that. May I take it that these Accounts are approved? (*Agreed*.)

3189. Have you anything to say on that fact, beyond agreeing with me that it is so?—I agree with you that it is so, but I think we have had value for money. There has been a lot of new work for the Defence Services, Tithe

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[Continued.]

Commission, trunk roads, town planning and so on.

3190. The receipts are also up, are they not?—Yes.

3191. I was thinking that perhaps next year, in view of this fact, we might

perhaps ask a witness to appear before us?—Yes.

Chairman.] Are there any questions? May I take it that this Account is approved? (*Agreed.*)

VOTE 17.

DEPARTMENT OF SCIENTIFIC AND INDUSTRIAL RESEARCH.

Chairman.

3192. Page 315, Class VI, Vote 17, Department of Scientific and Industrial Research. Pages 316 to 318. I should like to have a little explanation, if I might have it, on the note concerning extra remuneration at the top of page 318. I understand it is rather unusual for officers of the standing of these two gentlemen to get extra remuneration?—(*Mr. Brittain.*) Yes; I think officers of this particular Department, by the nature of their duties, have been in very close touch with the Anglo-Iranian Oil Company and other interests and in some cases have been lent wholly when the Company has repaid the whole cost of the officer's salary. This was a case in which an officer was doing some of the work in his official time, for which the Department was paid, and some of the work in his private time, for which it was thought right that he should be paid, and the allocation between the two was estimated on the basis of how much he would do in his official time and how much he would do

in his private time. (*Mr. Fraser.*) The Chairman is perfectly right in saying that it is unusual for officers of this standing to receive extra remuneration if it is from voted monies, but this, of course, is from an outside concern, and the reason this note is here is not because this money came to them from the Exchequer, but because it came to them in their official capacity.

Chairman.

3193. Quite so. It is a thing to be avoided, if one possibly can avoid it, it seems to me. There is £100 each in this case to the individual officers concerned, and I think the Department received £300 for services rendered to the Company as well. However, there it is; I have raised the point and you agree with me, I think?—(*Sir Gilbert Upcott.*) This transaction came to my notice and I asked the Department to get Treasury authority and to insert this explanatory note.

Chairman.] Are there any further questions? May I take it that this Account is approved? (*Agreed.*)

(*The witnesses withdrew.*)

(*Adjourned till Thursday at 2.30 p.m.*)

THURSDAY, 31ST MARCH, 1938.

Members present:

Mr. MORGAN JONES in the Chair,

Mr. Benson.

Sir Edmund Brocklebank.

Mr. Culverwell.

Mr. Mabane.

Mr. Pethick-Lawrence.

Sir Assheton Pownall.

Sir Eugene Ramsden.

Sir Isidore Salmon.

Sir GILBERT UPCOTT, K.C.B., Mr. W. R. FRASER and Mr. H. BRITAIN, called in and examined.

CIVIL APPROPRIATION ACCOUNTS, 1936.

CLASS VI.

VOTE 22.

FISHERY BOARD FOR SCOTLAND.

Mr. G. HOGARTH, called in and examined.

Chairman.

3194. Fishery Board for Scotland Account, Civil Appropriation Accounts, 1936, page xxv, paragraph 51 of the Comptroller and Auditor General's Report. On paragraph 51 I had better ask the Comptroller and Auditor General if he has anything further to say upon this matter?—(Sir *Gilbert Upcott.*) These are two cases in which the Fishery Board for Scotland are required by certain private legislation to receive sums of money from two Corporations, Edinburgh and Aberdeen, and to expend the money upon the improvement of salmon fishings of the river Tweed and the river Dee. The money for the works came from the local authorities but the administration expenses fall upon the Vote for the Fishery Board. I have mentioned the matter because I am frankly puzzled to know precisely what the position is or what it ought to be. The Committee will remember that a few years ago they took exception to a case in which the Government had undertaken to provide grants under a Bill in which there was no financial clause and for which no financial resolution had been obtained. But it seemed to me strange in these cases that private legislation should impose obligations upon a public Department involving a charge upon the taxpayer without the usual procedure attached to such a matter. I was very puzzled because I find that in a certain number of Private Bills in England, which have been held to involve charges upon public funds, even indirectly, a financial resolution has been required and I am informed that

there are some Scottish cases of that kind as well. I am not in a position to say that my information is exhaustive because the Committee will understand that it is not a duty of my department, nor is it possible for my department, to examine Private Bill legislation. That, I think, is a function of the Treasury. I was not quite clear that in these cases the position had been brought to the notice of the Treasury and I therefore asked the Department to consult the Treasury, not only upon these cases, but generally. I have brought the matter before the Committee because I think it involves a matter of financial procedure of a general nature on which there seems to be, as the Scots would say, a certain dubiety, and I think it would be advisable that it should be made clear to the Committee.

3195. You are directing attention to it because of the principle, not because there is much money involved?—There is not much money in this case; it is only a certain amount of administrative expenses; but if a Department is required to undertake an obligation, even though the substantive grants may be found from other sources, yet the carrying out of the obligation naturally requires a certain amount of expenditure on staff and things of that nature.

3196. Have you anything to say on the case at all, Mr. Hogarth?—(Mr. *Hogarth.*) Not very much. We proceeded on the basis that this was our duty and we administered the fund. If the Committee or the Treasury decide otherwise then for the future other arrangements would have to be made.

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Mr. G. HOGARTH.

[Continued.]

I should regret a change, though, because I do regard what we have been doing as a Government function.

3197. Do you arrive at that conclusion after examining the Orders authorising the Corporations. Did you look at those?—(Sir Gilbert Upcott.) What both Orders did was to require the Corporations to pay a certain sum of money within a specified time from the commencement of the Order to the Fishery Board for Scotland, which sums shall be expended by the Board on certain works of improvement for the benefit of the salmon fishing.

3198. I suppose the question that arises is as to whether that authorises expenditure upon the administration; that is the point, is it?—I gather that, technically, the authorities of the House would take the view that, because the Order did not contain itself any obvious instruction or authority for the expenditure of any money out of votes of Parliament, for that reason they would not require a financial resolution. The Order does not on the face of it say more than that the Corporation should pay a certain sum of money to the Fishery Board for Scotland. It does not say where the administrative expenses should come from.

3199. You said, Mr. Hogarth, that you would regret any change. Can you give us any reason why, in your opinion, administration expenses should be charged to the fund?—They would be charged to the vote.

3200. Yes?—(Mr. Hogarth.) So far as the fund is concerned, we are advised that they cannot be, on the terms of Private Orders; but on the general question I do regard this as a Government function. The action which has been taken has not been taken in the interests of the local fisheries so much as in the interests of the salmon fisheries as a whole. A salmon river does not altogether live to itself. The salmon bred in that river feed the nets around a long distance of the coast away from the river; these are coastal nets, commercial nets.

3201. But the Board has to take an interest in the matter, I take it, because of something which the Edinburgh Corporation has to do?—I quite agree.

3202. And therefore since the disturbance, if I may use that term, is caused by the Edinburgh Corporation, unavoidably, I dare say, does it not

seem to follow that the Edinburgh Corporation should bear the whole cost that arises from that?—It can be so argued.

3203. How would you argue it?—I prefer it the other way, that this is a proper Government function and should be regarded as such.

Mr. Mabane.

3204. Is Talla Water a river?—It is a tributary of the Tweed.

Chairman.

3205. We have your view; what have the Treasury to say?—(Mr. Fraser.) We have not got a great deal to say on this particular case, because we did not know about this case until after it had happened. I think, as regards a financial resolution, Sir Gilbert Upcott would agree that the case to which the Committee took exception and to which he referred is not quite on all fours with this, because what was objectionable in that previous case, I understand, was that a substantial expenditure was added to the expenditure involved by a Bill without the House of Commons approving that definitely in the Bill and, if the House of Commons had approved it in that Bill, they would have had to have a financial resolution. The case here, I think, is substantially different.

3206. Merely because of the amount of the money involved?—The amount and the kind of expenditure involved. I think it would be a very tall order to suggest to the House authorities that, in every case where minor administrative duties are thrown on a Department, you must have a financial resolution to authorise the expenditure, otherwise, I think, you would have two or three financial resolutions every day, almost, for the most trivial things. I think the lesson for the Treasury which this case throws up is that we should like in future to know about this kind of thing before it happens, that is to say, if there is a clause in a Private Bill which either throws functions on a Department or entrusts sums of money to a Department, the question should be taken up between the Department and the Treasury as to whether any special Parliamentary sanction is needed.

3207. Forgive me: I am rather ignorant on this point. Do not you at the Treasury normally watch Private Bills of this sort?—We see Private Bills. A copy of all Private Bills is deposited in

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Mr. G. HOGARTH.

[Continued.]

the Treasury. I am afraid the special point that might have arisen on these two particular Private Bills was not taken in the Treasury. I think it also might be mentioned that the same sort of thing for which the Fishery Board are now being brought up has, I believe, been done by the Ministry of Agriculture for many years without any question arising at all.

3208. What have you to say to that, Mr. Comptroller and Auditor General?—(Sir Gilbert Upcott.) I am afraid I have no knowledge of that. As I have explained to the Committee it is not possible for me, of course, to examine Private Bill legislation. In this particular case the matter was brought to notice because an unusual item in the Fishery Board accounts was observed and industriously followed up by my Department until the full story was unearthed. I was informed yesterday that there were certain operations of the kind undertaken by the Ministry of Agriculture. Upon that I can only say that the financial entries do not appear in the accounts of the Ministry of Agriculture which I audit, and I gather that the funds are not held by the Paymaster General but deposited in the Bank of England. The Treasury have never requested me to audit them so I have no knowledge of them. I do audit certain Trust Funds of the Ministry of Agriculture, but these funds have never been before me. (Mr. Fraser.) We never heard about them ourselves until yesterday when we made enquiries. We are certainly *prima facie* inclined to think that Sir Gilbert Upcott should be asked to audit them.

Mr. Culverwell.

3209. Might I be clear on one point. You ask Mr. Fraser whether he was responsible for looking at the Bills and he said "We see them"; what does that mean?—I did not mean that I personally see them.

3210. The Treasury?—The Treasury has an officer called the Parliamentary clerk, who receives copies of all these Private Bills, and his duty is to spot anything in a Private Bill which is of interest to the Treasury or a Department subordinate to the Treasury.

Chairman.

3211. I gather you imply that this was not spotted?—I do not think that at that time it was regarded as of direct interest to the Treasury; no blame attached to the officer in question.

Mr. Benson.

3212. Sir Gilbert said he had not been asked by the Treasury to audit certain accounts; who exactly decides what he shall audit and what he shall not? I should have thought that Sir Gilbert Upcott had a roving commission to audit anything and everything he liked. Why has he not?—(Sir Gilbert Upcott.) I have certain statutory duties which cover all monies provided by Parliament. There are a number of accounts administered in one way or another by Government Departments as regards which it is discretionary for the Treasury to request me to undertake the audit. As a general rule, I think it is desirable that I should audit all funds administered by a public department in their official capacity; because of the possibility of transfer from one fund to another, it is desirable that the whole thing should be under observation.

Sir Isidore Salmon.

3213. If that is so, would it not be the duty of the Treasury to call your attention to the fact that certain funds are in the Department?—Mr. Fraser has just explained that the Treasury were not aware of these funds. (Mr. Brittain.) It is a little complicated because the Ministry of Agriculture themselves have hitherto regarded these monies as not being held on their own account but as in trust for the local fishery boards; there has been a certain amount of doubt as to the precise standing of the funds. I do not think the Treasury would accept that there is any doubt; they are obviously Ministry of Agriculture funds and we shall look into the matter and put it right for the future. (Sir Gilbert Upcott.) There are certain funds held by the Ministry of Agriculture under statute in a fiduciary capacity on behalf of universities and colleges estates and under an Act called the Glebe Lands Act, and those funds I do audit at the request of the Treasury.

Chairman.

3214. I think perhaps we ought not to delay unduly upon this point. Mr. Brittain has said that they will look at this particular point of principle involved and I think perhaps the Committee will agree that we ought to pass on?—I may add that in principle I entirely agree that the attention of the Treasury should be drawn by any Department to any case in which it proposed to undertake any new function

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Mr. G. HOGARTH.

[Continued.]

Chairman.] Yes, certainly. Shall we turn to the Vote on page 333.

Mr. *Pethick-Lawrence*.

3215. Steps will be taken to convey that to the Departments, I take it?—(Mr. *Fraser*.) Yes; I take it the Committee will make some recommendation to that effect.

Chairman.] I cannot tell yet.

Mr. *Pethick-Lawrence.*] That will come up before us?

Chairman.

3216. Yes, it will come before us in time. Page 333, Class VI, Vote 22, Fishery Board for Scotland. Mr. Hogarth, if you look at sub-head H there is a note at the bottom "Savings mainly due to the delay in placing the order for one of the new cruisers." I think we heard something about this delay last year?—(Mr. *Hogarth*.) Yes.

3217. Can you tell us how the position now stands?—There was continued difficulty in designing this particular cruiser and we could not make progress in 1936-7, but she has been designed and built and is now on duty.

3218. Last year you promised to consider showing the new construction under separate sub-heads and I believe it has been done in the current estimates?—Yes, it has been done.

Chairman.] Are there any questions on Pages 333 and 334.

Sir *Isidore Salmon*.

3219. On page 333, sub-head D "and to the restriction of salmon research work"; why has there been a restriction under that head?—These estimates were made up before the Development Commission came to a decision as to what they were going to grant and when it was decided it was found that the cost involved was somewhat smaller than the original estimate. There was no

(Mr. *Hogarth* withdrew.)

CLASS V.

VOTE 17.

COMMISSIONER FOR SPECIAL AREAS (SCOTLAND).

Sir HORACE HAMILTON, K.C.B. and Mr. A. B. VALENTINE, called in and examined.

Chairman.

3225. Scottish Office, Civil Appropriation Accounts, 1936, Class V, Vote 17,

restriction after the scheme had been approved by the Development Commission.

3220. Is it desirable that there should have been a restriction on this particular scheme or was it because they did not vote sufficient money, or not in time?—They voted all the money required. These estimates are prepared a bit earlier and even before the schemes are definitely formulated and submitted to the Development Commission. There is no real restriction of the work.

3221. The note rather reads like that; it is very unfortunately worded?—Yes, the same question arose last year and the year before and I had to give the same explanation; I will keep a note of that for the future.

Chairman.

3222. Yes, and avoid the question next year?—Yes, quite.

Chairman.

3223. May I take it that this Account is approved? (*Agreed*.) Are there any questions on page 335? May I take it that this Account is approved? (*Agreed*.) Page 336 "Talla Compensation Water Fund" and "River Dee Compensation Fund"?—(Sir *Gilbert Upcott*.) Those are the two funds to which I drew attention.

Sir *Isidore Salmon*.

3224. If you were to spend a part of the money that you receive from both of these funds for the purpose of administration, the whole of your difficulty would have been overcome; in other words, if you earmarked so much of the sum sent to you for the actual work and so much for administration this point would not have arisen?—(Mr. *Hogarth*.) We are advised that, by the terms of the two Orders, we cannot do that.

Chairman.] May I take it that this Account is approved? (*Agreed*.)

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[Continued.]

ask one question. Is the point referred to satisfactorily safeguarded now as to Scotland?—(Sir *Horace Hamilton*.) It is now safeguarded in all cases.

3226. Paragraph 34, "Experimental Farm Development in Scotland". There are two or three questions I have to ask: first of all could you tell us what the financial position of this company is?—Mr. Valentine, the Assistant Commissioner, will answer that. (Mr. *Valentine*.) Do you mean the position at the present time?

3227. What it was at the beginning and what it is now?—Up to the present we have authority to advance sums as shown in the paragraph which we are considering. So far we have given either grants or loans or incurred expenditure amounting to £42,000 in all.

3228. Have this company any money other than that which comes from the Government?—No, none at all.

3229. What is the nature of the experiments being carried out, Mr. Valentine?—It is an experiment which was devised by the first Scottish Commissioner. What he had in mind was to find out by experiment whether you could take a large scale farming unit and have up-to-date methods and new processes and make an economic success of it and, in particular, he had in mind the possibility of taking X industrial workers who had no previous agricultural knowledge and putting them on to that, to find out whether they could be put on a permanent economic basis for the future. The sort of experiment he had in mind was fruit and tomato growing; a piggery; grass growing and grass drying by new methods; and poultry and high grade dairying. Those are the main items.

3230. That is a pretty wide field, is it not?—Yes.

3231. Could you tell us how many people he started with on this job and how many are being trained?—The Commissioner and the Commissioner's office took it over themselves and they got agricultural advice and borrowed agricultural experts from the Department of Agriculture and so on, and ran it on that basis for the first year of its existence. During that time they were trying to set up this company which is now in existence and they found that extremely difficult, but they succeeded in setting it up in November, 1936. Since then the company have

been running it on behalf of the Commissioner. We have a Board of Directors as good as, I think, we could have. It includes people like Sir Robert Greig and Professor Patterson, the head of the West of Scotland Agricultural College, and a big practical farmer, Major Keith, whose name is known to many people.

3232. Could you tell us how many people there are actually being trained and who have been trained?—The number of trainees they have taken on since they started in November, 1936, is 16. They have a number of ordinary agricultural employees, of course, in addition to that. The present number is something like 40 but of the ex-industrial workers who had no previous agricultural knowledge the number is 16. At the present time it is 14, in fact.

3233. Is that the highest number you have ever had?—That is the highest number that they have ever had on that scheme so far.

3234. How long do they undergo this training?—There is no definite limit to it, but they have been on so far for about 16 months and our latest report from the Directors is that they would hesitate to say that they are really trained at the present time. We are, in fact, in consultation with the Department of Agriculture and with the company, looking into the whole of this experiment. We have got as far as this, that we are able to say that certain of these lines of approach will have to be modified pretty considerably. Some of them will have to be cut down and others may, I think, profitably be extended, but you appreciate that it is something quite new and quite experimental. It will establish whether or not you can do this kind of thing, we hope, but we have not reached quite the point at which we could form any firm conclusion.

3235. Is 16 the maximum number you can deal with?—The Directors at the present time are hopeful that they can get considerably more on to the scheme than that, if they extend particular branches of it; they have in mind in particular tomato and fruit growing where perhaps more could be taken on.

3236. Do I gather that none of your trainees have yet been placed anywhere?—None of the 16 have gone to farm work elsewhere. The objects, you appreciate, were two-fold: either you

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[Continued.]

could train them on a farm of this kind and get them into ordinary agricultural employment elsewhere, or they could be found permanent agricultural employment either here, or if you decide to extend the scheme, on a similar kind of experiment elsewhere. That was part of the original idea. I should hesitate to say that we have that kind of thing very prominently in mind at the present time.

3237. Would you say that it is too early to arrive at a conclusion about the scheme as a whole?—That is our view at the moment. I hope that we shall have arrived at a definite conclusion, at any rate, by this time next year.

Sir Isidore Salmon.

3238. It is to cost £40,000 to train the 16 men?—If we decide at any time to wind the scheme up of course we have the land and the farm and the stock and equipment which would offset that £42,000.

Mr. Benson.

3239. You only lease the land?—No, the land belongs to the Commissioner.

Sir Isidore Salmon.

3240. What do you anticipate in a liquidation you are likely to get for your assets?—It is very difficult to say, but it might, in fact, be up to £25,000, but that is rather a shot in the dark, it might be anything up to that.

Mr. Culverwell.

3241. What does it work out at per head per year?—I cannot give you that figure in the way that it has gone. There are so many things to be taken into account. For one thing, although these people are in training, they are at the present time in receipt of the minimum agricultural wage. It is not like the ordinary training scheme where they are drawing unemployment relief or allowances; that kind of thing would upset the thing for the purposes of comparison with any ordinary training scheme.

Chairman.

3242. Do they get unemployment allowance as well?—No, they get the minimum agricultural wage instead of that.

Chairman.] Page 238, Class V, Vote 17, Commissioner for Special Areas (Scotland); are there any questions on pages 238 and 239?

Sir Isidore Salmon.

3243. On this question of the damage by fire, have you found out if that fire occurred by accident or was deliberate or not?—(*Sir Horace Hamilton.*) The Commissioner made such enquiries as he could on the subject of that fire, but the authorities they called in (the Police) found that so far as they could tell all reasonable precautions had been taken; but the cause of the fire has never been discovered.

3244. I notice that the only amount of money you recovered under the insurance policy was £191, yet your damage was considerably more; were you not covered under all heads?—The history of that is that the insurance policy was taken out when Calderwood was taken over and that the amount insured was the then value of the stock, etc., which was the subject of the insurance. The Commissioner afterwards consulted the Treasury on this matter and they told him that his control came within the general Government rule against Government insurance and he must not undertake any further insurance although the value of the property had increased. The result was, when this fire occurred, that all that was recovered had reference to the policy as it was taken out at the time when Calderwood was taken over.

Sir Edmund Brocklebank.

3245. Why did you, knowing that the Government's policy is not to insure, continue the policy?—There was no continuation of the policy. This was a new policy on a new property which had been taken over and at that time the Commissioner was under the impression, as I understand, that his control would not be counted as the ordinary Government control which is, of course, excepted from the general practice of insurance; but a doubt was suggested on the matter as to whether the Treasury would agree with that view and they were consulted. They said they were quite willing to approve what had already been done, but they must ask the Commissioner not to undertake any further insurance in the case of Calderwood.

3246. Then there is no premium being paid now?—(*Mr. Valentine.*) If this fire had taken place a few months later we should have got nothing.

3247. The policy has lapsed?—Yes.

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[Continued.]

Mr. Benson.

3248. On the question of the eggs and poultry stolen, by whom were they stolen; is it assumed that they were stolen by the employees or raiders of some kind or other?—(Sir Horace Hamilton.) It was assumed that the eggs and poultry had been stolen by an employee. The matter was reported to the Police but they were unfortunately unable to bring it home to the man who was suspected and no action could be taken.

3249. You did suspect some definite person?—Yes.

3250. Is he still an employee?—No.

3251. There has been nothing further since?—No.

Chairman.

3252. May I take it that this Account is approved? (Agreed.) Pages 240 and 241: will you give us some little further account of item (a) in Grants for Industrial Development, in respect of publicity?—(Mr. Valentine.) That consists mainly of money which the Commissioner puts at the disposal of the Scottish Development Council. The Scottish Development Council devoted that money to publicity for the work of the Special Areas in various ways. They had stands at a number of exhibitions and they had a permanent exhibition for a time at the British Industries House near Marble Arch. They have also a periodical called "Scotland" which contains a Special Area supplement, with a good deal of information about Special Areas, articles about certain of the bigger towns in the areas and that kind of thing. There is also a Special Areas Department in the Offices of the Development Council in Glasgow which maintains up-to-date information about sites and factories which are on the market.

Sir Isidore Salmon.

3253. The total figure of £16,000 contributes towards the offices in Glasgow?—Yes, we make available to the Development Council the full amount of money that they need for that purpose. I do not know if you want to hear the present position?

3254. What is the result of it; has it been a success from the point of view of inducing firms to go into the areas?—We think so. It is always very difficult,

as you appreciate, to quantify the effect of an advertising campaign but everyone who is concerned with this is satisfied that it is the sort of thing we have to do and that the results justify the expenditure.

3255. Had you any sort of expert advice as to the best way of spending this money?—Yes, we act through professional advertising agencies to see that the thing is done on up-to-date lines to get what are regarded at the present time as the best results and the Development Council themselves consist of big business men in Scotland who are expected to know something about this sort of thing. I think that we can rely upon their help in a matter of this kind.

3256. Can you tell us some thing about item (g), Scottish Labour Colony Association?—That is one of Dr. Cossor's schemes in Scotland. It is a Labour Colony to which boys are brought for the purpose of training them for work subsequently on the land in agriculture. The Commissioner has given a certain amount of money towards rebuilding and bringing up to date the buildings on condition that a proportion of the boys trained there shall be taken from the Special Areas.

3257. How many boys, as a matter of fact, have gone there?—Since March, 1937, 42 boys have been taken on, and of that 42, 12 so far have come from the Special Areas.

3258. So that the grants that have been contributed, namely, £2,226, have produced the training of 12 lads?—You appreciate that that is in the nature of capital expenditure and that is the beginning of it. We are hoping for more, and that expenditure will not recur at all so far as the Special Areas fund is concerned.

3259. What about current expenditure for the training of the lads; who does that?—We have nothing to do with that at all.

Chairman.

3260. I would like to ask whether you can give me some little further detail about the Social Service Training Centre, "Grants and expenses in respect of Social Service Schemes"?—That refers to a Community Centre known as Carfin Hall, which is a Centre in the worst part of the Scottish area.

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[Continued.]

3261. What does it do exactly?—It is a large scale experiment. It includes all sorts of community activities, indoor and outdoor. There are facilities provided for all kinds of indoor and outdoor recreations, horticultural work, bee keeping and the usual indoor things, arts and crafts, boot making, cabinet making, and they are doing a lot of very good cabinet making; to that extent it serves the need of a large community service for the whole area. The other object in mind is that it should be developed so as to serve for a training centre for club leaders in other parts of the area, and the Governing Body have it in mind at the present time, in fact, that they might develop it into a sort of Scottish centre for that purpose, to which young men and women would be brought possibly from all parts of Scotland to be trained in this kind of thing.

3262. What is a model Occupational Centre?—A model Occupational Centre is one of a number (I think the total is 15) of Community Centres conducted on the Commissioners' behalf by the Scottish Community Service Council.

Sir *Isidore Salmon*.

3263. How do these centres compare with the centres in the other parts of the country where the English Commissioners have set up an organisation; are they similar in character?—Broadly speaking, I think they are.

3264. Do they pool their knowledge and results?—Yes, we keep in touch with the English Commissioner and the work he is doing and the Scottish Community Service Council are also affiliated (although to some extent they are also autonomous) to the National Council of Social Service.

Chairman.] Are there any further questions. May I take it that this Account is approved? (*Agreed.*)

(*Mr. Valentine withdrew.*)

VOTE 18.

GRANTS TO PUBLIC ASSISTANCE AUTHORITIES (SCOTLAND).

(*On this Account no questions were asked.*)

TREASURY MINUTE ON PARAGRAPHS 17 AND 18 OF THE SECOND REPORT OF THE COMMITTEE OF PUBLIC ACCOUNTS, 1937.

Chairman.

3265. Treasury Minute, paragraphs 17 and 18, "Herring Industry: Financial arrangements: use of Grants-in-Aid." I see in the Treasury Minute in the second sub-paragraph, Mr. Fraser, "My Lords think that the Committee are under some misapprehension in suggesting that the terms of the Herring Industry Act, 1935, were designed to secure for Parliament control of the expenditure of the Herring Board." That is not exactly what we did say, is it? You will see in paragraph 18 we had a slightly different wording from that. What we said was "This unusual and complicated procedure appears to have been devised to secure a measure of Parliamentary control over the expenditure" which is a slight difference, I think. Have you followed it, Mr. Fraser?—(*Mr. Fraser.*) Yes. I think what we were referring to was what the Committee said in the next sentence, that what we had done had resulted in a weakening of the

financial control by Parliament which the terms of the Act were designed to secure.

3266. We were following the leadership of Mr. Brittain on this point for, if Mr. Brittain will look at page 344 of last year's Report, he used these words. I said "I cannot pretend to follow the peregrinations of this money from beginning to end, but I would like to ask the Treasury if they can tell us what is the precise purpose of these arrangements" and Mr. Brittain said "It seems to have been designed in order to secure that expenditure, firstly on administration, secondly, on facilities for loans to fishermen for nets, export and working capital, and so on, and, thirdly, on financing the Marketing Board if and when it is in operation, should be kept separate and, at the same time, giving Parliament a certain amount of control over the total expenditure"?—(*Mr. Brittain.*) Yes, "over the total expenditure."

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[Continued.]

3267. But the words are "Certain amount," Mr. Brittain?—Yes, but I did not go on to say anything about the intention of Parliament in passing the Act.

3268. Quite right; never mind, we will not make any bones about that. We are glad to see that the Treasury appears

to have made a handsome attempt to meet the views of the Committee on this point?—(Mr. Fraser.) I think the gist of this is that we are not guilty, but we are not likely to do it again.

Chairman.] I could not put it better myself.

CIVIL APPROPRIATION ACCOUNTS, 1936.

CLASS VI.

VOTE 23.

HERRING INDUSTRY.

Chairman.

3269. Page 337 of the Civil Appropriation Accounts, Class VI, Vote 23, Herring Industry, Sir Horace, I wonder if you will be good enough to tell us in respect to sub-head B what the services referred to there are?—(Sir Horace Hamilton.) Those services are nearly all advertising.

3270. Could you tell us broadly what the purposes are for which this money was spent under sub-head C?—Yes; this represents cash which is lent by Ministers to the Herring Board in order to enable them to lend money to the fishing industry for certain schemes. The particulars of the loans will be found in the Account which I think you are taking shortly.

3271. You spent a good deal less than the grant. Is there any reason why that is so, Sir Horace? I speak from memory but I think the same thing happened last year?—The difficulty arises and has arisen in previous years in connection with sub-head D, that is, this Herring Marketing Fund. This is a service for which provision is made in the Herring Industry Act but, of which, so far, the Herring Industry Board have not availed themselves; it is a provision, as I think the Committee are aware, that would enable the Board to make loans, for example, to aid the export trade or possibly to provide working capital for certain schemes. If money was wanted it would probably be wanted in pretty substantial amounts. The result is that, so far, the Scottish Office has made this provision every year up to the substantial amount, as will be seen, of £150,000, but up to date no advantage has been taken of it.

Chairman.] Are there any questions on this Vote?

Mr. Culverwell.

3272. On sub-head C, can you tell us how the reconditioning scheme is progressing. In the Report apparently it was not very successful or your offers of loans were not accepted. Is it making better progress now?—There is a new scheme just under consideration; it will be out shortly. That will be the scheme for the present season.

3273. For reconditioning?—Yes.

3274. You have already altered this scheme, you started with loans of £375, then you raised it to £400; is this another scheme again? You started by offering loans of £375 for a vessel and that was not acceptable. Then you raised it to £400. I am going by page 20 of the Report, "Reconditioning"?—It is true to say that last year the trade did not take up these schemes as well as they had done in the previous year.

3275. Then you altered the size of the loans?—We are altering them now. The way it is worked is that certain terms are agreed between the Board and the Scottish Office, of course with the approval of the Treasury, from year to year, or rather for the scheme for a particular season, and that is agreed and there is a maximum amount appropriated for it.

3276. You have since started a revised scheme?—We have one under consideration; it is just on the point of being published.

3277. U n d e r "Reconditioning", "Purchases for Scrapping" and "New Construction", all your schemes seem to have met with a very poor response?—All the schemes of the Board last year, yes.

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Sir HORACE HAMILTON, K.C.B.

[Continued.]

Mr. Benson.

3278. How came it that such a large sum as £30,000 was spent mainly on advertising under sub-head B?—The particulars of this expenditure will be found on page 23 of the Report. It will be seen that the Board spent the greater part of it on home market advertising.

3279. Posters and things like that?—The description will be found in the body of the Report. The Board state in paragraph 73 that they were satisfied that the demand for herring was greatly stimulated by the steps which they took. It says in paragraph 71 that the Board employed advertising agents, that they arranged for Press advertisements, posters and show cards and what they call an attractive Herring Book which described the various methods of cooking herring. It will be seen from the Report that there was a sort of general Press campaign on the subject of herrings and, according to this Report the Board are apparently satisfied that the advertisement did good.

3280. Is it on this Account that something is paid to the Eyemouth Harbour which is always in default to the Public Works Loans Board?—No.

3281. Something is paid by them?—There are no grants made by the Herring Industry Board to harbours.

3282. Or is it herring brand?—(Mr. Fraser.) The default arises to the Public Works Loans Board when there is a deficiency of herring brand fees.

3283. Where do they come from?—(Sir Gilbert Upcott.) Out of the Fishery Board Vote.

Sir Isidore Salmon.

3284. On sub-head B, I understood you to say most of the money you spent under sub-head B was for advertising. Is it altogether correct to use the words "Services during the operation of a scheme", is it not a little difficult to know what those are?—(Sir Horace Hamilton.) That follows the wording of the Statute.

3285. You think it is quite descriptive of the way you are spending money?—"Expenses . . . under a scheme in force . . . for promoting the sale of herring or products thereof, promoting market development, or promoting or carrying out schemes of research or experiment"?—(Sir Gilbert Upcott.) This is one of the points arising on the Treasury Minute which the Treasury have promised to try to meet in future. It is the case that if money comes out as a Grant-in-Aid you have to trace it to the accounts of the Herring Industry Board and then out of them.

3286. So the Treasury are going to state the facts on the Appropriation Account?—(Mr. Fraser.) Not in this case. (Sir Gilbert Upcott.) This is in accordance with the Act. (Mr. Brittain.) This sort of arrangement applies to all the Marketing Boards.

Chairman.] May I take it that this Account is approved? (Agreed.)

HERRING INDUSTRY ACT, 1935. ACCOUNT, 1936.

(Herring Industry Board: 2nd Annual Report.)

Chairman.] Now we take the White Paper, the Herring Industry Act Account. The Report is circulated for information only. On the Herring Industry Act Account, I understand

that this form is a revised form of account to meet the views of the Committee expressed last year. May I take it that this Account is approved. (Agreed.)

CIVIL APPROPRIATION ACCOUNTS, 1936.

CLASS I.

VOTE 25.

SCOTTISH OFFICE.

Chairman.

3287. Class I, Vote 25, Scottish Office. Sir Horace, I wonder if you will permit me just to ask you one question, purely as a matter of formal procedure. You

will appreciate that there is no sort of reflection implied in any way upon your predecessor in the question I propose to ask you. You signed this Account, I observe, but I understand that you

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Sir HORACE HAMILTON, K.C.B.

[Continued.]

were not the Accounting Officer during the period of the Account, actually?—(Sir *Horace Hamilton*.) That is so.

3288. You will appreciate that as an experienced Accounting Officer you will be well acquainted with the duties of an Accounting Officer, will you not?—Yes.

3289. Has your attention been specially drawn to the position of an Accounting Officer taking over an account from a predecessor?—My attention was drawn to the paragraph which, I think, appeared in the Report of the Public Accounts Committee last year. This stated that an incoming Accounting Officer must regard himself as responsible for the contents of the Account of his predecessor. (Sir *Gilbert Upcott*.) That matter was specially considered by the Committee in 1920 and they made it very clear that an incoming Accounting Officer is entitled to satisfy himself that

the Account which he takes over is correct before he is required to sign it.

Chairman.] Yes; are there any questions arising from the Vote?

Sir Isidore Salmon.

3290. On the note to sub-head A, "Savings mainly due to unfilled vacancies. The provision for additional assistants was not wholly required." Does that mean that you are going to reduce your establishment at the Scottish Office?—(Sir *Horace Hamilton*.) It meant, as will be seen, that all the money taken in the Supplementary, namely, £1,300, was not required for the reasons given.

3291. You thought, first of all, that you were going to spend more than your original estimate?—Yes, but it was found possible to save nearly that amount of money.

Chairman.] Are there any further questions? May I take it that this Account is approved? (*Agreed*.)

CLASS III.

VOTE 12.

POLICE, SCOTLAND.

Chairman.] Page 132, Class III, Vote 12, Police, Scotland. Are there any questions?

Sir Isidore Salmon.

3292. How are you progressing with the amalgamation with the different Forces in Scotland?—(Sir *Horace Hamilton*.) There has been no amalgamation of Police Forces since the Committee met last year.

3293. Are any steps being taken to try to get them into line, or is it being allowed to go to sleep?—I think it may be said that following, amongst other things, the Report of this Committee, the matter has been very carefully considered but that so far Ministers have not seen their way to undertake legislation compelling authorities to amalgamate their Police Forces.

3294. Is anything being done to try to get them to do it voluntarily?—The Scottish Office have in the last few years tried on many occasions to get voluntary amalgamations, although almost entirely without success. I am afraid the trouble there is that the Scottish law relating to voluntary amalgamations is not particularly satisfactory, and it may be that an opportunity will occur, even if the Government does not go the whole way towards compulsory amalgamation, of putting

the conditions for voluntary amalgamation on a better basis.

Chairman.

3295. Do you ever get conferences of these Police Authorities at all in Scotland?—We have many of them.

3296. Is this ever put on the agenda for discussion?—Not for the last year or two, but before that, of course, it was canvassed very much. Perhaps I should add (without prejudicing the issue) that the local authorities in Scotland have first in mind that the small Burghs lost their Police Forces as recently as 1929, and that Scotland in this matter does not stand alone, that the same question arises in the case of England and Wales. The Scottish local authorities point to certain opinions that were expressed by the Select Committee of the House of Commons that considered the English position in 1933, in which they made recommendations which the Scottish authorities think rather go in their favour.

3297. Yes, but the Police Forces as a rule in England and Wales are not such small bodies, are they, as you can find in Scotland?—There are some small ones, I am told, but I have not the particulars I am afraid.

Chairman.] Are there any further questions? May I take it that this Account is approved? (*Agreed*.)

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Mr. J. A. INGLIS, K.C.

[Continued.]

CLASS IX.

VOTE 2.

EXCHEQUER CONTRIBUTIONS TO LOCAL REVENUES, SCOTLAND.

*(On this Account no questions were asked.)**(Sir Horace Hamilton withdrew.)*

CLASS III.

VOTE 16.

LAW CHARGES AND COURTS OF LAW, SCOTLAND.

Mr. J. A. INGLIS, K.C., called in and examined.

Chairman.

3298. Page 141, Class III, Vote 16, Law Charges and Courts of Law, Scotland. I will just ask one or two questions on this Vote. This Vote is mainly salaries, is it not?—(Mr. Inglis.) Yes, one may say it is.

3299. Do you control the payment of these salaries yourself, Mr. Inglis?—Yes, they are all paid through me. In addition to being King's Remembrancer, I am also practically Paymaster General in Scotland. I pay all the salaries of the legal establishment including those that are on the Consolidated Fund, the Judges.

3300. May I ask you this question in view of that answer. Do you constantly have adequate control as an Accounting Officer?—Yes, I think so. Of course, we are tied hand and foot, so to speak, by the Treasury. The salaries are fixed by Treasury Scales. All these people are on scales and, of course, the Judges are on the Consolidated Fund.

3301. Will you look at the bottom of the page to note E?—Yes.

3302. Will you explain to us what that last sentence, "Expenses of proceedings against the Fife County Council in connection with the establishment of Juvenile Courts," and so on, means?—That was a test case which, as a matter of fact, ultimately went to the House of Lords. It was a question that arose out of the Children and Young Persons Act, the question being what was the nature of the Courts that were to hear these cases against young people in particular, who was to be the Prosecutor and who was to be the Clerk of the Court. The question was between the Justices of the Peace on the one hand and the County Council on the other who said that the proper people to act as Prosecutor and as Clerk of Court were the officials in the Sheriff Court. It

came really to be a question as to whether these courts were Justices of the Peace Courts or whether they were Sheriff Courts. If they turned out to be Sheriff Courts the Exchequer would have to bear a certain amount of the expense; consequently the Lord Advocate instructed that we were to stand behind the Justices of the Peace. Then the County Councils ultimately came forward with an open claim against the Treasury, so the Lord Advocate felt that, in the circumstances, the Treasury ought to be separately represented by a separate Solicitor and separate Counsel. The result was that an arrangement was made by which no expenses were to be due to or by any of the parties; each was to bear its own; but the result was that, although we were successful in the Court of Session, that is to say, that the claim of the County Council was repelled in the Court of Session, on the arrangements under which everybody was to bear his own expenses, the Exchequer had to bear the expenses first of all of the Justices of the Peace and, secondly, of the Treasury as such. The County Councils appealed to the House of Lords but the agreement as to no expenses being found due either way, did not hold; it extended only to the Court of Session. When they went to the House of Lords they took the risk of having to bear their own expenses and ours too as that turned out, because the House of Lords refused the Appeal. So that this amount of £675 13s. 2d. represents the expenses in the Court of Session of two parties out of the three, and it also represents a good deal of preliminary negotiation, not only with the County of Fife, but also with other Counties in which precisely the same question had been raised. But it is right to say that there is an additional

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Mr. J. A. INGLIS, K.C.

[Continued.]

Account of the House of Lords expenses amounting to about £250 or something of that sort, but we shall recover practically all that from the other side on the finding of the House of Lords.

3303. They will be mulcted in that?—They have to pay our expenses on the taxed scale, of course. There will be a certain amount of extra-judicial expenditure which we shall have to pay, but the great bulk of it we shall get back; in fact, I think we have got it back.

3304. The money you have to pay here in this case is what you regard as your share of what you agreed to pay?—Yes, it was an important case because although it was raised in the County of Fife a good many other Counties had already raised the same point and they agreed to treat this as a test case and essentially it is a test case, because precisely the same result would happen if the question were raised in any other County.

3305. Was it raised in any other County?—Yes, actually it was raised in Ayrshire, I know. Fife and Ayrshire are a little different from most of the

other Counties in Scotland because they have such an enormous number of small Burghs, I think there are something like 30 in Fife and 16 in Ayrshire, and they each have their own Justice of the Peace Courts. It arose from the unwillingness of the County Council to give accommodation for the Courts or to provide any officers to prosecute or to act as Clerk of Court. The matter became so acute and there was a great deal of negotiation before we got the matter adjusted.

3306. The litigation was a sort of friendly litigation?—It was friendly in the sense that it was in the form of a Special Case, on the facts agreed and stated; it was friendly to the extent that we agreed on the facts but it was the very reverse of friendly as regards the attitude of the two public bodies, the one towards the other.

3307. They remained friendly as long as they agreed to share the costs?—Yes.

Chairman.] Are there any questions? May I take it that this Account is approved? (*Agreed.*)

CLASS IV.

VOTE 14.

NATIONAL LIBRARY, SCOTLAND.

Chairman.

3308. Class IV, Vote 14, National Library, Scotland, page xiii, paragraph 26. I understand this thing has been put right, but will you explain what happened in regard to this bequest?—(*Mr. Inglis:*) This was a very unexpected bequest that came to the Library from a bookseller in Dalkeith; nobody had ever heard of him, but he left the residue of his estate half to the National Gallery of Scotland, and half to the National Library, amounting to about £2,900 to each and there were no conditions whatever attached to it. The Library has already got several endowment funds; I can think of four at the moment, at any rate. Everybody assumed that this was going to be managed in exactly the same way, that is to say that the capital was to be invested and that the Library was to get the benefit of the income; and everybody overlooked Section 10 of the National Library of Scotland Act, which begins by referring to the monies provided by Parliament and goes on "All monies received by the Board from

any other source and not subject to any specific direction or condition shall be applied as an Appropriation in Aid." It went on for some months and I am afraid I cannot tell you how it came to be discovered that this Section in the Act was overlooked, but it at once became apparent that this was an Appropriation in Aid for the year in which it was received. The Trustees were a little bit upset about this, because they felt that this man's bequest would not really be for the benefit of the Library but simply for the benefit of the taxpayer. They felt that it would be a good thing if the identity of the bequest could be maintained by conserving the capital and allowing the income to go for the benefit of the Library. The matter was put up to the Treasury and the arrangement come to was that Mr. Keppie's actual bequest is to go in as an Appropriation in Aid. But application was made to Parliament for a Supplementary Vote of precisely the same amount. That has been granted by Parliament and it has been now erected as a Keppie fund. The Trustees

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[Continued.]

felt that it would be an encouragement to other people either to give or bequeath funds to the Library if there were some perpetuation of their name in connection with the Library, so out of this Supplementary Vote there is now money to provide a Keppie fund, the income of which is to be administered for the Library. I dare say I must take certainly part of the share of the responsibility for having overlooked this rather peculiar provision in the Act.

3309. Was it you, Mr. Inglis, who would have dealt with this legacy?—Not very much, because, in the case of these bequests, the investments are held in the names of the Trustees; of course I am a Trustee. By Statute I am one of the Trustees.

3310. Apart from that?—Apart from that I do not know that I should have come across it, because these various endowment funds are audited by the Comptroller and Auditor General. I have very little to do with it.

3311. I really want to know who it is that looks after these funds?—Really the Librarian.

3312. Is he here?—No, he is not here.

3313. So that, as I understand it, he looks after one Department and you look after another?—These funds are invested in the names of the Library Trustees as a Corporate body.

3314. On the advice of the Librarian?—They have a solicitor who has advised them, but they are always in trust investments, of course. They are always in Government securities. At one time I used to keep the scrip in my safe, but I do not think I even do that now.

3315. I should like to get the point clear, if you do not mind. You are helping, I quite appreciate, but I still want to get at one particular point. Would the fact that it is in the hands of the Librarian and he looks after these funds have precluded you from becoming aware of this bequest in your official capacity at the beginning?—Yes, I think it would. I ought to have known as Trustee, but I do not think there is any reason why I should have known as Accounting Officer.

3316. That is the point I am driving at, really?—I think I am right in saying that.

3317. I will ask the Treasury whether they do not feel that it is a little unsatisfactory that one man, Mr. Inglis, should look after the Vote, and another man should look after the Trust fund?—(Mr. Brittain.) I think, if

I understood Mr. Inglis aright, the Librarian has responsibility in both directions. He has a responsibility as a servant of the Trustees as administrators of public monies and he has a responsibility as a servant of the Trustees as administrators of these Trusts. I think the Librarian has a double interest and Mr. Inglis probably has a single interest. (Sir Gilbert Upcott.) I understand that while Mr. Inglis is Accounting Officer for the Vote, the Librarian is appointed by the Trustees in terms to be the Accounting Officer of the Trust funds. (Mr. Inglis.) That is so. (Sir Gilbert Upcott.) I audit both the Vote and the Trust funds, but I appreciate the point the Chairman has put, that it is not altogether a satisfactory arrangement that there should be in effect with regard to this institution two Accounting Officers.

3318. That is the point I am driving at, whether it is desirable to have two Accounting Officers for these funds?—(Mr. Inglis.) I think I may put the matter this way: the difficulty arises thus: I have really no discretion in the way in which these endowment funds are spent. It would hardly do. For instance, there is one small fund which was given a good many years ago by a man who said it was to be spent (both capital and interest, as a matter of fact, if necessary) on buying books on engineering. It would be rather a futile business for the Librarian who presumably is an expert on books on engineering to come to me and say: "I want to buy this, that and the other book; will that be all right?" The Comptroller and Auditor General will agree with me that that was really how this dissociation of the two functions came. The late Lord Rosebery gave a considerable endowment to be applied towards the manuscript department.

3319. Mr. Inglis, would you yourself feel that it would be desirable for one person to be Accounting Officer for both?—Frankly, I do not see the way out of the difficulty that, if I were accounting officer for these funds, I should have to exercise more or less control over the way that they are spent, and I do not believe that I am in a position to do so.

3320. You do not think you could do it?—I happen to be fond of books, and so on, but it is not a necessary part of my functions that I should be and I think it would be going beyond my function as Accounting Officer.

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[Continued.]

3321. Let us put you out of court, so to speak for the moment: would you agree that it would be desirable for the Librarian to be Accounting Officer for both?—No, I do not think so either, because he is not experienced in finance at all.

3322. I thought all Scotsmen were?—He is a Librarian; he has got a secretary.

3323. I think, Mr. Inglis, I will bring this to an end in this way: I will ask

the Treasury a question. Will you be good enough, Mr. Fraser or Mr. Brittain, to look at this matter to see if you can make some suggestion about what I regard as this dual responsibility?—(Mr. Fraser.) We will, Sir.

Chairman.] Turn please to page 192, Class IV, Vote 14, National Library, Scotland? Are there any questions? May I take it that this Account is approved? (*Agreed.*)

(*Mr. Inglis withdrew.*)

CLASS III.

VOTE 13.

PRISONS DEPARTMENT FOR SCOTLAND.

Sir HORACE HAMILTON, K.C.B., was re-called and further examined.

Chairman.

3324. Class III, Vote 13, Prisons Department for Scotland, pages 133/4. On page 135 there are two rather big undertakings referred to in the statement of expenditure on new buildings, Nos. 1 and 2, Sir Horace. Could you tell us what progress is being made?—(Sir Horace Hamilton.) It is expected that the new Criminal Lunatic Asylum will be finished next year. The work on item No. 2, new Borstal Institution for Males, has been postponed for the time being for the reason given in the Note.

Chairman.] Are there any further questions?

Mr. Benson.

3325. In your new Borstal Institution you go in for very light buildings, do you not?—That I could not say.

3326. Does that mean that the Borstal boys are still detained in Barlinnie?—No, there are a few in Barlinnie but the bulk of them are in Polmont in Stirlingshire.

3327. Is the new Borstal Institution to get rid of this in Barlinnie, or because of an increased number?—It is due to both; the new building will take the boys from Polmont and from Barlinnie. The accommodation at Polmont is restricted and cannot be extended: it is therefore necessary, as I understand, for the Prisons Department to seek an extension.

3328. This is 1938; has anything been done in the meantime?—Not on item 2,

the new Borstal Institution for Males, except to procure the site.

3329. You have obtained the site?—Yes, that has been bought.

Chairman.] Are there any questions on page 136?

Sir Assheton Pownall.

3330. On page 136, item 11, your total expenditure is shown, but there is no item of the estimate?—I am under the impression that the Prisons Department did not show an estimate because there was no estimate shown in the Vote, and that therefore there was nothing to repeat here. Item 11 is in exactly the same position as item 2; the work on this new prison for females has been postponed for the time being.

3331. Have you bought the site?—Yes, that it why it appears in the Appropriation Accounts.

Mr. Benson.

3332. What type is that? Are you going in for one of the old type of maximum security prisons or will it be on modern lines?—I am sure it will be on modern lines; at present it has not been planned.

3333. Are you conversant with the English prisons and their experiments?—The Prisons Department of Scotland is constantly on all questions in touch with the English Prison Commissioners.

Chairman.] May I take it that this Account is approved? (*Agreed.*)

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Sir HORACE HAMILTON, K.C.B.

[Continued.]

VOTE 15.

SCOTTISH LAND COURT.

VOTE 17.

REGISTER HOUSE, EDINBURGH.

(On these Accounts no questions were asked.)

CLASS IV.

VOTE 13.

NATIONAL GALLERIES, SCOTLAND.

3334. *Chairman.*] Page xiii, paragraph 25. This is formal?—(Sir Gilbert Upcott.) The Treasury accept my view. I had to put in this paragraph because I was obliged to qualify my certificate to the Account because I did not consider it was correct, but I gather the Treasury agree with my view and that the Account will be rectified in future years.

Chairman.

3335. Very well. Page 190, Class IV, Vote 13, National Galleries, Scotland?—The entry under the Grant-in-Aid Account of £533 18s. 6d. is the item to which I drew attention.

Chairman.] May I take it that this Account is approved? *(Agreed.)*

CLASS V.

VOTE 15.

BOARD OF CONTROL FOR SCOTLAND.

Chairman.] Page 236, Class V, Vote 15, Board of Control for Scotland.

Sir Assheton Pownall.

3336. With regard to the Board of Control, are you having many more criminal lunatics in Scotland? I saw you were building a new asylum for them?—(Sir Horace Hamilton.) No, that

is being done not because there is any increase in the number of criminal lunatics, but because the old accommodation is unsatisfactory.

3337. It is very old, is it?—Yes, it is part of Perth Prison.

Chairman.] May I take it that this Account is approved? *(Agreed.)*

VOTE 16.

REGISTRAR-GENERAL'S OFFICE, SCOTLAND.

*(On this Account no questions were asked.)**(The witnesses withdrew.)**(Adjourned till Tuesday next at 2.30 p.m.)*

TUESDAY, 5TH APRIL, 1938.

Members present:

Mr. MORGAN JONES in the Chair.

Sir Irving Albery.
Mr. Benson.
Sir Edmund Brocklebank.
Mr. Lathan.

Mr. Pethick-Lawrence.
Mr. Wilfrid Roberts.
Sir Isidore Salmon.
Sir Robert Smith.

Sir GILBERT UPCOTT, K.C.B., Mr. W. R. FRASER, and Mr. H. BRITAIN,
called in and examined.

CIVIL APPROPRIATION ACCOUNTS, 1936.

CLASS II.

VOTE 8.

COLONIAL OFFICE.

Sir COSMO PARKINSON, K.C.M.G., O.B.E., and Mr. H. PALMER,
called in and examined.

Chairman.

3338. Civil Appropriation Accounts, 1936, Class II, Vote 8, Colonial Office. Turn please to page 74. Sir Cosmo, would you be good enough to tell us what is meant by the reference to special missions in note B. What are they?—(Sir *Cosmo Parkinson.*) Provision is made every year to enable, it may be, the Secretary of State or the Under Secretary of State or other members of the Office to visit Colonies. It is very difficult to be sure in advance whether it will be possible to carry out the plan, even if the plan has been formed so far in advance. That is the object of that Vote.

Chairman.] I have no questions on page 74 and 75.

Sir Isidore Salmon.

3339. On the total expenditure of your Vote against last year you are up roughly £6,000. Is there any special reason for that?—Yes, it comes almost entirely under the salaries sub-head.

3340. Is that attributable to the fact of savings due to certain posts being filled by officers on rates lower than estimated?—That comes about on retirements during the year. We had two officers (one as Assistant Secretary) who both retired on health grounds. That means, of course, that their successors go in at the initial point of the scale, and that works right down through the principal list and assistant principal list and from a single retirement you may get a very substantial saving temporarily in that way.

3341. But, as your total expenditure is up by £6,000 on last year's estimate, does that mean also that you have increased the number of units in the Department?—Not in the higher grades, I think, but in some of the clerical grades there have been some additions to the staff, higher clerical and clerical officers, and among the typing and shorthand staff.

3342. Would you mind explaining the difference in "Reimbursement of salaries of officers on loan to other Departments or seconded for service with Colonial Governments." Your explanation is "Unforeseen variations in arrangements regarding officers on loan." What does that mean?—So far as officers seconded for service with Colonial Governments is concerned, which is much the more important item, we have now for some few years had the system under which junior officers from the Colonial Office serve for a period of two years with some Colonial Government. The arrangement arose out of what was known as the "Warren Fisher Report": we on our side bring in Colonial Government officers to serve for two years inside the Colonial Office. That effects a very valuable interchange. It is limited to the extent of the staff that you can spare and can arrange. We have tried now the secondment of Colonial Office assistant principals to East Africa, West Africa, Ceylon, Malaya and Palestine; the next one to go out will be going to Uganda. When these officers go out their salary has to be fixed according to their status and it is shared between the Colonial Government and the Colonial Office.

5 April, 1938.] Sir COSMO PARKINSON, K.C.M.G., O.B.E.,
and Mr. H. PALMER.

[Continued.]

Mr. Benson.

3343. I would like to know something about this Hospitality Fund on page 75?—That is one of the messengers who gives in his spare time work as an announcer or toastmaster on behalf of the Government Hospitality Fund. It is done, of course, out of hours.

3344. There are various items here of overtime. An unestablished messenger, for example, on 55s. a week earns £50 overtime and another messenger £51 overtime. That seems very heavy overtime?—Yes. There is, I think, a considerable expenditure on overtime in various lower grades in the Colonial Office, working down from the clerical officers through the various grades to the messengers. The arrangements, of course, are always made in accordance with the rules for overtime by which a fixed period must be served during the week before you count at all, and the rates are all fixed. I doubt if it is avoidable. I have sometimes wondered whether it does not mean that there ought to be more staff. One of the difficulties then is actual accommodation, even if we had the staff.

3345. What I was thinking of rather was this, that if a man is working overtime consistently to the extent that he is earning practically half his wages in overtime, what about his normal work? Is not that going to suffer? You cannot work a man day and night?—I think I can give you an assurance which I have had from my own establishment officer, that the overtime payments have been strictly in accord with the rules and that he has no fault to find.

3346. I am not talking about "according to the rules"; you cannot ask a man consistently beyond a certain length of time without his general work suffering?—(Sir Gilbert Upcott.) 1936 was exceptional for the Colonial Office because they were under pressure owing to the Mediterranean difficulty and the Palestine troubles. (Sir Cosmo Parkinson.) And on Sunday work.

3347. The point is that you cannot get more than a certain amount of work out of a man?—I agree.

3348. And if you work him consistently on overtime his normal standard is bound to suffer; a small amount of overtime cannot be avoided, but when a man gets to earning practically £1 a week overtime the drain on the man is too much?—I agree that it is

undesirable. I am afraid that overtime is worked in most of the grades but without the pay.

Mr. Lathan.

3349. On page 75 you make reference, in explaining that there is extra remuneration, to two pensions?—Yes.

3350. Is that regarded as extra remuneration? Is not that a condition of service?—No; the first, an Assistant Under Secretary of State, is Sir George Tomlinson, who had served his time in Nigeria as a Colonial Service Officer and had retired with pension. As a result of the Warren Fisher Report we started what was called the Personnel Division in the Colonial Office and Sir George Tomlinson, who was thought to have the most excellent qualifications for it, was brought in to organise and manage and is still managing that Division. He is entitled to receive pension from Nigerian Funds in addition to his salary as an Assistant Under Secretary. The chief Medical Adviser also referred to was Sir Thomas Stanton, who died a few weeks ago. He had served in the Federated Malay States, retired with pension, and when a chief medical adviser was required for the Secretary of State he was selected and, of course, he continued to draw from Malay States Funds his pension in addition to the salary provided on the Vote.

3351. The payment from the Nigerian and Malay States Funds respectively is regarded as extra payment or remuneration?—It is not extra remuneration as I understand it. I think in this list it is necessary to record for the information of the Committee any extra sums received by Civil Servants and for that reason it appears for information. (Sir Gilbert Upcott.) I think it is probably very virtuous of the Colonial Office to mention these Colonial pensions, but I doubt whether it is really obligatory on their part because they are not received from Imperial Funds. They are received from entirely separate Colonial Funds.

3352. It is certainly virtuous of them to draw attention to these duplicate payments, but the question arises whether there are not other people equally competent and available who are not already in receipt of pensions?—(Sir Cosmo Parkinson.) I think I can say that no Secretary of State who has had Sir George Tomlinson or Sir Thomas Stanton to advise him would have wished a change. Sir Thomas Stanton was the

5 April, 1938.] Sir COSMO PARKINSON, K.C.M.G., O.B.E., [Continued.
and Mr. H. PALMER.

first of the Chief Medical Advisers and it was really quite wonderful, I think, the way he improved the Medical Service and our relations generally with the Medical Profession.

Chairman.

3353. Would his salary be partly contributed to by the Malay States and by Nigeria and partly by England?—No, it appears on the Colonial Office Vote.

3354. That is the total pension received?—The salary is £1,500; the pension does not appear in our Vote, of course.

3355. That is the total salary he received?—The total remuneration £1,500 from our Vote and £641 of his own pension from the Malay States.

Chairman.] Are there any further questions? May I take it that this Account is approved? (*Agreed.*)

VOTE 9.

COLONIAL AND MIDDLE EASTERN SERVICES.

Chairman.

3356. Turn please to page 8, Class II, Vote 9, Colonial and Middle Eastern Services, paragraph 14. I think I had better ask the Comptroller and Auditor General as to how the position regarding Somaliland now stands?—(*Sir Gilbert Upcott.*) I have received the Accounts for 1936. I have no observations to make upon them.

3357. Might I ask Sir Cosmo with regard to sub-paragraph (ii) whether the Colonial Office now has completed consideration of the Report concerning the New Hebrides Condominium?—(*Sir Cosmo Parkinson.*) The New South Wales auditor general produced his Report. I understand it has shown nothing in the way of dishonesty or anything irregular 'but he has made certain suggestions for improvement in accounting. Those suggestions are under consideration and we now have been able to put forward through the High Commissioner in the Western Pacific, definite suggestions for the future audit of the Condominium Accounts which has given trouble in the past, that is to say, that for the three years following the audit referred to here the French authorities will deal with it, and for the following three years the Director of Colonial Audit. We have not yet had the answer from the French authorities but I hope that a definite arrangement of that kind will be made which will leave the thing absolutely clear.

3358. Did I understand you to say that you are still awaiting the French agreement to that proposition?—Yes.

3359. On the third sub-paragraph how does the position stand as regards the Malta accounts?—There were two Malta Accounts, one in respect of certain relief

paid to Maltese British subjects living in Turkey and one in respect of passive defence measures in Malta itself. The Comptroller has received the Account in regard to the first and I have been able to send him an Account, but not final, in regard to the passive defence measures, an Account which describes, at any rate, the cash position up to the end of March, 1937. The difficulty has arisen over queries which the Colonial Office itself wished to make on receiving this Account, in particular with regard to the passive defence measures, as to the division between the Government of Malta and the British Government, as the Government of Malta was, in accordance with the arrangement made in that year, to pay from its own resources what might be called the normal expenditure that Malta would incur on passive defence measures, the British Government being willing to meet the remainder. In point of fact, the Malta Government's figure works out at more than we expected from the Malta Government and I understand that that naturally is satisfactory to the Treasury. (*Sir Gilbert Upcott.*) The main outstanding point on the Malta emergency measures account is the question of the disposal of stores which remained over.

3360. Those two points to which you refer, Sir Cosmo, are the subject of the queries, are they?—(*Sir Cosmo Parkinson.*) They have been, and the stores too.

3361. Have you anything further to say, Sir Gilbert?—(*Sir Gilbert Upcott.*) No; I shall await the result of the discussions between the Colonial Office and the Malta Government.

Chairman.] I think we had better take any questions on those three sub-paragraphs first.

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[Continued.]

Sir Isidore Salmon.

3362. Do I understand, Sir Cosmo, that on sub-paragraph (ii) of paragraph 14 the audit generally is satisfactory and that it is only a matter of a little detail that has to be settled?—Yes.

Chairman.

3363. Paragraph 15: how was it possible to make an equivalent reduction of the Grant-in-Aid of normal expenditure?—(Sir Cosmo Parkinson.) That is in the case of Somaliland?

3364. Yes?—I think the original grant was £74,000: £30,000 was needed as a supplementary for these special measures arising from the advent of refugees and the protection of the border, but there was an unexpected windfall for British Somaliland, as one of the results of the war in Abyssinia was to increase very largely the transit trade through Berbera and so it happened that we were able to find the £30,000 from the original grant without actually asking for new money except as a matter of form.

3365. Was that a transient sort of benefit?—To some extent it will continue, but I am afraid I could not hold out any hope that Somaliland will ever pay its own way; it is a desolate country.

3366. I was wondering whether that £30,000 (that nice nest egg, shall we call it) was something that was due to the operations at that time?—Yes, that is so, but I think to some extent it may continue; I would not like to commit myself about it.

Sir Isidore Salmon.

3367. Part of the extra income was really fortuitous?—Yes.

3368. You expect to save some of the crumbs for the future?—It certainly was not expected. It came simply as an accident to help British Somaliland, or rather to help the Treasury.

Sir Irving Alberty.

3369. What was the more precise nature of the unexpected revenue? Was it taxation?—No, not direct taxation on Somalis; customs revenue.

3370. Duties?—Yes; Somaliland has no direct taxation. It was tried once and produced a rebellion amongst the natives. The Government depends largely upon the customs dues for revenue.

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Chairman.

3371. Paragraph 16, Nyasaland: Grant-in-Aid. This is rather a long story, Sir Cosmo. Will you please explain the story which has led up to this grant?—Do you mind my beginning with something like a lecture on geography, because I can hardly explain it without.

3372. So long as the lecture is not too long?—I do not know if you can picture Nyasaland as a long narrow territory running north to south along Lake Nyasa and having no access to the sea. It has Tanganyika at the north, Northern Rhodesia at the north-west, and otherwise Portuguese territory all round. The primary object was to secure through railway communication from a port on the sea, namely, Beira in Portuguese East Africa, up to the Zambesi, across the Zambesi and up through Port Herald, which is at the southern end of Nyasaland, through Blantyre as the commercial capital, up to the lake at Salima. That has been done in varying stages. When I first joined the Colonial Office the way to get into Nyasaland was that you went to Beira, took an ocean-going lighter up to the mouth of the Zambesi, where we had a little concession from the Portuguese at Chinde; you took a steamer up the Zambesi and hoped to reach the mouth of the Shiré River and up that and by the Shiré Highlands Railway which went only from Port Herald to Blantyre. There were two stages; there was the southern part between the Zambesi and the Indian Ocean, in which the Trans-Zambesia Railway Company obtained a concession from the Portuguese, and the line was built from close to Beira (the junction is called Dondo, on the Mashonaland Railway) up to the southern bank of the Zambesi. In order to help with that the Government of Nyasaland took certain of the share capital and guaranteed charges, interest and sinking fund, for a period of 25 years, but those payments which are made to the Company by the Nyasaland Government are regarded as a debt recoverable by the Government later if circumstances permit and the profits are sufficient.

Sir Irving Alberty.

3373. When Sir Cosmo said that the Government took shares will he explain exactly what he means?—Some of the share capital.

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3374. Do you mean they subscribe to it or it was allotted to them without subscription?—It was allotted.

3375. Without subscription?—Yes, that is so. The Government of Nyasaland's own finances are such that it can just about balance a normal budget at £450,000. That is the figure we regard as its standard revenue. Hence it needs assistance through the Colonial Services Vote to meet these charges. It obtains of course, a certain return on its own holdings, but it has not enough. In the Colonial Services Vote the amount advanced for this purpose is definitely shown as a loan recoverable with 5 per cent. interest and it is hoped that ultimately that may be recovered. That was for the southern part, but then you still had two gaps. There was a ferry across the Zambesi and there was no connection between Blantyre and Lake Nyasa, so the further stage was taken of making arrangements, with the assistance of a guaranteed loan of £3,570,000 under the Palestine and East Africa Guaranteed Loans Act. That was to provide a short mileage of railway called the Southern Approach Railway, because the engineers decided that the bridge across the Zambesi must be built from a point at Sena and it had to be linked up with Murraca where the Southern Railway ended; the bridge itself, which is two and a third miles long, and then the northern extension from Blantyre to Lake Nyasa. That loan was issued in two instalments, the first in 1932, £2,000,000 at 4½ per cent. and the next instalment in 1934, £1,570,000 at 3 per cent. The Government of Nyasaland obviously cannot from its own resources pay the charges required to meet the guarantee of interest and principal and, in the early stages, arrangements were made to meet the interest payments from a grant of £500,000 made from the Colonial Development Fund, a practice which the Colonial Development Advisory Committee very often adopt, of giving a grant for the early lean years when there is expenditure and nothing coming in. Hence in this Account there is no provision for interest payments because it has been met from that source. That source has now finished and in a later account there will be provision for interest, but there is provision in the form of a grant for sinking fund totalling £46,000. That takes the form of a grant made in the Colonial Services Vote to

the Government of Nyasaland in order to enable it to pay these charges. I do not know if I have explained it sufficiently.

Sir Isidore Salmon.

3376. On the second part of the building of the railway and the building of the bridge, do you take any interest in the way of capital by taking shares?—The Government of Nyasaland have certain holdings in that also.

3377. So you have a holding both in the first part of the programme and the second part of the programme?—Yes.

3378. Notwithstanding that holding you expect to get capital and interest for the loan, that is to say, you expect to be repaid capital and interest on the loan?—No, that refers to the Trans-Zambesia Railway Company, the first thing I spoke of, where on the Colonial Services Vote so much money is advanced to the Government in the expectation that it will ultimately be recovered. So far as the guaranteed loan of £3,500,000 is concerned arrangements will begin in 1940 for the Company to produce a sinking fund based on, I think it is, 1 per cent. of the share capital which will be used to save the expenditure which otherwise the Government is now providing. (Sir Gilbert Upcott.) Nyasaland holds debentures on the bridge, but interest is only payable out of earnings.

3379. The point I was trying to understand is that not only are those that are interested in the railway responsible for repaying in the first place the capital and interest, but if they have given as a bonus a number of shares to the Government, then, whatever interest the Company may earn, the Government would earn it on their shares?—(Sir Cosmo Parkinson.) Yes, the Government does get a certain amount of return. It may be £36,000 or in that neighbourhood; it does get a certain return but not nearly enough to enable it to meet the whole charges.

3380. But it ultimately hopes to get it?—It ultimately hopes to get it back.

3381. And its liability is being built up against the Company?—Yes, that is right.

Chairman.

3382. I understand you to say that you do expect to get this money back in regard to the Trans-Zambesia Railway?—That is certainly the basis on

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which the arrangements have been made. Whether the profits will work out sufficiently well I am not prepared to say, but we are certainly working on the line that these are advances.

3383. That was the theory on which you proceeded?—Yes.

3384. What is your expectation concerning the theory?—It is very difficult. It depends on the development of Nyasaland, I think, and that has not gone on as well as one might have hoped. The one thing that will save Nyasaland financially, I think, will be if it is found to be mineralised like its neighbour, Northern Rhodesia. The Government has been conducting certain geological surveys of its own, I am sorry to say without any result, but there is a far more intensive survey in the north carried out by the British South Africa Company which will find minerals if they are there, I think. That will be a great salvation; otherwise we are dependent mainly on three crops, tobacco, tea, and cotton, and where the experts years ago reckoned that you might get 100,000 bales of cotton coming out of that country, the same experts to-day in their more optimistic moods do not go above 40,000, and it is much nearer 10,000 or 15,000.

Sir Isidore Salmon.

3385. Are not these financial arrangements, looking ahead, likely to have a very depressing effect on the maintenance and the development of this railway, having regard to the fact of the enormous annual liability that is being created?—It is a very heavy liability and only in the last few months there has been a special financial Commissioner, Sir Robert Bell, who has visited Nyasaland to enquire into the whole financial position and to see what prospect, if any, there is of improving the position both for Nyasaland and the Treasury, because it comes back to the Treasury. He has arrived home within the last two days, but we have not got his Report yet. That is one of his main Terms of Reference.

Chairman.

3386. Have the Treasury anything to say on this story?—(Mr. Fraser.) No, not unless you have any questions particularly to ask. We are anxious, like the Committee, about the future. We can only await proposals from the Colonial Office.

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Sir Irving Albery.

3387. When this bridge and undertaking was first considered was it as a development scheme which was then expected to pay its way, or were there other considerations of importance which made it necessary apart from its economic value?—(Sir Cosmo Parkinson.) I think the position of Nyasaland was at that time hopeless in the sense that it had no real commercial outlet and it had to be given the chance. I should say that was one factor, but it was thought, I believe, that there were prospects of very considerable development in various parts including what is now generally called the Dead North of Nyasaland. That is rather an undeveloped region. The natives themselves can normally make enough to live on there, though if there is a famine, as there was recently, maize has to be sent up. But there were hopes of development which have not been fulfilled. (Sir Gilbert Upcott.) I think I am correct in saying that in 1929, a somewhat more optimistic period than now prevails, it was hoped that the bridge and the northern extension would pay its way about 1936.

3388. May I ask Sir Cosmo, could he say precisely what the consideration was for the shares which were transferred to the Government?—(Sir Cosmo Parkinson.) No, Sir, I should have to look it up.

Chairman.] Can the Treasury say?

Sir Irving Albery.

3389. It is rather an important factor?—According to the note which my accountant has the consideration was the sum advanced totalling £3,500,000.

Sir Irving Albery.

3390. I understand that the Government advanced the money to the railway undertaking and got railway debenture stock as a security against that advance. Would I be right in understanding that they not only got the railway debenture stock, but, as is quite frequently done, they got shares as well.

Chairman.

3391. Would you like your accountant to answer?—Yes. (Sir Gilbert Upcott.) One million shilling shares they hold.

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[Continued.]

Sir Irving Albery.

3392. That was part of the consideration for giving the loan, I take it?—Yes.

Sir Isidore Salmon.

3393. They had an equity in it?—Yes.

Sir Irving Albery.

3394. What interest were those debentures supposed to bear?—(Mr. Palmer.) 5 per cent. interest.

3395. And the money was borrowed here?—Yes, at $4\frac{1}{2}$ per cent. on £2,000,000; 3 per cent. on the £1,500,000.

3396. Would it be correct to say that as it was desired to finance this railway undertaking which, at any rate in the early days was not expected to be able to pay its way, the money for this purpose was lent by a Colony which was also unable to pay its way and again borrowed from somebody else. Would that be a correct interpretation of the position?—(Sir Cosmo Parkinson.) The loan was raised under an Act of Parliament, the Palestine and East Africa Guaranteed Loan Act, which permitted the raising of loans for certain purposes including railways, up to a total figure. The guarantee rests ultimately with his Majesty's Government but it is carried out by the Nyasaland Government with the necessary assistance from the British Government to do it.

3397. The point I was really trying to come to was this: would it have been possible and, if so, would it not have been better that the money should have been provided directly for the railway by the body who were able to provide it? I will put it this way: one undertaking which was not likely to be solvent borrowed from another undertaking which was not likely to be solvent which again got the money from the British Government. Is it necessary to have this intervening insolvency, as it were?—Of the Government of Nyasaland, you mean?

3398. Yes?—I think it is largely a Treasury point, if I may say so.

3399. May I ask the Treasury?—(Mr. Fraser.) I think there is a weak link in the argument if I may say so.

3400. There is no argument; I am asking a question?—The assumption you are making is that Nyasaland was completely insolvent. It was hoped that at

some day in the future Nyasaland would be able to pay.

3401. I am not questioning the eventual hope, but it was not expected that they would be able to pay for a considerable period?—The alternative of providing money by the British Government direct is lacking in a certain amount of attraction.

3402. What would happen if progress came to Nyasaland and the railway made considerable profits? I suppose the loan to the British Government would be met and the Nyasaland Colony would make a considerable profit out of the extra interest on its debentures and out of the dividends paid on the share holdings. If that is the case, that is a particularly bad bargain for the British Government, because if the thing is a success it does not get the profit and if it is not a success it makes the loss?—(Sir Cosmo Parkinson.) I am not sure, because an arrangement might be made (the Treasury would probably say that it would be made) with the Treasury for recoveries. (Mr. Fraser.) I should think, if that very happy picture painted by Sir Irving came true, we should get something out of it.

3403. It does not seem to be provided?—(Sir Gilbert Upcott.) I pointed out in my paragraph that this Grant is not expressed to be repayable. (Sir Cosmo Parkinson.) Not on the guaranteed loan.

3404. Then it comes to this, that if the proposition is successful (I am not grudging the Colony some profit) the Colony gets the profit, and if it is unsuccessful the Mother Country bears the loss. That may be justifiable; I do not know whether it is or not?—(Mr. Fraser.) I think we should see that coming a long time beforehand, and should be able to make the necessary arrangements to see that we got our proportion.

Chairman.

3405. Would any benefit accrue from your seeing it coming?—Personally I do not see it coming. (Mr. Brittain.) May I just add one consideration on Sir Irving's point, which was: Why interpose the Nyasaland Government? That consideration is that we do get the benefit of a certain amount of control by the Nyasaland Government on the spot. They have a definite responsibility for all these loans and I think it adds something to our control over the undertaking.

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[Continued.]

Sir Robert Smith.

3406. You mentioned a point about the value to the country as a result of the bridge. You stated it was a question of coffee and cotton?—(Sir *Cosmo Parkinson.*) Tobacco, cotton and tea.

3407. You said the original figure you were given was that they would be able to produce 100,000 bales of cotton and that they had only produced 40,000; and that the same body's opinion now was that it could only produce that amount?—So I am told.

3408. Was that owing to their opinion of the country being wrong and that it was not capable of producing the quantity, or was it a question of the sale of 40,000 instead of 100,000 and that the markets were gone?—I think it was a question of production and the suitable soil.

3409. It seems very extraordinary that the body which advised you should not have had really some idea of what the value of the country was from an agricultural point of view?—That is second-hand information which I had from Sir Robert Bell. He came across it in his recent inquiries.

Sir Isidore Salmon.

3410. Do not they grow sisal?—No.

Sir Robert Smith.

3411. Is this body which advised you wrongly before still used at all?—It was an individual.

Mr. Benson.

3412. You said that there was a survey going on searching for minerals?—Yes.

3413. To whom would those minerals belong if they were discovered?—To the British South Africa Company which has mineral rights in many parts of the Central African territories.

3414. To whom does the land itself belong?—It is practically all Crown Land, a very large part of which has now been declared Native Trust land.

3415. Are the mineral rights permanently alienated from the Crown?—They would have to be purchased, for the Crown to obtain them.

3416. When did the South Africa Company get them?—This goes back, I think, to the days when Nyasaland was called the British Central Africa Protectorate and the Foreign Office were in charge even before the Colonial Office were interested.

3417. And the Foreign Office sold these mineral rights to the British South Africa Company?—I should not like to be too detailed upon it but that is the present position.

Chairman.

3418. Do they pay you a rent now or something?—There are no minerals at present.

3419. Do they pay rent for the right of prospecting on your land?—This particular survey which they are conducting (the extensive survey) they are carrying out entirely at their own expense, not at Government expense, but I do not know that the Government is making any charge on them.

3420. Do they dig here and there and disturb the land; if so, do they compensate you for that?—I am sure the Government of Nyasaland would arrange that. I have seen no reference to disturbance.

Mr. Lathan.

3421. The building of this bridge and what are described as connected works was part of a development programme, I take it?—Yes.

3422. Initiated by a private railway company?—No, there were very long negotiations. Originally there were two railway companies, the Shiré Highlands Railway Company and what was called the Central Africa Railway Company, which carried the line from the commercial capital of Blantyre down to the Zambesi. Now there is the Nyasaland Railway, which has taken over the Shiré Highlands and operates the other line and the bridge.

3423. Did they initiate the building of the bridge? Was it their idea?—No, I think it was primarily the Government's idea, with negotiations that lasted I should not like to say how many years (five or ten years), before they could be got through. Immensely complicated throughout by the fact that the whole operation was in Portuguese territory.

3424. I think this point was raised by Sir Irving Albery, but I did not notice a reply made to it. Were there political or other considerations apart from the anticipated but not realised development?—I should not say political so much as commercial. Development was the idea.

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3425. The commercial position so far as the British Government is concerned does not seem to be very promising?—It was from the point of view of developing Nyasaland; it was not political. There was nothing political about it that I know of.

3426. It is fairly clear, is it not, that the main responsibility appears to be placed on the shoulders of the Mother Country?—Yes, I think so.

3427. Yet you have just told us that if minerals are discovered it would make a change in the position?—I think it would help very much.

3428. Little or no value would attach to it?—It would help the Nyasaland Government to pay the charges without any help from the British Government then.

3429. The British Government might be paid out then?—That is a hypothesis. (Mr. *Brittain*.) Our guarantee would not be operative.

3430. We should cease to be liable to pay it, but we should have no benefit from the development of the country which we had made ourselves responsible for?—This country gets the interest on the loan. (Mr. *Fraser*.) We should save £190,000 interest and sinking fund which we are paying at the moment.

3431. That is paid to enable the development scheme to continue; if it continues and ultimately development occurs and prosperity arrives, the result of the prosperity does not accrue to the Government at all?—(Sir *Gilbert Upcott*.) Nyasaland owes the British Government about £1,000,000 on another account.

3432. That makes the position worse, does it not?—(Sir *Cosmo Parkinson*.) Nyasaland would then be able, I should imagine, to repay some of its debt to the British Government.

Chairman.] I very much doubt whether we ought to carry this discussion very much further because it does trench upon policy, does it not?

Mr. Lathan.] It comes close to that, except that it is difficult to separate the two, it seems to me.

Chairman.] I quite agree.

Mr. Wilfrid Roberts.

3433. The interest and sinking fund are stated to be payable out of the revenues earned by the railway company on the particular works financed from

the loan. Is it very possible in these circumstances to ascertain what is the revenue from the bridge and the section of the railway which is connected with the bridge, and not from the whole working of the railway company as a whole?—(Sir *Cosmo Parkinson*.) A working arrangement has been arrived at, I think, for dividing these up. (Mr. *Palmer*.) Yes, there was quite an elaborate formula worked out when the agreements were decided with the railway company, to ascertain what was the profit earned on the bridge and what was the profit earned on the southern approach, so it is possible to divide it up and see how much the bridge has earned and how much the southern approach has earned and how much the northern approach has earned.

3434. You are satisfied that the formula is working satisfactorily?—Yes, the accounts are audited; we have no reason to suppose that it is not.

3435. I did not mean from such a technical point of view, but from a general point of view, are you satisfied that there are not advantages to the railway company of having this bridge which are not being met by interest payments to those who have lent the capital?—The formula was fixed when the agreements were originally signed, and you cannot go back on that now.

3436. I am asking, does the formula in practice seem to be working in a fair way?—As far as one can say, the dividends on the bridge are being paid to some extent, and the bridge is the bulk of the expenditure. The bridge accounts for nearly £2,000,000 of the expenditure, and it is on the shares allotted in respect of that £2,000,000 that we are at present getting a certain amount of interest which amounts to about £36,000 a year so far.

3437. Could I put the question another way? I am not quite sure whether I understand the situation altogether. This is only a small part of the railway company's undertaking?—The bridge?

3438. Yes, and the part of the railway for which money was lent?—The bridge is one link, but it is a very important link and perhaps one of the most expensive links in the railway system.

3439. In what sort of financial position is the railway company as a whole?—It has not paid any dividends on its ordinary shares, as far as I know.

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[Continued.]

Sir *Isidore Salmon*.

3440. May I ask Sir Cosmo one question? Have you had any complaints from traders in Nyasaland of the high charges by the railway company for the carriage of goods over that bridge?—(Sir *Cosmo Parkinson*.) There have been, certainly, complaints about the railway rates; I should not like to say how far they are justified. I know that the financial Commissioner who was recently in Nyasaland and who has now returned went into that matter among others in his Inquiry. I believe from a preliminary talk I had with him recently that on the whole he is not dissatisfied about the rates, but there certainly have been complaints. But then I should be surprised if there were not always complaints about railway rates at some time or other.

3441. The point I had in my mind was that in exporting tea from Nyasaland, compared with railway rates in India or Ceylon, the charge, taking it by mileage, is about four times the rate charged either in India or Ceylon for the same distance. I did not know if you had had complaints brought to your notice?—I have not seen complaints of that description.

Sir *Irving Albery*.

3442. Would you say that the actual running of the railway is such that it pays its way apart from its indebtedness? There is no actual loss on it? Taking out the interest on loan capital, does it pay its way?—(Mr. *Palmer*.) I do not think they have paid any dividends on their ordinary shares.

3443. They have not even paid their interest on the debentures?—No, not fully.

3444. Leaving out the debentures, do you reckon that the railway works on a basis which pays its way, leaving out interest on loan?—I suppose the difficulty is the high capital cost and not sufficient traffic.

3445. Leaving out the capital borrowed—leaving out the interest on the debentures?—I should say the traffic is not big enough. (Sir *Gilbert Upcott*.) They had a balance on their revenue account of £90,000 for the year ending 31st December, 1936.

3446. Allowing for depreciation on railway stock?—I should gather so from their account, but not allowing for any interest charges. It included a provision for a reserve for renewals.

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Sir *Irving Albery*.] I think it might be of interest to have some more detailed information about the financial conditions under which this railway is running; a lot of money is involved. We have to consider whether it is worth it.

Chairman.

3447. If you care to ask, you certainly can, and I am sure Sir Cosmo will be very glad to do what he can to supply it?—(Sir *Cosmo Parkinson*.) Yes, certainly, and I think we shall find it in a month or two set out very fully in the Financial Commissioner's Report, but in advance of that I will try to supply it for the Committee, if they wish.

3448. I think that would probably meet Sir Irving's case?—I would like to verify that; it will be covered in the Report.

3449. Will that Report be available?—Yes.

3450. It will be public?—Yes.

Sir *Irving Albery*.

3451. Then that is all right?—I would like to make quite sure that the Report will cover this.

Mr. *Lathan*.

3452. We could have copies of the Report supplied to us?—Yes.

Chairman.

3453. Would you be so good?—Yes, certainly.

3454. Paragraph 17, Brazil Boundary Commission. This thing is like Tennyson's Brook, it goes on for ever. Last year Sir John Maffey told us that it would be completed for £184,000, if I remember rightly. It does not seem to me that that figure is likely to be realised now, is it?—As regards completion perhaps I might explain that there has been a definite agreement reached with the Brazilian Government to simplify the particular process of boundary survey and to limit the amount of mapping required. The Brazilian Government have been informed that the British Government cannot contemplate having this survey continued beyond the field season 1938-9 and we hope that it will be completed by December, 1938. It has dragged on, of course, a tremendously long time, largely owing to the extraordinary difficulty of the country through which they were operating.

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3455. It was originally intended that it should be done for about £50,000, was it not?—There was an original estimate made by the British Guiana Government when it was proposed that the survey should be conducted by their own civil staff. That was far too low an estimate originally and ultimately, as I think you know, the Commission had to be recalled entirely owing to sickness; beriberi attacked the Commission.

3456. Was that the British Guiana Commission?—Yes.

3457. Your own Commission?—Yes, our own Commission, and then it was taken up in the normal way through the War Office as a Royal Engineer party. I think it will really end in December, 1938.

3458. Do you expect any money from the Brazilians?—No. We pay our own; each side pays its own.

3459. So we shall be mulcted in £184,000?—Yes.

3460. Plus?—If British Guiana had sufficient monies of its own it would naturally contribute towards the Boundary Commission. The difficulty was that British Guiana was not in a position to provide money of its own, so the whole amount has fallen on the Colonial Services Vote.

3461. Could you tell us how much you expect it to be done for now?—You mean what will have been the total amount?

3462. Yes?—(Mr. Palmer.) About £250,000.

Chairman.] Are there any questions?

Sir Irving Albery.

3463. I should like to ask Sir Cosmo a question. I understood you to say that each side was providing their own expenses?—(Sir Cosmo Parkinson.) Yes.

3464. Does that mean that the Brazilian people are making a separate set of maps?—They have their own staff.

3465. Making their own maps while we make our maps over the same ground?—Boundary surveys usually operate in that way by each country having its own party and working together; one side checks the other and, so far as we are concerned, for our maps we are responsible and if the Brazilians want maps they are responsible for their maps. It is the usual division of costs.

3466. Have you any idea as to what expense they are bearing?—I have not myself.

3467. I understood the Royal Engineers had eventually been employed?—Yes, that is the usual practice all over the world.

3468. For boundary surveys?—Yes, we usually try to borrow a Royal Engineer party, through the War Office.

3469. Are there different grades of making boundaries: can you have a very detailed boundary or a very rough boundary?—Yes, it can be varied. In this particular case I am not a surveyor and it does not convey much to me to know that the astronomical stations are at different intervals, but I can mention one thing they are doing to simplify it; in order to determine a watershed they are mapping the absolutely minimum number of heads of streams. You could do it in great detail, take longer and get something more perfect.

Chairman.

3470. Paragraph 18 is merely formal, I think. On paragraph 19, I understand, with regard to this matter of the unrepaid advances for the purchase of certain rights over territories held by the late Royal Niger Company, that Nigeria has made certain contributions, has it not?—Yes, that very long outstanding claim of £865,000 was finally disposed of by an Act of Parliament which was passed at the end of July last year, which remitted, so far as Nigeria was concerned, all claim. It had been accepted that the Government of Nigeria was legally liable under the terms of the old Act of 1899 when the Niger Company was bought out. In effect, I think, if I may say so, it is one of the most admirable arrangements ever reached because it seems to me that both sides were dealt with with great fairness. Strictly under the Act of 1899 it would have been necessary to determine exactly what sums were spent on the territory administered by the Niger Company and it was found you could not do it. They had rights extending over Northern Nigeria, but the territory administered was very doubtful, no separate receipts kept, so it was settled up on a commonsense basis. It was clear that the Government of Nigeria, as it now exists, which incorporates the old Protectorate of Northern Nigeria, has paid in recent years very large sums to keep that territory going. In addition to that they had made a very generous contribution in the war. They have borne the deficits on the Mandated

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territory of the Cameroons which was administered by that Government since the war; these amounted, I think, to £750,000 a few years ago. They made a grant independently (this should be mentioned) of some £70,000 to the British Government simply as a contribution towards Imperial defence, so it was felt that the right thing was to cancel out and that is what the Act did.

3471. Are there any further questions? Turn please to page 76. I see that there are some three or four grants that have been cancelled, St. Helena, sub-head A.4, sub-head A.10 and sub-head A.11. Why were they all cancelled, can you tell me?—One item which is specially worth mentioning for any of these smaller places is the sale of stamps. It is fortuitous, of course, and we deliberately set our faces against making money out of stamps, but when there is a new issue, as with the Jubilee or the Accession, to a small place like St. Helena, it may make all the difference, just for that year.

3472. And that accounts for this cancellation?—Yes.

3473. In each of those three cases?—There was a general improvement of the position and there have been no grants in 1937, I think I am right in saying.

3474. As to the second note A.5, A.7, A.8 and A.9. "Loans at present free of interest, the terms of repayment of which will be notified to Parliament when prescribed": is there any likelihood of a decision with regard to these?—Yes, the Treasury took up earlier in the year the whole question of these sums which have been advanced to Colonial Governments, made certain preliminary proposals and these are under active discussion with the Treasury. The results, of course, will be laid before Parliament.

3475. On page 77, sub-head A.12, I think you did just refer to this earlier in your evidence?—Yes.

3476. Would you tell us what is the future outlook in regard to this matter. Is this relief to go on indefinitely?—It is very difficult to see what alternative there is. There is no room in Malta itself, which is over populated, for these Maltese who were not born in Malta. They had been living quite happily in Turkey until nationalist feeling in Turkey led to the law in 1934 which deprived these people of their trades and professions, and they were stranded there

destitute. The British Government is helping out the Malta Government. The Malta Government pays one quarter, the British Government three quarters but it is very difficult to see what you can do for these people.

3477. Yet they were not born in Malta?—Not born in Malta but the children of Maltese who had emigrated to Turkey and had been born in Turkey.

3478. Would not they in that event be Turkish citizens?—They are British subjects.

3479. Even though they were born in Turkey?—Yes.

Chairman.

3480. It is an unfortunate story, but I do not see what else is to be done.

Mr. Lathan.

3481. Have we to accept responsibility for them in cases of destitution?—I think from the point of view of humanity one must help them.

3482. Humanity apart, I am speaking of legal liability?—I suppose in the ordinary way, if you had a distressed British subject anywhere overseas, he might have to be sent to this country at the expense of the Foreign Office. I do not know that one can reasonably escape the liability. The only hope is that some of these, like other Maltese, might find somewhere to emigrate. They would like to go to such a country as Australia, some of them. Queensland suits them very well, but it is not too easy.

Mr. Benson.

3483. Is this liability a permanent liability?—It is continuing at present. It was not as large as the figure here. Actually £11,000, I think, was provided out of the grant of £15,000.

Sir Robert Smith.

3484. May I ask you about these Maltese who settled in Turkey; they had not been naturalised anywhere?—No.

3485. They were just resident there the same as one may be resident in a foreign country?—Yes.

3486. With regard to the Chairman's question, you surely retain your parents' nationality?—Yes, they are British subjects.

3487. That is what I mean. That is the case everywhere?—Yes.

Chairman.] Are there any further questions?

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Sir *Isidore Salmon*.

3488. The total expenditure as one sees has gone up tremendously; that is for loans. I understand that the Treasury and your Office are going into the whole question of loans?—That is it; this year we are going into it with the Treasury. There are various loans which have been made over a period of years called "Loans in Aid" to Colonies. The question is: what is to happen? Is that to remain a debt which may be recovered or is to be written off.

3489. I was not concerned with what is past, but if you will take the expenditure, Grants-in-Aid, the total figure has gone up to £2,178,000, that is, to Nyasaland, Kenya, and other places.

The figure seems to me to be rather high. No doubt the Colonial Office go into the justification for all these items?—There have been the supplementary Votes for Kenya and Somaliland.

3490. Yes, I am not arguing that there have not been supplementary Votes, but the point I am trying to arrive at is: before these grants are made, I suppose the Colonial Office satisfy themselves that it is a reasonable thing for development to advance this money?—Yes, certainly and, more than that, the Colonial Office has to satisfy the Treasury.

3491. Which is even more difficult?—Much.

Chairman.] Are there any questions on pages 78 to 83. May I take it that this Account is approved? (*Agreed*.)

(*Sir Cosmo Parkinson and Mr. Palmer withdrew*.)

CLASS I.

VOTE 15.

THE MINT.

Mr. J. H. McC. CRAIG, C.B., Mr. W. PERRY, O.B.E., and Mr. T. W. KENNER, called in and examined.

Chairman.

3492. Civil Appropriation Accounts, 1936, Class I, Vote 15. The Mint. Will you turn to page v, paragraph 7. On paragraph 8, if you will turn over the page you will see that the Accounting Officer stated, in reply to inquiries by the Comptroller and Auditor General, that "having regard to the very considerable improvements which were incorporated in the press" (etc.) "the charge was regarded as eminently reasonable." Could you say whether, from the records, there were any grounds for the opinion stated there, that the charge was reasonable?—(*Mr. Craig*.) It was mainly by comparison with the price of the existing presses. They were costing at that time £1,155. This was a new design of press, and obviously a better bit of machinery, which had involved a very great deal of preparatory work by the firm. The Mint were clear that that extra price was not only profitable to us but was unprofitable to the contractor.

3493. Is there any record available to show how the opinion was arrived at?—No, Sir; it was oral discussion between the Deputy Master and his Chief Officers.

3494. Can you tell me if there is any record as to the amount of profit that was included in the price?—There is no record, Sir, but the opinion of the Mint officers is that there was no profit in the price. Actually the market price of that press is now, I think, £1,400.

Sir *Isidore Salmon*.

3495. You paid how much—£1,315.

Chairman.

3496. You mean the catalogue price so to speak?—The catalogue price is £1,400.

3497. Do you know if there is any discount allowed to those who purchase at that catalogue price?—No, Sir, there is no discount.

3498. You are sure of that?—Quite sure.

3499. You do not know how much profit is provided in that catalogue price?—I cannot tell; it depends upon how many presses the firm sell. They were clearly put to a substantial amount of expense in devising this new bit of machinery; clearly, quite substantial amounts. I should have thought they must certainly have lost money on the

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first press, which they will hope to recoup from subsequent customers, not necessarily from us.

3500. They are not recouping themselves if the catalogue price is about what you paid?—If they get a sufficient number of orders, they will have worked off, say, the time of the Managing Director. One of their Directors was pretty well three months down at the Mint examining what was necessary; that is part of the cost.

3501. It was not done in your time, but I observe that the Treasury seem to take the view that there was something that required precaution as far as the future is concerned?—(Mr. *Fraser*.) Yes; we discussed this with the late Deputy Master, and the letters were written in agreement with him. I think he did admit that perhaps it would have been better if the firm's books had been examined in this case.

3502. And you have nothing further to say this afternoon on the point?—No. (Mr. *Craig*.) It cannot occur again, because we have directions from the Treasury that we are not to place orders above £1,000 without their prior consent, and that, if the contract contains a provision of this sort for inspection of books, we are not to waive it without authority from them.

3503. I should think not indeed?—(Sir *Gilbert Upcott*.) I reported the case as a matter of principle, because the principle of inspection of books is so important that a refusal of an offer is not to be encouraged.

Mr. *Lathan*.

3504. Did I understand Mr. Craig to say that there is a list price?—(Mr. *Craig*.) So I am informed.

3505. Yet in the paragraph to which we are directing attention it is stated that this was built specially to meet the needs of the Mint?—This was the first press of that type, and, being an improved press, the firm are putting it on the market. There is a market in foreign countries.

3506. It was devised to meet our requirements and then it became a stock article?—Yes; it is very much better than the old presses.

Sir *Isidore Salmon*.

3507. Does it save money in working?—Yes, it does two things; it will take any size of coin, instead of only either large or small coins. That gives us elasticity.

3508. Does it save you money in actual working?—Secondly, its output is 10 per cent. faster than the old press. You can take it that there is a 10 per cent. saving in the labour.

3509. Did your contract provide that you should have the right of examining the Company's books?—Yes.

3510. Or did they voluntarily offer you permission to examine them?—The contract was made on that basis. Nobody knew precisely what it would cost, and the contract was made on that basis, that we should have the right of examining the contractor's books.

3511. Have you, in the Mint, officers who have had any experience of making machinery, so that they were in a position to judge if the price was fair?—I do not think we have people with experience of making machinery on that scale. We make the smaller things; but the reason for thinking this price was fair was a comparison with the price known to be charged for existing, more primitive presses.

3512. How many were you ordering at a time?—We ordered one at the time and two subsequently.

Sir *Irving Albery*.

3513. Do you happen to know whether any of these presses have since been sold at the catalogue price?—We do not know; it is not a very big trade.

Mr. *Pethick-Lawrence*.

3514. In any case, the number of presses sold is very small; it is not a thing which is on the general market? It is only on a very rare occasion that any press is bought?—It is a very small trade; there is some export trade in them; I do not know its size.

Sir *Robert Smith*.

3515. It is said in the other part of the paragraph that you had special demands for Imperial coins. Was it known to you before you got this press that you would have these demands coming on, and that you would have to get special machines?—We did not know of the very largely increased demand in 1936, beforehand, but we always have a sufficiently substantial output to make it worth while having fast presses.

3516. You knew that new coins were required, did you not?—Not, I think, at the date the press was ordered. The new design makes no difference. I do not think we knew of the very large

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increase in demand which was impending when the press was ordered.

3517. On page 55 of the Estimate I find you were spending £3,000 more than you did the year before on designs for medals, coins and seals, so you must have known, when you were spending that amount more, that there must have been in the year some greater requirements of production from the Mint?—That was the new currency involved by the demise of King George V.

3518. You must have known of that. Would not that affect your purchase?—(Mr. Perry.) That, if I may say so, does not affect the question at all. The provision for new designs is merely that we had to provide new designs because of the decease of the late Monarch, but that there is going to be an enormous demand for that coinage does not follow.

3519. Your original machines would have been able to meet the demand just as well?—No. (Mr. Craig.) No, this was an improvement in machinery; we have a more flexible machinery. Eventually we hope we shall be in the position that we can put any of our coins in any press; but I do not think the increased demand was a substantial factor in requiring that improvement. We required it, anyway.

Mr. Benson.

3520. You bought two extra presses. Did you pay the list price or the original price?—The same price of £1,315.

3521. You got the advantage right through?—Yes.

Chairman.

3522. Class I, Vote 15, The Mint, page 25. I see in sub-head A you spent over 40 per cent. over the original grant. In sub-head F you had an under-spending, I think, of more than half?—Yes.

3523. Then you go to sub-head K and you have nearly £25,000 less than the grant. Have you anything to say upon these wide variations?—I will try to explain them. Sub-head A, which is, in effect, labour charges, was overspent because in 1936 there was an enormous increase in the demand both for Imperial and for Colonial coin. Essentially the number of your men depends upon the number of coins you are turning out, and by September the Mint were very heavily pressed indeed, so we had to take on many more men. The cost for wages consequently went up.

Sub-head F provides the incidental expenses of manufacture. In that manufacture was a very large number of Colonial coins. We anticipated large orders for the coins. What we did not anticipate was, first of all, that the Colonies themselves provided a great deal of the base metal required for manufacturing them, so we had not to buy that metal and its cost does not appear in the accounts. Secondly, we had not anticipated the increase in the other demands, so we had to transfer a substantial portion of these contracts to, in effect, sub-contractors. But the sub-contractor is paid direct by the Colony and the money does not pass through our accounts, so that, although we turned out this enormous quantity of Colonial coins, sub-head F is down. On sub-head K we provided for repatriating £25,000 worth of silver from the Sudan, which I think we were bound to take if it was tendered, but it was not tendered, so that £25,000 was not required.

3524. Have the Treasury anything to say upon these matters?—(Mr. Fraser.) No, Sir. The increased expenditure which you have been referring to was automatic.

3525. It is an unexpected sort of year?—Due to the state of trade in that year.

Sir Isidore Salmon.

3526. Is the staff that you took on under sub-head A temporary staff?—(Mr. Craig.) Yes.

Chairman.

3527. On sub-head E you have a note, "Due mainly to the necessity for the purchase of new coining press and parts for presses." Would you argue that you spent the extra sum of money because of unexpected demands? Is that your point?—The new press which was needed, the press we have just been discussing, cost us £1,300 odd. We had provided £800 or £850 for it, so there is about £400 extra. Then as to the coining presses, we were working very hard and we had to replace the working parts; that cost us £1,100 instead of the ordinary figure of about £400. That is £700 extra.

3528. But, Mr. Craig, am I not right in saying that, in point of fact, your £7,000 was an increase over the previous year?—It was.

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3529. What was the previous figure, £5,000?—Yes, £850 of it was the new coining press. I am afraid I cannot explain the remainder. I have not got with me the reasons for the remaining increase of £1,000.

3530. You have not grasped my point, I am afraid. Perhaps I did not put it properly. Last year you had a grant of £5,000; now you have a grant of £7,000, and then you expend actually £8,300. Was not the rise from £5,000 to £7,000 in respect of the new machinery?—No, Sir. As regards the new machines, £800 odd was in the £7,000. The new machine cost us £1,300 odd, and that £500 is not provided for in the £7,000.

3531. Why did you ask for the £7,000 as compared with the previous year's estimate?—I am afraid, as the starting point, the rather old price for existing coining presses was inserted as the provision for a new coining press.

3532. Was there any estimate as to what this new machinery would cost you at all?—I do not think that I can say that there was. It was assumed that it would be round about the price of the old presses.

3533. That would be about how much?—£800 to £850.

3534. I am still a little in the dark: I am not holding you responsible Mr. Craig, you will understand, but the Committee must examine the thing. The previous year you had a grant of £5,000?—Yes.

3535. That was in 1935-6. It was in 1935 that you ordered this new press. The new press, you told us, was to cost something around the cost of the old press, which was about £800. That would make less than £6,000, but you actually got a grant of £7,000 and then your expenditure went up to £8,300?—I can put in a note if you wish, but I cannot explain off-hand.

3536. I should be glad if you would do it?—Certainly. (Sir Gilbert Upcott.) I think that the explanatory note in this Account is somewhat abbreviated. There must have been a number of other orders. (Mr. Fraser.) I have a note that the £5,000 went up to £7,000 because provision was made for certain essential replacements of coining presses which were due for replacement.

3537. That brings it up to £7,000?—Yes.

3538. How did it go up to £8,300?—(Mr. Craig.) I think I ought to be able to deal with that point. The new coining press accounts for £500, because it cost that much in addition to the £800. In 1936 there was a very large increase in the output of coin and we did replacement of working parts on a much larger scale than had been anticipated.

Chairman.] I am still not very clear, but thank you very much for the answer you have given.

Sir Isidore Salmon.

3539. How many years before you bought your last new press had you bought a press?—(Mr. Perry.) Not in my time, and I have been there 16 years. I cannot remember when the last press was bought.

3540. It would be fair to say that it was longer than 16 years since you bought a press?—(Mr. Kenner.) It was in 1924.

Sir Edmund Brocklebank.

3541. That is only 14 years ago?—(Mr. Craig.) 12 years from the period of this account.

Sir Isidore Salmon.

3542. Whoever was responsible for the estimate, do you think it was a wise way of estimating, to assume that you could replace a press at the same price as you paid 12 years ago?—It was the current list price of the old press that was worked upon.

3543. The difficulty one finds in looking at this account is that in the previous year you spent, in round figures, £1,000, under sub-head E, more than your original grant. That was in 1935, under sub-head E, for machinery: purchase and upkeep. You had a grant of £5,000, your expenditure was £6,411. When you turn to 1936, your grant is £7,000, you actually spent £8,305 12s. 7d. The point that would be very interesting would be to know how it was you were out to the extent of £1,300 one year and to the extent, in round figures, of £1,400 another year?—(Mr. Perry.) I think we have been underestimating for some years. We have been trying to cut down the capital expenditure on machinery, probably unwisely, because, turning back, in the old days it was quite customary for the Mint to be spending £10,000, £13,000 and £15,000 a year on new machinery. We have neglected that, in my opinion, for the last ten years, as regards replacement

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[Continued.]

of machinery, and we have cut it down too severely. For instance, rolls have given out, which is another expensive item. A pair of rolls cost £300 to £400 every time. They give out, and if we have not provided for them we have to pay for them, or output is curtailed.

3544. That is a point of management, as to how much you ought to put each year for replacements and additions?—Yes.

Chairman.

3545. If you look at the Civil Estimates, 1936, you will find on page 56, sub-head E, details explaining the increase of grant from £5,000 to £7,000?—Yes.

3546. It says "Additional machinery, repairs and renewals of existing machinery; electrical appliances; assay apparatus, balances, weights, etc., general repairs and alterations of plant and of structures, other than those devolving upon the Office of Works," so it looks to me as if you had already prepared for this extra machinery and renewal and so on in the grant that was raised from £5,000 to £7,000?—(Mr. Craig.) No, Sir. We had provided for these things on a basis of a continuance of work at the 1935 level; then the level of work went up above the 1935 level. That involved us in still further expense.

Sir Isidore Salmon.

3547. When did you know the work was going up?—(Mr. Perry.) Not till the middle of the year. The severe pressure came on at September, 1936.

3548. Then you had to set about accelerating your machinery?—We had to get on double shifts.

3549. Directly you got on to that, you found the weaknesses in your machinery?—Yes, and we had to buy a lot of new spare parts for keeping the machinery up to scratch.

Sir Robert Smith.] On page 25 I want to refer to the point that I find in the Estimates for 1936. We had "Designs for coins, medals and seals" rising by £3,000. In connection with that there is a note put in.

Chairman.] I am going to take that note after we have disposed of this Vote.

Sir Robert Smith.] It deals with this point of design.

Chairman.] It does not alter the account. I am going to take it next after we have finished the Vote.

Sir Robert Smith.] I will leave it, then.

Mr. Lathan.

3550. Page 25, sub-head H, "Expenses incidental to the supply of token coin." Would you enable me to understand what that refers to? What are these token coin?—(Mr. Craig.) Token coin is silver and bronze coin. All our coins are token at present. (*Sir Gilbert Upcott.*) All our coins are token coin now; the face value is more than the worth of the metal in them. (Mr. Craig.) If I may read from the Estimates: "Payments in respect of the distribution of silver coin in the United Kingdom; freight, etc., of Imperial token coin issued to Dominions and Colonies; carriage of worn bronze coin; bags and boxes for coin."

3551. If all the coins are token coins, there is no need to speak separately of token coins, is there?—At one time we had other coins; at present we have not.

Mr. Benson.

3552. Do you not coin any sovereigns?—Not now.

Chairman.

3553. Page 26: I have raised the question about the underspending on sub-head L. On items N.2 and N.4 (b) there seem to be enormous realisations, and the estimate seems to have been very wide of the mark. Does what you have said already account for that?—(Mr. Perry.) That is because of the state of the employment market; an enormous demand for coin arose, and it all came on commencing late in August and from September onwards.

3554. That is the point you have been making already?—Yes.

Chairman.] Are there any further questions; may I take this Account is approved? (*Agreed.*)

3555. Now please take the Note which has been circulated by the Deputy Master of the Mint. Mr. Craig, would you please tell me what payments were actually made for designs in 1936?—(Mr. Craig.) Do you wish to have the individual payments or the total payments?

3556. Give the figures as figures?—For the Edward VIII coins we paid for the reverses—may I omit the names of the artists?

Chairman.] I think for the moment you had better, unless individual Members of the Committee wish to have their names.

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Sir Robert Smith.

3557. I wanted to ask one name. May I ask if we may first have the difference of cost for coins and for seals or for medals?—Yes. I think I can do that. I cannot total the figures accurately. Shall I give you the individual items without the names of the artists, or with them?

Chairman.] Apparently one Member of the Committee wants them.

Sir Robert Smith.] We can leave them out just now, and I can ask about the individual afterwards.

Chairman.

3558. Give us the sums for the moment?—For the Edward VIII coins, reverses, we paid sums of £30, £31 ros., £150, £78 15s., £455, £15, and £100.

3559. Those are coins?—For coins.

Mr. Benson.

3560. For the reverses only?—Yes.

3561. Are those payments payments for one particular design only?—A series. Each payment is to a separate artist.

3562. I was thinking of the number of designs?—Yes.

Chairman.

3563. What are you going to give us next?—Next we have the obverses of the coinage. I am afraid this covers a medal, too. I can separate it out afterwards. There is a payment of £475 for the uncrowned obverse for coinage and medals. For the obverse for Colonial coinage and for two medals, including the reverses of the medals, there is a payment of £1,050. For the Indian coins and some Colonial coins there is a payment of £735 and a payment of £15 15s. For the Great Seal, £35. For the drawing of the Royal Cypher, which is used on seals and medals, £15. For the Coronation medals, £52 ros., £100 and £20. For revising the lettering on some coinage and a medal, £50 and £30. I now come to the George VI issues. For what are called the Crowned effigies, that is, the design on the head of the coin, £300. That covers medals as well. For the drawings of the Colonial Seals, £77 14s.; for the new O.B.E. and M.B.E. decoration, £30; for various small medals, £20 and £3 3s. Then there was a payment for taking photographs of their Majesties, which is in our total payments, but scarcely the same kind of service—it is a connected service.

3564. Would you be able to distinguish between money paid in respect of designs accepted and designs rejected?—If you will give me a moment, I will try to draw a distinction. All the figures that I gave in the first group for the reverses of the coins of Edward VIII were for rejected designs, except one; all except one were rejected.

3565. What was the cost of the accepted one?—£455. That was the large figure. There is the figure of £475 for obverses of coinage and a medal, and of £1,050 immediately following; those were for accepted designs. The figure of £52 ros. for Coronation medals was for the accepted design. The figures of £50 and £30 that I gave for the revised lettering on coinage and the medal were both accepted designs. The figure of £300 I gave for the crowned effigies of George VI was for an accepted design, and the figure of £30 I gave for the O.B.E. and M.B.E. was for an accepted design. All the rest were designs that were rejected.

Sir Isidore Salmon.

3566. Would the same artist have done many of these designs?—There were four artists concerned. The same artist has received a number of the payments.

Chairman.] I have no further questions on the Note that has been issued by the Deputy Master.

Sir Robert Smith.

3567. I wanted to ask this: You say there were only four designers?—Four separate artists.

3568. On this Note, we have got: They "are the work of four different artists, one of whom, the author of the very successful new farthing, Mr. H. Wilson Parker . . ." There are four. There is another gentleman who designed the heads. Was it one of those four who designed the Great Seal also, or who designed the Great Seal?—I must apologise. I left out one accepted design, £150, in the coinage reverses of Edward VIII coinage. (Mr. Perry.) It was by Mr. Parker.

3569. That was Mr. Parker?—Yes. (Sir Gilbert Upcott.) The payments in respect of the Great Seal do not fall into the year which you have now under review. They fell into the following year of Account, so they will come into the 1937 Account.

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[Continued.]

3570. That is out of it. It is only a small thing with regard to the Great Seal. These figures you give make up the £3,000?—(Mr. Perry.) They make a total of £4,040. The estimate was £3,600.

3571. What I wanted to understand was the rather extraordinary paragraph in this statement. It says, with regard to the Advisory Committee—they are merely an advisory body—the orders were placed by the Master or the Deputy Master?—(Mr. Craig.) They are an advisory body. They advise the Deputy Master.

3572. He does the acceptance?—He does the acceptance, subject to such consultation as may be proper.

3573. On page 3 of this Note, the paragraph in the middle of the page refers to these four people and you refer to Mr. Wilson Parker: "Mr. H. Wilson Parker is quite a new man who approached the Mint with an introduction from a private firm of Bank note and stamp printers about 18 months ago. This gentleman showed great promise as a designer, but lacked the technical experience to which I have already referred, and his design was adapted for actual coinage purposes." Does that mean that it was altered?—I think it must. (Mr. Perry.) No, Sir. The design itself was not altered, but he is not an expert modeller. The result was that in the die stage our own craftsmen had to work the design up in order to make it reproduce on the coin.

3574. Then it was a different coin which was produced from the design the person originally submitted, which you accepted?—No.

3575. What is the meaning of the word "adapted"; you say it was worked up; worked up in what way?—Strengthened.

3576. Do you mean the amount of relief was made greater?—The amount of relief.

3577. But the design was not altered?—The design was not altered.

3578. Were the proportions of relief with regard to one part of the design as against another altered or enlarged or brought out more?—It is only altered in order to make it stand up more on the finished coin.

3579. Yes, but there may be a difference. You might accentuate in one case and not in another. Were

there any of the other four in which the design was altered or adapted?—No.

3580. There was the work of four different artists, one of whom was Mr. Parker, and you only refer to this gentleman. You say you had to adapt his?—It was all done with him, he having knowledge of the alteration. He was brought into our works to be shown the alteration at every stage.

3581. It was not an alteration of a design?—No.

Sir Robert Smith.] That is all I wanted to ask.

Mr. Benson.

3582. From those figures read out as to cost of design, I could not get any idea of what the cost of a particular design for a particular coin was. Is there any generally accepted basis, that, say, the reverse of a particular coin is paid at such and such a rate?—(Mr. Craig.) No; one cannot do it on that basis. Actually one may use the same reverse for a large number of different coins, or one kind.

3583. Then you pay more?—You might have to pay more. The standing of the artist is perhaps the principal element in fixing the price.

3584. Roughly what do you pay for a design. Can you give some figure?—(Mr. Perry.) Take our own coinage; there is a different design on each reverse. We might say a reverse averages £50 to £70.

3585. You pay that for the design of a reverse?—Roughly.

3586. And an obverse?—For an obverse, which is a portrait, one would pay more. It is very difficult to say. It might be £150; it might be £200. It is a bit of portraiture for which you have to get a Royal sitting.

3587. You have to get a first-class artist for it?—(Sir Gilbert Upcott.) It costs 500 guineas.

Sir Edmund Brocklebank.

3588. Who is responsible for accepting or rejecting a design—the Deputy Master?—(Mr. Craig.) No; if it is a design involving a portrait of the King, the King's approval is required, and he may reject it. If it is a design which does not require the approval of the King, then subject to sufficient consultations I think it may be said that the Deputy Master is responsible.

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[Continued.]

3589. The design is accepted on design, not actually on struck coins?—(Mr. Perry.) In the case of submission to the King, we should normally submit a specimen strike, but it might lead to a good deal of waste if one went on with doubtful designs right to the die stage to strike a coin, because each die costs a lot of money. (Mr. Craig.) The approval is a continuing process. You take a design and approve it and look at it in each successive stage, and sometimes something which looked promising in the early stages does not look so well in a particular metal.

Sir Robert Smith.

3590. The Comptroller and Auditor General said the Great Seal did not come in. What was the £35 for the Great Seal which I see this year?—(Mr. Perry.) That was for a design put up for King Edward VIII.

3591. May I ask for the name in that case?—It is a Mr. Skeaping. He is a modern artist, and King Edward was thought to be rather keen on modern design, and this gentleman produced a modern design.

3592. That was not accepted?—No.

TRADING ACCOUNTS AND BALANCE SHEETS, 1936—THE MINT.

Chairman.

3593. Take the Trading Account, page iv, paragraph 4. There is a reference to the rate for depreciation. Was it the Mint's view, that depreciation rates need not be increased, based upon technical advice?—(Mr. Craig.) The technical advice of our own people, not advice from outside people.

3594. Your own technical advisers?—Yes.

Chairman.] Are there any further questions on that paragraph? Turn to pages 88 and 89: "Production Account." Are there any questions?

Sir Irving Albery.

3595. Can Mr. Craig tell me a little about that item "Interest"; what does that represent—£14,000 interest?—It is an imputed charge on the estimated capital value of the Mint and its machinery, so that we are in the same position as a commercial undertaking, and take the necessity for interest on capital into account in charging prices.

3596. I did not hear the last part of your answer?—The Mint is worth, shall I say, a quarter of a million pounds. We do not pay the Treasury interest on that, but in our Accounts we charge ourselves with interest, so that we are on the same footing as a commercial undertaking, as if the money had been subscribed in debentures.

3597. What do you call your capital that you charge interest on?—The cost of the plant, buildings and site.

3598. In your Balance Sheet you have an amount down which you call "Capital: Exchequer Advances, £677,000"?—That is the Bullion

Account This interest is not on the bullion, the gold and silver. This interest is on our equipment.

3599. It is interest on land, buildings, plant, machinery, furniture and fittings, and you debit yourselves with that amount on it?—Yes.

3600. At what rate?—5 per cent. fixed capital, 2 per cent. floating capital. (Sir Gilbert Upcott.) Bank of England rate on floating capital.

3601. In the Balance Sheet, you have cash at Bank and in hand. Do you get any interest credit on that?—(Mr. Craig.) No.

3602. You do not?—No. (Mr. Brittain.) Out of that cash balance, £130,000 is due to be paid over to the Exchequer straight away, because it is a surplus not yet paid over from the previous year's profits.

3603. I notice the Accounts are treated quite differently (no doubt they have to be) from any of the Trading Accounts. You have capital in the year; there is a big profit, a lot of which is paid back to the Treasury, but I do not quite see on what basis it is done?—This is done because it introduces all the bullion transactions into it.

3604. May I ask the Treasury: Is there any what I might call routine or general direction as to how these Trading Accounts are to be treated with respect to capital?—I think each one is treated on its merits. That is all we can say. It is impossible to lay down a routine for them all.

3605. Is it impossible?—The types of Exchequer assistance differ in each case.

3606. Would you say that it has not been done, or that it is impossible to do

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[Continued.]

it, or would you sooner not answer?—I do not think we have attempted to do it in the past. I would not say it is impossible to do it. We are hoping, as Mr. Fraser said a week or two ago, when the question was raised, to look and see whether any further measures of standardisation are possible.

3607. There is interest credited on something and the reason given for crediting it is to bring it into some sort of conformity with Trading Accounts, and I do not see how you can get any conformity with Trading Accounts unless there is some basis which is applicable to all the Trading Accounts?—In conformity with outside practice. Following what Mr. Craig has said, in this particular case we charge interest on what might be assumed to be the capital sunk in the undertaking.

3608. In outside practice, that determines itself, by the money which has had to be secured; it is not a book entry?—(Mr. Fraser.) The money was spent long before the Trading Account was started, in many cases. The Trading Account is a modern invention; the Mint is an ancient one.

Sir *Irving Albery*.] I should like to pursue this matter with the Treasury on Treasury day.

Mr. *Lathan*.] If I am not repeating what has already been stated, has this interest of £14,000 any relation to the capital expenditure, as I understand it, which is shown in the balance sheet? Is that the point that Sir Irving was raising? Is one related to the other?

Sir *Irving Albery*.] I think Mr. Craig has explained that. It has application to the £200,000 fixed assets.

Mr. *Lathan*.] The Balance Sheet shows that your capital expenditure apparently has been £682,000 (I do not want to put it very positively) up to 31st March, 1937. You show in your Production Account an amount of interest which is payable, as I understand it, upon capital expended on the plant, the land and the other equipment. Are those two figures related?—(Mr. *Craig*.) If you take the figure on page 91—£262,713 for fixed assets, land, plant and furniture—there is 5 per cent. charged on that, and 2 per cent. charged on the next figure of £66,192 for stores; that is our floating capital. I think that is roughly the whole of the picture. We do not charge interest on the bullion.

3609. This is percentage of output?—Yes.

3610. The interest varied to the tune of nearly £2,000—£1,800—between one year and another?—There was a contract with a foreign Government who did not pay the money at the time it was due; they paid us interest upon the balance outstanding, and that swelled our interest for that year.

3611. Can you make it clearer to me than I could make it to myself, how it is that the profit on the Bullion (Re-coinage and Redemption) Account has swollen so considerably? I am taking the figures at the head of the Account: Bullion was £2,418,000 last year, and this year it is £2,327,000, but, whilst last year the profit was £243,316, this year it is £1,678,809?—One ought to look at page 91, the first row of figures, where you see in the previous year the sales of coin and bullion were £2,687,931, but this year, 1936, there were £4,050,371 in sales. The profit goes up because we issued more coin.

3612. It went up amazingly—not that I am complaining. Whilst your output was not quite doubled, your profit was how many times as large—eight times?—(Sir *Gilbert Upcott*.) That is the advantage of having a token coinage.

3613. Is that it?—Yes. (Mr. *Craig*.) Yes; the profit on token coinage is very high.

Chairman.

3614. The profit on bullion does not include the cost of manufacturing, I take it?—No.

Sir *Edmund Brocklebank*.

3615. On page 89, you seem to strike a very small number of 5s. pieces?—Yes.

3616. Are they purely for specimen purposes, because they are hardly in circulation?—The 5s. piece is hardly used nowadays. It is current coin and, if there were a demand for it, we would strike more, but in fact there is not a demand.

3617. Why strike them, because it costs a good deal to design?—(Mr. *Perry*.) There has been a very heavy issue this year. We are speaking of just before the Coronation. This Account would end just before the Coronation, but this year the issue has been over

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£100,000. Of course, it is a particular demand—the Coronation of their Majesties—but that does not come into this Account.

Chairman.] Are there any further questions on pages 88 to 91? May I take it the Account is approved? (*Agreed.*)

(*The witnesses withdrew.*)

(*Adjourned till Thursday at 2.30 p.m.*)

THURSDAY, 7TH APRIL, 1938.

Members present:

MR. MORGAN JONES in the Chair.

Sir Irving Albery.
Mr. Benson.
Sir Edmund Brocklebank.
Mr. Culverwell.
Mr. Mabane.
Mr. Peat.

Mr. Pethick-Lawrence.
Sir Assheton Pownall.
Sir Eugene Ramsden.
Sir Isidore Salmon.
Sir Robert Smith.

Sir GILBERT UPCOTT, K.C.B., Mr. W. R. FRASER and Mr. H. BRITAIN called in and examined.

CIVIL APPROPRIATION ACCOUNTS, 1936.

CLASS III.

VOTE 9.

PUBLIC TRUSTEE.

Sir ERNEST FASS, K.C.M.G., C.B., O.B.E., and Mr. G. R. FIRTH called in and examined.

Chairman.

3618. Civil Appropriation Accounts, 1936, Public Trustee Accounts: turn please to page xii, paragraph 22 of the Comptroller and Auditor General's Report. On this paragraph, are you, Sir Ernest, or the Treasury, in a position to give any indication as to whether any decision has been arrived at in regard to this matter?—(Sir *Ernest Fass.*) I am afraid I cannot add anything to what I said last year. There has been a decision arrived at, involving legislation, but I was asked, if you remember, if I could say what that legislation would be. I had to say it was really asking me to answer a question to a minister without showing him and getting his approval of the answer.

3619. I appreciate your diffidence in the matter: have you anything to say, Mr. Fraser?—(Mr. *Fraser.*) With the proviso that the question ought perhaps

to be asked of Sir Claud Schuster, I think there is nothing further to report at the moment. That question of legislation is still being pursued but we have not got there yet.

3620. I thought last year you said a decision had been taken but you had some reluctance to announce it?—(Sir *Ernest Fass.*) I think that is the position: There has been a decision to introduce legislation. I was then asked what the legislation would contain. So far as I was concerned, there were a lot of small points but on the major point I was not able to say anything.

3621. It is open to Members of Parliament to ask it downstairs?—Yes, I imagine so.

Sir Isidore Salmon.

3622. Which Department introduces the legislation?—(Mr. *Fraser.*) That is not yet settled.

7 April, 1938.] Sir ERNEST FASS, K.C.M.G., C.B., O.B.E., [Continued.
and Mr. G. R. FIRTH.

Mr. Benson.] Has the legislation to be introduced been settled?

Chairman.

3623. Is it likely to be contentious?—(Sir Ernest Fass.) I do not think so. (Mr. Fraser.) I do not think so.

Sir Assheton Pownall.

3624. It depends on the form it takes, does it not?—Yes.

Chairman.

3625. I cannot quite understand the reluctance to let us know the decision or to take a decision and to intimate to the House the decision. It is now 12 months since it was before this Committee before?—(Sir Ernest Fass.) I feel a difficulty about it; Sir Claud Schuster is going to follow me in this chair. There is a new Lord Chancellor.

3626. You think he may be able to give a decision?—It may be. Might I be allowed to correct a statement I made in this connection last year which is not entirely accurate?

Chairman.

3627. Please do?—It related to the balance of £117,000, which was the excess of the amount realised over the indebtedness to the Trusts. I disclaimed any interest in that money. In one sense that was true, because I have no longer, under the decision under which I work now, any interest in it. I cannot deal with it in any way. On the other hand, I am interested because I am the Trustee until Parliament determines in what way the money has to be spent. So I have to see that it is safely in the Post Office Savings Bank, and I have to see that the interest is duly credited, and that is what I do.

3628. You will continue to do that pending this legislation?—Until Parliament decides what I have to do with the money. (Sir Gilbert Upcott.) That is the sum of money, the fate of which is in issue. (Sir Ernest Fass.) Thank you, Sir; I put it a little inexactly last year.

3629. Thank you. We cannot carry that any further this afternoon, I take it. Mr. Fraser, I wonder if I could ask you to represent to the Treasury that this matter has been raised a second time in the Public Accounts Committee?—(Mr. Fraser.) Yes, I certainly will.

The matter concerns, not only the Treasury, but also the Lord Chancellor. I will represent it in both quarters.

3630. Please do. Page 125, Class III, Vote 9, Public Trustee Accounts. Will you please, Sir Ernest, explain the loss under sub-head C.1?—(Sir Ernest Fass.) Yes, Sir; that was an unhappy business. We were appointed the executor and trustee of the estate of the only active partner in a solicitor's firm. We had, as co-trustees, his widow and his managing clerk, but his managing clerk was the sole executor in respect of the testator's interest in the solicitor's business. The estate was proved at £23,500. The managing clerk was indebted to the testator to the extent of £1,000, and he had deposited the title deeds of his house with the testator as security either for £800 or £1,000; it was never very clear which. The testator left the managing clerk his interest in the business, to be made up to £3,500 if the business was not sufficient to provide that sum. In the ordinary way that debt of £1,000 would have been deducted from the legacy. We discovered, on going into the accounts of the firm, that the firm were indebted to the Bank to the tune of £35,000, so we told the widow, who was the main beneficiary, and such small legatees as there were, that we were unable to distribute the estate until that overdraft had been paid off. We were in touch with the Bank all the time. There was undoubtedly great delay in the winding up of this estate. The explanations that we were given were, first of all, that the accounts of the firm had not been rendered for many years, that the managing clerk was single-handed, that he was ill (which indeed he was, I think). The business of the firm was really not so much a solicitor's business as mortgage broking. There was difficulty in distinguishing which of the mortgages belonged to the firm and which to the testator. The mortgages and the title deeds were deposited in the safe of the firm in the partner's room. We had some uneasiness over the delay and we asked a firm of accountants, the biggest firm in the town, to advise us about the firm. They reported that they were an old established and perfectly reliable firm of the highest reputation, and they said the same of the managing clerk. As I

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[Continued.]

was saying, we kept in touch with the Banks, and the overdraft was reduced from £35,000 to £7,000 in the course of some years. Then suddenly we heard that the managing clerk had shot himself. Then we found that what had happened was that he or the firm had pledged the same securities over and over again to reduce the overdraft. The firm failed for £100,000 or so. The partner of the accountants' firm who had advised us (this was the irony of it) that the solicitors firm was perfectly good was the Trustee in Bankruptcy and he sued me for £1,000. Of course, when we went to the safe we found that our title deeds of the house, which secured the advance of £1,000 by the testator to the managing clerk had disappeared. We were advised by the Law Officers that we had a good defence and we fought the case. When it came to be heard, the Judge, before the opening had been completed, said to the Counsel that this was a case in which one of two innocent parties had to suffer for the default of the third, and he thought it was a case for compromise, particularly as the point involved was one which was not covered by authority. We might have had to carry it a long way, the point being whether or not we ought to have allowed this deed to remain in the safe. We had, in fact, asked the firm to deposit the title deeds on the mortgages in the Bank and the reply was that they were dealing with them every day and that business could not be carried on in those circumstances. The claim was £1,000 and they claimed that their expenses had been about £600 and, after a good deal of haggling, the Solicitor-General advised that we ought to make an offer of £800. I obtained the Treasury consent to that offer. It was made. Counsel went back to the Judge and the Judge expressed his view that that was a reasonable settlement and that is how the loss occurred.

3631. Do I understand that you were acting as co-trustee?—Yes, I was co-trustee with the widow and this solicitor's clerk in respect of all the estate, except the testator's interest in the business, in which case the solicitor's clerk was the only trustee; I had no say in that. It was my duty, I frankly admit it, to get in the amount owing to the estate by the business and there was considerable delay over that.

3632. As a co-trustee, did you or your office take any steps at all to acquaint yourselves with the situation?—Yes, a good many visits were paid to the place and the solicitor's clerk himself came up to London several times. We were, I think it is fair to say, misled really by the fact that this substantial overdraft at the bank was being gradually paid off, as we thought, in the ordinary course of business. We were also not exactly misled but we did not anticipate any trouble about it, because we had an estate of £23,000, a legacy of £3,500 to pay to this man, which looked perfectly good, and all we had to do was to set off the debt of £1,000 against the £3,500.

Sir Assheton Pownall.

3633. How long did these proceedings take, Sir Ernest? You said it was some years?—Yes, there was a very great deal of delay. The man, I think, died in 1929 and the solicitor's clerk shot himself in 1934.

3634. Five years?—Yes, five years. It is not quite so long as that because that was the date of the death. I do not know when we first accepted the Trust, but it would have been not very long after that.

3635. Some four years?—Yes, it was a substantial delay.

3636. Was it being held up, do you think, for reasons of dishonesty, or what you might call the law's delays?—I think there were two things. It is difficult to say whether the firm (one does not like to say this about the testator) was really solvent at the date of the testator's death, and whether the same thing had not been happening; we could not account for the overdraft.

Mr. Benson.

3637. You said one of the reasons which lulled your suspicions was that the overdraft had been reduced from £35,000 to £7,000, apparently in about five years?—In rather less than that.

3638. In the ordinary course of business?—As far as we knew.

3639. Surely a business which reduces its overdraft at that rate must be an extraordinarily profitable business?—The business of this firm was really mortgage broking, so we thought they were getting in money by mortgages being paid off and that the money was going to reduce the overdraft at the bank.

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3640. You did not assume it was profits from the solicitor's business?—No; it was not a solicitor's business in that sense.

Sir Robert Smith.

3641. You said when you took over the business, when the testator died, you could not account for the large overdraft then: did that strike you as strange at once?—It seemed rather a large overdraft for a solicitor's business, (not that we have a great deal of experience of it), but the answer was that this was a mortgage broking business rather than a solicitor's business.

3642. Did not that put you on the scent, so that you should have been more careful than in other cases to see that things were quite all right?—I readily admit that, if we had had the slightest suspicion that there was anything wrong. When we began to think the delay was unconscionable, we asked this accountants firm to go in, list the mortgages and advise us as to the standing of the firm, and we had an entirely satisfactory report from them.

3643. As to the title deeds of the property that were deposited, you say they were held by the firm instead of being put with the Bank?—Yes.

3644. Did you ever see them at all at any time?—I did not personally; I cannot answer that. We sent an officer down to go through the deeds in the safe of the firm, but I cannot answer here whether he actually saw them. We had a list of the securities given us by the accountants but I cannot answer that precise question, without looking at the papers.

3645. Might I put it this way: suppose it had been an ordinary body of trustees, without your coming in at all, in that case would not the Court have been rather severe on the trustees, if they had not taken any steps to make inquiries, having had doubts at the beginning?—The Judge in addressing Counsel took the point that, while there were decisions relative to the leaving of bearer bonds in the hands of co-executors and co-trustees, and there were also decisions as to ordinary mortgages, there had not been any decision, so far as he knew, as to the propriety or otherwise of leaving in their hands title deeds which secured an equitable mortgage. He did not express any opinion on our conduct.

3646. The other trustee was interested in the firm, was he not, to a certain extent? Had the clerk some interest in the firm or not, or was he purely the senior clerk?—No; he was not a partner. He was only the managing clerk, but the other partner was a sleeping partner who never went near the office.

3647. So the whole business was really on his shoulders?—Yes.

3648. So that he was virtually in the position of a partner in the firm as far as documents and the affairs of the firm were concerned?—He was not a partner, but he had, and had had during the testator's lifetime, really the conduct of this business.

3649. You just carried on with a report you had of his standing?—I have to admit that. It never crossed our minds until the last that he was not an honest man.

3650. The Courts are so severe on trustees who do not take all the steps that they ought to take to look after the interests of beneficiaries—at least in my country they are?—The Judge did not say anything to the Solicitor-General except that he thought this was a proper case in which to make a compromise.

Mr. Peat.

3651. I would like to ask the witness whether, in the ordinary course of events, when it goes on so long as 5 years, he calls for accounts at any periods during that time; whether he just lets it go, or whether, in the ordinary course of events, he would call for accounts showing the position of the Trust and the course of its being wound up, and whether in the course of those accounting periods, if any, he would ask for a certificate with regard to the securities?—You must remember this was not quite an ordinary case. Here we were not the executor of the business interests of the testator in the firm. We did call upon the executor many times, of course, and were always put off. It is difficult to say. If we were due to receive money in a Trust from an estate of which we knew the executors had exceeded the executors' year, I think I may say that we should take steps to inquire why we had not received our legacy or our accretion of trust funds.

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[Continued.]

3652. What was the date of the report that you had from the chartered accountants?—1930.

3653. At that period did they certify that they had actually seen the securities or that they had received a certificate from the managing clerk saying that they were in existence?—I think it is in the letter that I wrote to the Treasury. May I read my letter: "In 1930 we" (that is the Public Trustee) "instructed a firm of accountants of which the plaintiff was a partner to verify a statutory declaration identifying the mortgages belonging to the estate and the firm respectively. Messrs. Harper and Groves" (who were the accountants) "in the course of the inquiry confirmed the earlier statements by the Midland Bank that both the firm and Williams" (that is, the managing clerk) "were of the highest standing. In these circumstances, the requests for deposits with the bank were not further pressed". I am afraid I cannot answer your question. May I put in a note?

3654. I thought you said they had satisfied you that securities existed? If you did not say that, my question does not arise?—I am sure they did, but I thought the question was whether we or they had actually seen the securities.

3655. That follows on?—I cannot say Aye or No to that without looking at the papers. My impression is that they saw them at the time they went into the books in 1930; that is four years before the man shot himself. If I might put in a statement on that, I will do so.*

Chairman.

3656. If you feel it desirable?—I cannot trust my memory on that.

Mr. Peat.] The point I wanted to make was this: I think that I, as a Member of this Committee, would like to make it quite definite that in any report which the Public Trustee would get from an accountant he ought to be quite sure that the accountant has either actually seen securities of that character or else had a certificate from a Bank, which is just as good. He should not be satisfied with a certificate from a professional man that he holds the security. I would like to make that point.

Chairman.] Yes.

* See Appendix 14

Sir Robert Smith.

3657. Might I ask a question on the same point I was on? With regard to this question of these documents, you say that they said they could not deposit them in the bank because they had to deal with them so frequently?—They were dealing with them every day.

3658. What were the documents?—Mortgages. They were mortgage brokers. Their business was to borrow money from Banks and lend it out on mortgage. When we told them that they had to repay their overdrafts, we assumed they called in mortgages, got repayment of them, and then they might repay the Bank.

3659. I thought it was some house property that belonged to the Trust?—Yes; the security that we lost by our delay or negligence, or whatever we are accused of, was the title deeds of a house which had been deposited by the managing clerk with the testator in security for an advance of £1,000.

3660. Those were documents you were entitled to see also because you had an interest in them?—Yes.

3661. Surely those cannot have been needed for the carrying out of the business?—That is true.

3662. Why were they not deposited with the Bank?—That was the weakness of our case.

Sir Robert Smith.] That was my point—why these were left.

Sir Isidore Salmon.

3663. The only thing I should like to say to Sir Ernest is this: Is it not a rule in the office that, when you ask an accountant to give you a report on a particular firm or to investigate the position of the firm, they give you something a little more definite than they did apparently in this case?—I feel pretty certain that the report said: "We have verified the documents and we have seen them", but I cannot pledge myself to it because my memory does not go so far. But I do not feel any doubt in my mind that, when I look at the report, I shall find that at the date of the report the document was there.

3664. Did the accountant make any direct enquiries of the Bank, if they had any securities?—No. He was there to report to us upon the state of the executorship in which we were

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interested, of the business interest of the testator. He was asked to verify the affidavit which was made by this precise clerk, I think, showing the assets of the testator, the securities for which were in the possession of the firm.

3665. If he did that quite definitely, as you state, what claim would he have, because he happened afterwards to become the executor of the estate?—The Trustee in Bankruptcy.

3666. What claim would he have?—That is why I think the document must have been there. He would say: "It is all very well, but in 1930, when you asked us to look into this, your document of title was there. You have left the man in possession of, or, rather, with access to the solicitor's safe where this document was for all these years, relying

upon the fact" (as we did rely to some extent) "that you thought that the estate was solvent and you thought the repayment of the overdraft was honestly being done." His case was in effect: "Your business was to have taken that particular document out of the office safe", which is what we wanted to do, but did not, unfortunately, because it was said that these documents were wanted every day. We do not know which belong to the estate and which belong to the firm.

3667. What steps are you taking for the future to avoid that?—You may be certain that no documents securing an equitable mortgage, whatever solicitor it is, will be allowed to remain in the hands of the solicitor in that future. We have paid £800 for that lesson.

(TWENTY-NINTH GENERAL REPORT OF THE PUBLIC TRUSTEE.)

Chairman.

3668. Will you, before I put this Vote, turn to the 29th Annual General Report of the Public Trustee. On page 2 of the Report, Sir Ernest, there is a reference to the sum of £17,825 received in earlier years but not brought into account by the Manchester Office. Could you tell us what that sum was?—(Sir Ernest Fass.) Yes, it was investment fees. The Deputy Public Trustee at Manchester thought, quite wrongly, that he was entitled to conduct his business as a business would be conducted and not draw the fees which he did not want to show as his profit for that year. But he is not allowed to do that, and the money had to be brought into next year as soon as its existence was discovered. (Sir Gilbert Upcott.) Attention was drawn to this on audit. It was a failure to observe the normal rules as to transmitting fees.

Sir Isidore Salmon.

3669. Why, having regard to the fact that, to all intents and purposes, the business has not increased generally, was an increase of 17 staff between London and Manchester essential?—(Sir Ernest Fass.) There was an increase in the number of cases in administration of something over 100. It is difficult to regulate the staff. You have to have a little margin. I think it is fair to say that pressure was getting heavy for this reason, that the office is

now 30 years old. There has elapsed a whole generation since it began and the Trusts which came into the office then are beginning to be distributed to the next generation, and, although the increase in the number of cases is only just over 100 more than the year before, the work of distribution is substantial or may be substantial and the number of cases under distribution is increasing every year.

3670. Which involves more work for the office?—Yes, it is a good deal more work than the mere acceptance of a Trust. You may have to trace the heirs and all sorts of people, and distribution may be a difficult matter.

3671. I see that, not only do you have more staff, but you have to have more office accommodation to put the staff in?—Yes, I had to turn the Judge Advocate General out. The staff was very badly pressed up together and it was only fair to give them more room.

Sir Assheton Pownall.

3672. The number of cases current which is shown on page 7 shows an increase of only 112?—Yes.

3673. On just on 19,000, which is about $\frac{1}{2}$ per cent. in terms of percentage?—Yes.

3674. Notwithstanding that, you had an increase in the staff of 17?—Yes. I think that is the explanation. The distributions are coming along rather fast

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now and they give a good deal more work than the current administration of the Trusts.

3675. Would you mind explaining the difference between a custodian Trusteeship and ordinary Trusteeship?—A custodian Trustee under the Act is a bare Trustee. If somebody makes me a custodian Trustee, he can put into my hands whatever investments or sums he pleases. He can direct the investment; I have nothing at all to do except hold the actual securities which he gives me. There are managing Trustees who decide what the investment should be and how I am to deal with the money. It is a most unsatisfactory kind of Trusteeship, from my point of view.

3676. You are purely automatic in the matter?—Automatic.

3677. In the other case you have the responsibility of the selection of investments, do you?—Yes.

Mr. Culverwell.

3678. On your staff you have a lady visitor. Can you tell me what duties she performs?—There are a good number of children who are beneficiaries of trusts. We have cases of bad homes, and we have to look after the children. There are cases where we have to see that the children are being properly brought up; we have to select schools for them and we have very often to find orphanages and places which will take them. I will give you this case as an instance. I had an estate the other day which was worth practically nothing at all; there was £600 or £700, and six illegitimate children. If I did not take it, nobody would take it. The only thing to do was to take it, and I have been able to get the six children into orphanages. I am afraid all except two are in different orphanages. That is the sort of case where the lady visitor has to be very active.

3679. Was that a bankrupt estate?—No: when we paid the debts, I think the balance will be about £600, with six children to support upon it. Of course, it cannot be done out of income, but it is essential to have someone who can go and take charge of the children, plant them about and look after them as long as we can, as far as the money

will go. When the money comes to an end one has to rely on charity.

Sir Edmund Brocklebank.

3680. Is that £600 invested?—Yes, and I am getting a little interest on it as trustee and executor of this man's will.

Mr. Culverwell.

3681. Have you got many cases of this sort?—I do not want you to think that is a common case, but there are quite a lot of cases of this sort. You will remember that 60 per cent. of my Trusts are under £5,000.

Sir Edmund Brocklebank.

3682. Have you the authority to decline to accept Trusts?—Not because a Trust is small. I decline a Trust if it involves the carrying on of a private business, and I very frequently have to. I can only take a Trust, where I have got the major interest in a private business, with the consent of the Treasury. Obviously I cannot carry on a private business. Nor do I take a Trust which is bankrupt or one which obviously involves a law suit, and some of them do, but otherwise I take everything that is offered me.

3683. On page 6, could you explain to me what £38,000 of refunded commission means?—Yes. Under the Fees Order I charge fees for sale and purchase of securities, and at the same time I am authorised to retain the commission, that is the one-third commission which the Stock Exchange give me on dealings on the Stock Exchange, and of the £97,000, £37,000 (nearly £38,000) was refunded commission.

3684. It was a large amount for one year, was it not, or is it a recurring amount?—It was a large amount; it is a large amount this year particularly.

Mr. Benson.

3685. I notice that your surplus on page 5 for 1937 is £25,000?—Yes.

3686. But when we turn to your Manchester branch, where you have a separate account, of that £25,000, £19,000 (practically £20,000) is surplus from Manchester?—Yes; that includes the £17,000 which is referred to in paragraph 2 of the Report on page 2. £17,825 was an accumulation of investment fees which had not been drawn

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by the Deputy Public Trustee in Manchester, thinking he was entitled to put it to reserve.

3687. How many years is that and what is the normal profit on the business?—They have only just begun to make a profit in Manchester. This year, I think, they have made about £5,000. It is a surplus rather than a profit.

3688. I meant a surplus; you brought in a heavy surplus from Manchester, a fortuitous surplus?—Yes.

3689. But your surplus for 1937 is only £25,000 as against £23,000 last year and £27,000 the year before that?—Yes.

3690. So if you brought in some very heavy figure from Manchester, your real surplus for the year is down?—Yes; it is very much down, it is only about £7,000. This year I hope it will be about £10,000.

3691. You assume you make a normal surplus of about £5,000 in Manchester?—Yes, I hope so, but under the Act I have so to regulate my fees as not to make a profit, but to cover my expenses. The surplus of £10,000, at any rate, which is after taking into account the reserve for pensions, keeps me within the statutory requirements.

3692. Even if we take Manchester as originally £5,000, their total cases under administration are about 8 or 9 per cent. of the total?—Yes.

3693. Eliminating the fortuitous sum, you made a surplus of £10,000 this year on some £300,000,000, £5,000 of which comes from Manchester, with a total value of £26,000,000?—Yes.

3694. You seem to be charging very heavy fees in Manchester or the Manchester people are very simple?—No, the fees are exactly the same whether in Manchester or London. It is a difficult calculation because some Trusts will pay you and some will not.

3695. In Manchester they pay you and in London they do not.—It depends on the make-up of the number of Trusts; if I have two or three very rich estates in Manchester it will pay for the small estates in Manchester.

3696. On page 7 you state that the average value of ordinary trusteeships accepted during the past year is £14,554?—Yes.

3697. In your Table just above, you give 18,000 as the number of trusteeships accepted and £180,000,000 as the

capital value, which is something less than £10,000 on the average. How do you square that with the £14,500?—I am afraid I did not myself do the sum. (Mr. Firth.) If I may answer the question, I think you will find that that average is the difference between the two years. That figure for 1937 is the grand total to date; if you subtract £174,000,000 from the £180,000,000 that gives you the increase for the year and you divide that by the increase in the number of cases; it is the average.

3698. I see. You have £6,000,000 extra in estates and 400 different estates?—Yes.

Sir Irving Albery.

3699. Sir Ernest, do I understand that you have to act as Guardian for children as well as trustee?—(Sir Ernest Fass.) No, I never do if I can help it; there are cases in which we have had to act as guardian because there was nobody else and a guardian was necessary, but I do not think I am acting as guardian for anybody now. I hope not.

3700. On page 8 you give a classified list of stocks and shares of the trustee funds under administration; then you put "Nominal value." What is meant by "Nominal value"?—I do not value the stocks; that is the nominal value. If I have £1,000 War Loan it goes in as £1,000, otherwise it is a tremendous work and its value is not very great, because, by the time the thing is printed, the value may be entirely different.

3701. Supposing you have a railway stock standing at 20, does that go in at 100?—It goes in at 100.

3702. If it is 150 it also goes in at 100?—Yes.

3703. I do not know whether this summary is of any vital importance, but it does not seem to me to have any value, put in like that, because it does not tell one anything?—I submit that, so far as some of them go, it does: take British Funds, Securities Guaranteed under Trade Facilities Acts, Corporation stocks. It is when you are getting down to foreign stocks and bonds and railways and the commercial and industrial, that you will get a variation; but the great bulk of it is in trustee securities.

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3703A. Commercial and industrial would not be trustee securities, would it?—No; I say the great bulk of it would, but the commercial and industrial comes to £16,000,000, out of a total of £218,000,000. I am not arguing that it gives you a correct picture, but my point is that, if we had to value each one of these stocks in each of the 20,000 Trusts on 31st March, by the time the Report is out it would be out of date. This seems to be the best way of doing it.

Chairman.] Sir Isidore Salmon would object to your increasing your staff.

Sir Isidore Salmon.] Strongly.

Sir Irving Albery.

3704. I do not know that it matters much, but I still think it makes rather a misleading picture like that; if that is the only way to do it I think it ought to be even more clearly shown that that is what is being done?—I am in your hands, Sir, about that. It would cost a good deal to have the thing worked out every year and, personally, speaking with submission, I am wondering whether it is going to be worth the money.

Mr. Pethick-Lawrence.

3705. On that, does the Public Trustee think that this has any value in its present form?—Yes, I do; at any rate I can see, over the course of years, where the nominal value has been. The point I was trying to make was, that a great deal of these securities are trustee securities. If you go on a 3½ per cent. basis, if you want to, you can get at an idea of what the actual value is.

3706. Here Consols and 4 per cent. Funding Loan are both standing at 100, apparently?—I do not hold very many undated securities.

Sir Irving Albery.

3707. Let me make one suggestion; it rather bears on what Mr. Pethick-Lawrence is saying: Would it not be better in future to divide the list into two lists—the nominal value trustee securities, where value has some meaning, and the others?—Yes, I can do that.

3708. You give the figure year by year. Presumably the idea is that you

will be able to say "On such and such a date the trust under my charge was so much nominally, and the next year it was a different figure." It really has not any meaning as it is done at present?—I could, of course, do it; it is only a question of staff.

3709. That would not be any trouble, would it?—I do not know what it would involve, but if I may I will inquire and let the Committee know.

Chairman.

3710. Will you look at that?—Yes.

Mr. Pethick-Lawrence.

3711. Sir Irving is not suggesting that you should value all the stock?—No; but distribute it between the trustee and non-trustee.

Mr. Pethick-Lawrence.] It is not a large business; you have them here.

Sir Irving Albery.] I merely meant that you should make a division.

Mr. Pethick-Lawrence.

3712. Into those which have some meaning and those which have not?—That is only a question of arithmetic.

Sir Assheton Pownall.

3713. The total surplus to date, I make it, is just over £100,000 on page 5, and the last five years you have been making about £25,000 a year surplus in each of the five years?—Yes.

3714. Does that mean that in the near future there will be a diminution, to some extent, of your charges?—I am afraid not. The experience of the last two years has not been nearly so good financially, for the reason that the number of small Trusts coming in has been far larger. We have had a great many small Trusts in the last year.

3715. Your surplus is still £25,000?—£17,000 of that was really belonging to previous years, from Manchester.

3716. A windfall?—Yes.

3717. The year before was £24,000, without any windfall?—Yes; this year I hope it will be something over £10,000.

3718. The margin is not a very large one?—No, it is not very large.

Chairman.] May I take it that these Accounts are approved? (*Agreed.*)

(*Sir Ernest Fass and Mr. Firth withdrew.*)

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[Continued.]

CIVIL APPROPRIATION ACCOUNTS, 1936.

CLASS III.

VOTE 6.

SUPREME COURT OF JUDICATURE, ETC.

Sir CLAUD SCHUSTER, G.C.B., C.V.O., K.C., called in and examined

Chairman.

3719. Civil Appropriation Accounts, Supreme Court of Judicature Accounts, Class III, Vote 6, page 118. Will you be good enough to explain to us the note B at the bottom of the page?—(Sir *Claud Schuster*.) This was a very difficult case. The officers on a Circuit are appointed by Judges going on Circuit and once appointed, as far as we know, they are irremovable. This was a case where everybody was satisfied that the particular officer under review was incapable of discharging his duties and, not only that, but that his continuance in them was a very great hindrance to business.

3720. On account of age?—A great many circumstances. In those circumstances a somewhat elaborate negotiation had to be entered on to get him out, and, in the course of that negotiation, there was a misunderstanding between the Judge, who was, I think, more or less in charge of the matter, because he had to appoint a successor, and myself. The result was (I am afraid I do not regret it) that we paid twice over for one quarter. What it really comes to is that, not being under any obligation (if we could get him out at all) to make any *ex gratia* payment to him, we, in fact, did pay him a quarter's salary to which he was not entitled. I am afraid I ought to be penitent about it, but I am not. It was very very cheap.

3721. I interjected a question: I said "on the ground of age" and you said "No, there were other circumstances"?—Yes.

3722. Does that mean that you cannot remove a man, even though there were other considerations, apart from age, which merited his removal?—I would not like to put it as high as that, especially in an answer which must necessarily be published. I should suppose that anyone holding even a freehold office, in respect of whom you can definitely allege offences, can be removed by a particular process known to the law, but it is many years, and probably hundreds of years, since that process has been put in operation.

3723. May I put another question to you. Suppose there is no objection on the grounds of age and no positive offences, but general incompetence?—It is a very, very difficult matter and, if the books are searched, the more you search them the greater the difficulty is. I should not despair, but I would never wantonly undertake such a task if I could get out of it in any other way, and if I could get out of it, as I did in this case, by payment of £72 18s. 2d., I should think I had done very well. That is not, of course, the question of principle you are putting to me. Of course, for the future this cannot occur. People are now appointed on other terms.

3724. Will you still answer my question, Sir Claud. Supposing under the new arrangement you discover a person who has been appointed, to be subsequently incompetent?—I think we should have very great difficulty. This is a very small class of officer who is not under our direct control; it is extremely difficult to weigh competence and incompetence and I think we should have great difficulty.

3725. Cannot you put it in as a part of the conditions of his appointment?—We do now, we put in an age but not a competence provision.

3726. Let us press this point a little further. If you are proposing to alter your terms of appointment as to age, may I ask you whether you also take power to remove a person on the ground of incompetence, if such incompetence is discovered?—No, we take now a positive obligation to retire at a certain age. We take, in most cases, an undertaking to retire if the Circuit arrangements are so altered that the services of the officer become unnecessary, but we do not take any power to remove for incompetence and I think we should be in great difficulty and trouble if we tried to do it. If you tell us we must, of course, we shall, but it will be very difficult.

3727. Do you know of any other employment, Sir Claud, where a man may not be removed for incompetence?

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[Continued.]

—Off-hand, I should be inclined to say, yes. I want to be frank. May I say this: all the offices about the Courts of Justice years ago were held by people who were appointed without any necessary merit and held them for life, and the process of gradually requiring merit (I do not say there was not merit in the other cases) and imposing an age limit has been slow and laborious. It is now complete except in the case of these people. But these people, who really are on the whole an extremely competent class within the limited function which they have to discharge, are appointed by the individual Judges, the individual Judge who goes to the Circuit having the right to appoint. It is very difficult to see to whom you could commit the somewhat invidious duty of subsequently revising the Judge's judgment.

Sir Isidore Salmon.

3728. Supposing the Judge himself came to the conclusion, after experience, that the person was incompetent, could the Judge get rid of him?—I do not know. It is a very difficult subject and it would be idle to suggest that all these people are perfectly competent to discharge all their duties at the present moment. Many of them are but some are not and the difficulty of dealing with the matter is extreme. The only thing is that it is such a small matter really if you add it all up, that it is not very great.

3729. What salary do they receive?—This particular officer was in receipt of £372 a year.

3730. What is the highest salary one of these officials can receive?—The highest salaries that officials of a like class get, with an altered scale, is £1,180. There is only one of him and he is quite necessarily an extremely competent person. It is impossible that anyone who was not extremely competent could do the difficult and laborious work that he does.

Chairman.

3731. Suppose a person were appointed to that extremely difficult and extremely well paid job and he proved to be incompetent?—We should have to take such measures as were then open to us. It would become a question really of handling. To start with, I imagine that there would be such a weight of opinion expressed, in the first place by the Judge, who would find that he could

not really do the work without the assistance of this man, that I think he would begin to be saying something about it, and then a great many other people too would feel the weight of this incompetence and would make a fuss, and I think, therefore, there would be enough impetus to cause something to be said to somebody, perhaps. It is not a satisfactory position; I am not suggesting that it is.

3732. No, it is not?—All I can say is that perhaps this particular side of legal administration has received, not less attention, but received last attention, and it is not very easy to see how to grapple with the particular problems which it throws up. There are various ideas that have occurred to various reformers from time to time for dealing with it.

3733. I do not quite see what is the insuperable difficulty, frankly?—I am not saying it is insuperable, because, if I might venture to use the expression, we do make do, and in this particular case, at no very great expenditure of money, we did bring to an end a state of affairs which I am afraid I must confess had been going on for some time; but then you see we do not get official knowledge of this kind of thing until it becomes very bad indeed. I knew in this particular case (I had known for years) that this was a state of affairs which was deplorable, but until somebody else would move me to it I could not do anything at all and then I had no power; all I could do was to negotiate.

3734. Yes, I see your difficulty quite clearly?—When you come to touch people's personal patronage you get into great difficulty.

Mr. Peat.

3735. I should be able to understand better if I knew who these officers were?—These are Clerks of Assize and inferior officers of the Circuit. I do not want to be interpreted as saying that there is any Clerk of Assize who is not completely competent in the performance of his duties. They are appointed by the Judge who goes the last Circuit before which the vacancy occurs (it is a rather complicated sliding scale) personally, and they are appointed, but for an obligation and an undertaking, for life; but they do give an undertaking, which no doubt they would honour, to retire at a particular age. I ought to say that while perhaps the Clerk of Assize is

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remunerated on a sufficient scale, the remuneration of the inferior Circuit officers is very small. I am not satisfied myself that it is wholly adequate for the work to be performed.

Mr. Pethick-Lawrence.

3736. You say they are required to give an undertaking which you have no doubt they would honour. Does that apply solely to this question of competence, or does it apply to the question of age?—Age.

3737. No doubt you are aware of that judgment in Scotland in a case which I happened to have had reference to only yesterday, in the Scottish Land Court, where a new proposal of legislation has been brought in to deal with that particular matter, where, in spite of an undertaking, the man claimed that he could not be compelled to retire at the age. Has that been brought under your attention?—No, but I have not the least doubt that, this undertaking having been given, we would find means of dealing with anybody who did not honour it.

3738. In point of fact, that is exactly what did not happen in the Scottish case. You are only concerned with England, are you not?—Yes.

3739. This was a case in the Scottish Land Court. Perhaps I might say, would Sir Claud be kind enough to look into that case?—Certainly.

3740. That was the case of a man who gave that undertaking and yet he stood firm by the law and apparently he won his case in the Courts. A new Clause in a Bill is being introduced in order to deal with that specific case?—Of course, it is not for me to say what action Ministers would take in a particular emergency, but all I can say is that this undertaking is given, not to the Lord Chancellor or to his officers, but it is given in writing to the Judge who makes the appointment and I do not believe that His Majesty's Judges would tolerate the continuance in office of somebody who has given a pledge like that to one of themselves. If they found such a matter I think we should, with their assistance, find a way of dealing with it which would be very effectual.

3741. It is in the Scottish Land Court and it is matter which has actually had to be dealt with by legislation?—I am obliged; we will look at it and if there is any necessity to deal with it, we will do it. I should not at the moment like

to make such an aspersion on these men's good faith as to suggest that they would not honour that undertaking.

3742. If Sir Claud should find that the case is similar (it only appears to me *prima facie* to be similar; I may be incorrect), perhaps he will consider whether some more definite power should not be given to terminate at an age?—We certainly will consider it, undoubtedly, especially in view of what the Honourable Member and the Committee have said.

Sir Robert Smith.

3743. I think there is one point with regard to this matter. The Land Court is not, I think, a branch of the Supreme Court of Judicature in Scotland. I think the Act was the 1911 Act; in this case the man is appointed by the Judge but he is the servant (you may put it that way) of the Lord Chancellor?—He is, I suppose, in a sense an officer of the Supreme Court.

3744. That is what I mean, he is an officer of the Supreme Court of which the head is the Lord Chancellor?—That is so.

3745. So surely the action would have to be taken by the Lord Chancellor and not by the Judge?—There are some very curious provisions in the Act of 1925, which are survivals of other Acts passed between 1873 and 1925, about the power of people who have made appointments in certain circumstances to remove the people whom they have appointed. Again, to some extent, you have to look at the history of the thing and, if I may say so, you must remember that an enormous mass of individual patronage has been merged together, and little bits have been left outstanding because they were really too difficult to tackle; and, as I say, with it all, we do get on somehow; I do not want to put it higher than that.

3746. It seems to me an extraordinary position?—It is.

3747. You have a Judge appointing a man and the Judge may die?—That is so.

3748. Who therefore can act? It seems to me the most extraordinary position?—I agree. Of course it is.

Sir Isidore Salmon.

3749. I would like to ask Sir Claud, is it not a fact that these individuals are paid by the State?—Yes, out of my Vote which I am now accounting for.

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[Continued.]

3750. They do not do any judicial work, *qua* judicial work. They only act as clerks?—These people verge from the very highly skilled (or supposed to be very highly skilled) Clerk of Assize, who, on some Circuits at least, is responsible for almost all, and perhaps all, indictments, and their drawing, down to a person called a Circuit bailiff who is nothing at all but something rather like a copying clerk, and they are all included under this description. I should say that the functions which they perform are differently distributed on different Circuits.

3751. But presumably the Clerk of Assize, the Clerk of the Court, if you like, at the Old Bailey, has as much responsibility as the Clerk of Assize?—Yes, exactly the same.

3752. The Judge there does not appoint him?—No: I forget whom he is appointed by at the moment.

3753. The point I am trying to arrive at is that there cannot be any particular reason why a Judge should appoint these individuals and why they should not then be appointed like other officials in government service are appointed, and be under certain rules and regulations like other Civil Servants?—As far as the Clerk of Assize and the higher ones of these officials are concerned (and that includes these people who are described as Clerks of Indictment) they are necessarily people appointed rather late in life; the normal Clerk of Assize would be appointed somewhere about 45, because it is no use appointing a clerk of Assize unless he has a considerable technical knowledge of the technical side of the criminal law, so he cannot be appointed very well from an examination. He has got to be appointed more or less like a Master of the Supreme Court or the Master of the Crown Office or, in particular, the Registrar of the Court of Criminal Appeal, who requires very much the same sort of knowledge. So he has got to be appointed more or less by what must be called patronage, and I do not think anybody questions that, for many years past, the Judge going the Assize has, in fact, appointed a person who was well capable of discharging the duties. They are not very easy to find. This man is getting a nominal salary of £1,000 a year; it is now really a salary of £1,120. It is not everybody with the necessary knowledge that is prepared to work for

that price. This office on the Northern Circuit (which is not the Circuit concerned) was held before by Sir Herbert Stephen, who was in his own way the greatest authority on the criminal law during his lifetime. One might differ from some of his views, but he was a very great authority, and, to the Judges when they went on Circuit, an enormous help and assistance. I have not a doubt that the same may be said of his successor, whom I do not know so intimately. I have not a doubt that the same may be said of most of them.

3754. I am not challenging the capacity of any of these gentlemen. It is rather from the point of view of the question of principle that I am approaching it?—I agree.

3755. I do feel myself that, even if a central authority, a judicial authority if you like, appointed them, there ought to be such conditions in that appointment that it would not make any difference if the Judge who appointed him lived or died, he would be subject to certain conditions?—I agree.

3756. What is there to prevent the Lord Chancellor making such a regulation?—I do not think he has any power to make such a regulation. By negotiation between the Treasury and Judges and ourselves, the Judges have accepted an understanding whereby they give to the man on appointment a list of things which he has to undertake to do, which I have already mentioned: to retire at a certain age, to ask for no compensation if his post is abolished by reason of a re-arrangement of the Circuit, and there is something else which I have forgotten, but it is immaterial. That is as far as we can go in law.

3757. I suggest you did not attempt to put any other proposition forward?—No.

Chairman.] Because you were afraid of it.

Sir Isidore Salmon.

3758. You thought it was a good thing to get some part settled first?—I think it is as well to go bit by bit and get what you can when you can get it.

3759. When was that settled?—I do not know.

3760. The last five or ten years?—About 1920.

3761. Would not it be worth while for you to consider with the Treasury making that a little wider than it is at

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the present time, if that was the machinery you adopted last time?—If this Committee, if I might humbly say so, were to express a view of any kind on this subject, of course the Lord Chancellor and his officers would do all they could to give effect to that view.

Chairman.

3762. I cannot understand why you cannot impose a condition in regard to his dismissability, if I may use the word, for incompetence, just as you do in regard to age?—It is rather difficult to frame, is it not? You remember, if I may say so, we are putting it upon people who are absolutely unfettered and who have a right in law, if they think fit, to appoint whom they please.

3763. They are reasonable people?—Well, yes, most reasonable people, but reason presents itself in so many different aspects to different people at different times.

Mr. Benson.

3764. Is there any reason why you should not take, as your basis, the power which the Treasury, say, has of dismissing a Treasury clerk?—We should have to do that by Statute and that would raise the whole question, and I should rather doubt whether it was very wise; but that is a matter of policy on which I do not think I ought to go further in this chair than to say that, if the Committee direct us to do anything, of course, we shall try to do it; but whether that would be a wise course or not I would not like immediately to say.

3765. What is the objection to having a man appointed under Statute? This is a small handful of people comparatively, as you say?—My position is a little delicate. The great mass of such patronage (because it may be called patronage) as it exists in legal offices, is now in the hands of the Lord Chancellor, and it is highly probable that, if any patronage were removed from those who at present exercise it, it would be given to the Lord Chancellor, and I do not want, on behalf of the Lord Chancellor or his officers, to put forward any proposal or to accept any proposal which would have the effect of increasing that patronage.

3766. The suggestion is not so much on the question of who should appoint, but who should have power to dismiss?—That I think might be very difficult without some alteration in the power to

appoint. (Sir Gilbert Upcott.) As regard officers of the Supreme Court, the Act of 1925 does contain definite provision that, if they hold their office during good behaviour, they are removable from their office on misbehaviour, by the Lord Chancellor, and also on account of inability to perform the duties of their office. If they do not hold office during good behaviour, they hold office during the pleasure of the Crown. (Sir Claud Schuster.) If you add it all up it consists of 30 people. I feel very strongly, if I may venture to say so, the force of what has been said.

Chairman.

3767. Because of the lack of this power which some of us are suggesting to you, we are now called upon to pay to this man £72 18s. 2d. If we had had this power we should not have had to pay this?—I am afraid I am talking at great length.

3768. I see your difficulty?—These people have no pension; when they come to the end of their office, or if they are removed from office, there is an end of them. If you are going to alter their status and turn them into something very like a Civil Servant in respect of the appointment and power of dismissal, you are going to raise a great many other questions with regard to who appoints, but particularly with regard to pensions and what happens when they go, which I personally think might well be left undisturbed for the moment.

3769. If a man is incompetent, his incompetence will show itself pretty soon, will it not?—In an extreme case such as we have here, though, of course, it is very troublesome and gives me personally a very great deal of trouble (I do not think that very much matters, because that is what I am for) I should think and hope that it is possible in the long run to produce a change by such methods as are obvious, though they are not talked about; but whether it would be wise to raise the whole question of appointment of these people and their dismissal and their pensions at this exact moment of time I somewhat doubt, particularly because I cannot help thinking that there are some features of the Circuit system or some arrangements of the Circuit system which will in any event require a certain amount of consideration in the next year or two, with which you are no doubt well acquainted, Mr. Chairman.

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Chairman.] I do not think we can carry it any further.

Mr. Pethick-Lawrence.

3770. This may be the subject of changes in the law?—I am thinking of something which the Chairman probably has fresh in his mind. I think there may very well be some re-arrangement of these offices which would result in a reduction in their numbers, and in connection with that something might be done perhaps, but it is very difficult to foresee.

Chairman.

3771. I think we have gone as far as we can go with this this afternoon?—I am sorry to talk at such length, but it is very difficult.

3772. Not at all. On page 119 would you give us a brief explanation of note R?—I wonder if the Committee remember that last year or the year before we had a case which was precisely similar to this. This is a case of a quite unpardonable blunder made partly by the solicitor in charge of the case and partly by officials of the Probate Registry. It happened a good long time ago—that is not quite true; the mistake was made originally in the year 1930. There was an opportunity for discovering it in the year 1932, of which advantage was not taken, and it was finally only discovered in the year under account. It resulted in a loss to the infant of £104. The matter was brought before one of the Judges of the Probate, Divorce and Admiralty Division and he expressed his view upon it and, in expressing it he said, to start with, that it was obvious that the infant ought not to suffer and that was quite right. Then he said that he had the power to impose the burden on the

shoulders of the solicitor and he thought that, as the solicitor was about half to blame, and morally we were about half to blame, he would impose a £45 fine, as it were, on the solicitor and he would leave us to do what we thought was right.

3773. Was any action taken with regard to the Probate Registry Officer?—We had already, by reason of that previous case which I mentioned, examined the whole ground and taken steps against the occurrence of a similar thing in the future, but this was a thing which had then already happened, although it had not come to light. It is almost exactly a similar case to the previous one; it is quite indefensible.

3774. A question was asked here whether there was a failure to do the duty in other respects; did you take any disciplinary action at all?—No, because we could not find out, the thing not turning up until after a certain number of years, who was the actual person who was responsible. We traced the thing up to a point and there the record breaks and we could not, except by talking personally to quite a mass of clerks, find out who it was.

3775. Had you completed your answer to our questions?—I think so; I do not think there is anything more to be said. I am quite satisfied that this cannot occur again; other blunders might occur but this particular type of blunder is finished with.

3776. Item 1, on page 120, Official Solicitor's Costs; is the position now satisfactory as regards arrears?—Yes.

Chairman.] Are there any further questions on pages 118 to 120? May I take it that this Account is approved? (*Agreed.*)

SUPREME COURT OF JUDICATURE ACCOUNT, 1936.

Chairman.

3777. I take the White Paper, Supreme Court of Judicature, page 10. If you look at the first paragraph on page 10, there is a reference to the effective liability of the Consolidated Fund being reduced to £220,000. Last year that was £83,000; this year it is £220,000. Is the variation purely accidental?—(*Mr. Brittain.*) It depends on the market value of the investments held by the National Debt Commissioners.

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3778. So it is accidental?—As the market value fluctuates we can say that the effective liability of the Consolidated Fund varies correspondingly.

Chairman.] Are there any questions on the foreword?

Sir Irving Albery.

3779. On paragraph 4 I do not quite understand this: it says that money lodged in Court, not ordered to be invested, is "placed on deposit in the Accountant-General's books and bears

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interest in favour of the suitors at the rate of 2 per cent. per annum together with any income tax chargeable thereon." Does that mean "together with" or "less any Income Tax chargeable therein"?—He gets 2 per cent. free of tax. The gross rate is about 2½ per cent. or something like that. The suitor gets 2 per cent.

Chairman.] Are the words "together with" happily expressed.

Sir Irving Albery.

3780. It is free of income tax really?—I agree it is not as clear as it might be but that is what it is intended to mean.

Sir Irving Albery.] I did not understand whether it was free of income tax or what it was.

Chairman.

3781. Are there any further questions on those pages or on pages 4 to 7? You must excuse me for asking for my curiosity to be satisfied, Sir Claud. Are you quite sure that this sixpence expresses the whole of the unadjusted

interest? It is not 6½d. by any chance?—(*Sir Claud Schuster.*) No, it is 6d.

3782. Do you see the 6d.?—I do see the 6d. If I may be frank, it has given me a great many hours of anxiety, because I am quite unable to understand the extremely intelligent explanation that has been given to me.

3783. Could you pass it on to us?—Really what happened, as far as the 6d. was concerned, though it does not dispose of the question, is that this was a mistake which was discovered too late, after the Account had been made up, and it is a means of correcting the mistake. On the evening of the 28th February, when they had made up their exchange adjustments with the National Debt Commissioner, and after they had made them up and when it was too late for them to strike a fresh balance, they found they were 6d. wrong and they therefore expressed it in this manner, I do not know that that is a very happy way to express it.

Chairman.] May I take it that this Account is approved? (*Agreed.*)

(ACCOUNT OF RECEIPTS AND EXPENDITURE OF THE HIGH COURT AND COURT OF APPEAL.)

Chairman.] The Account of Receipts Court of Appeal is circulated for Expenditure of the High Court and information.

CIVIL APPROPRIATION ACCOUNTS, 1936.

CLASS III.

VOTE 7.

COUNTY COURTS.

Mr. E. C. MARTIN, M.B.E., called in and examined.

Chairman.

3784. Now take, please, the Civil Appropriation Accounts, page xi, paragraph 21; this is the question of the County Courts local examination. Will you turn over to page xii; I must ask the Comptroller and Auditor General, are you satisfied with this situation now? (*Sir Gilbert Upcott.*) Yes, the matters mentioned are minor matters of procedure which have been settled.

3785. You are satisfied?—Yes.

3786. Nothing further arises, I take it?—(*Sir Claud Schuster.*) Except, that I would like, if I might, to say that we

are very greatly indebted to the Comptroller and Auditor General and his officers for the advice that they gave us in the course of this examination and undoubtedly it has been of great assistance to us.

Chairman.

3787. That is very nice. Thank you very much. Page 121, Class III, Vote 7. I would like to ask one question on sub-head H at the bottom of page 121: you see "The excess on this sub-head is due to the fact that during the year two sums of £248 and £372 were paid to

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and Mr. E. C. MARTIN, M.B.E.

suitors " etc. Could you tell me how that arose?—(Sir *Claud Schuster*.) It will be within the recollection of the Committee that we began a new plan under which we paid over practically all we had to the National Debt Commissioners, they, of course, or we, of course, remaining responsible for any claims that might hereafter be made against us. These two cases are cases, wholly unaccountable, of people who had done nothing for 15 years, or more than that, and then suddenly woke up and asked for the money to which they were certainly entitled. Exactly the same thing happened in the High Court when just the same process was gone through in 1870. A very large sum of money was paid over under the belief that there would be no claims upon it, the Treasury remaining liable to satisfy any claims that were, in fact, made and claims have gone on being made after a very long period of years, to an extent which is most surprising.

Mr. *Benson*.

3788. Are they not Statute barred?—No. I think that these things could never be Statute barred. I think for one thing we are trustees. (Sir *Gilbert Upcott*.) The statutory provision provides that if a claim is made the Court shall make an Order for the payment of the amount to which the person is entitled, and the amount required shall be paid out of the Consolidated Fund, if not otherwise provided for. (Sir *Claud Schuster*.) I do not think we should ever have been allowed to give the money to the Treasury, except on some such understanding as that, because *prima facie* we were liable for all time.

Chairman.

3789. What intrigued me about it was how it came to be put under "Incidental Expenses"?—That is rather beyond me.

3790. I look at the estimate, and sub-head H, "Incidental Expenses", cover "Post Office fees for special services, Jury lists, Miscellaneous (e.g. Bailiffs' mackintoshes and leggings, Ushers' gowns, cost of conveyance of books, cost of prosecutions for assaults on bailiffs, &c.)". I do not quite see how it got there, except that you were putting it under that so as to be able to account

for it in some way?—We had to account for it in some way and probably, if we had really foreseen what was going to happen, we should have set up a sub-head which was appropriate to it, but, having no other sub-head, and having to put it under some sub-head, we put it here, with I think, the Treasury assent. (Mr. *Fraser*.) The Treasury were asked whether there should be a special sub-head and we did not think it necessary.

3791. Because it so rare? (Sir *Claud Schuster*.) We hope it is going to be rare. We do not expect people to turn up after all these years. I am afraid that henceforth we must expect it.

3792. Have you anything to say, Mr. Comptroller and Auditor General?—(Sir *Gilbert Upcott*.) As I said just now, the statutory provision is that the repayment should be provided out of the Consolidated Fund, if not otherwise provided for; that means, of course, if not provided for out of moneys provided by Parliament. I think it might be a question whether the description of the sub-head which you read was provision, but I see that in the Estimates for 1937 a description has been introduced under that sub-head which makes it more applicable. It is "Repaid Forfeited Money".

3793. It has been brought to our attention?—It is a question of introducing a rather more appropriate description in the sub-head.

3794. As you say, if it had come out of the Consolidated Fund, we would not have seen it and now we do see it?—(Sir *Claud Schuster*.) Yes; it is very desirable that it should be noted.

Mr. *Culverwell*.

3795. On sub-head E, the note is "Fewer 'Official paid' envelopes were printed than was anticipated". Does that merely mean smaller postage?—(Mr. *Martin*): The answer is that it does not necessarily mean we used fewer. Fewer were printed. We pay for them when they are printed. We pay for them in large batches; the Stationery Office order them, and, when they are delivered, we pay for them. Those paid for in that particular year are not necessarily used in that particular year.

Chairman.] May I take it this Account is approved? (*Approved*.)

7 April, 1938.] Sir CLAUD SCHUSTER, G.C.B., C.V.O., K.C., [*Continued.*
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TREASURY MINUTE ON PARAGRAPHS 9 AND 10 OF THE SECOND
REPORT OF THE COMMITTEE OF PUBLIC ACCOUNTS, 1937.

Chairman.

3796. Treasury Minute dated 8th November, 1937, on paragraphs 9 and 10 of the Second Report of the Committee

of Public Accounts, 1937. "My Lords note the comments of the Committee" and I think we are grateful. Nothing further arises, I take it?—(Mr. Fraser.) No.

COUNTY COURTS, 1936.

Chairman.

3797. Turn to the White Paper, County Courts, page 8. In the first subparagraph we are told that "The relationship between the Account of the Accountant-General (Account I (a)) and the Account of the National Debt Commissioners (Account II), which the Committee last year found difficulty in following, is now exhibited by Statement 1 (b) on page 5 and by the revised notes to Account II." We shall see when we get there. Paragraph 3: have you anything to say upon this, Sir Claud or the Treasury, "At the same date the market value of the securities held," etc.?—(Sir Claud Schuster): I have not anything to say.

3798. Have you anything to say, Mr. Fraser?—(Mr. Fraser.) No, Sir.

Chairman.] Turn, please, to the foreword; are there any questions?

Sir Irving Albery.

3799. In paragraph 3 there is a reference to moneys in Court which are subject to investment. Here they seem to get $2\frac{1}{2}$ per cent. Is this a similar transaction to the one that takes place in the Supreme Court? It is suitors' money?—(Mr. Brittain.) Yes, in substance it is the same, but we give the interest in rather a different form.

3800. It is $2\frac{1}{2}$ per cent.; it does not say with or without income tax?—This is $2\frac{1}{2}$ per cent. gross subject to tax.

3801. Apparently it can be transferred from the deposit account to investment account and then the rate is 3 per cent., which I take it is also gross?—Yes.

3802. Is there any reason why the rate of interest should be different in the Supreme Court and in the County Court for suitors' moneys?—I think this had its origin in the fact that, before the new arrangement for the County Court came into force at the beginning of 1935, these moneys were deposited in individual accounts in the Post Office Savings Bank and so got $2\frac{1}{2}$ per cent.

there, and the rate was simply carried on from that period so that they should not be better or worse off by reason of the change.

3803. That is the history of the matter. What I wanted to get at was whether there is any adequate reason for having a different rate of interest on suitors' money in one Court as compared with the other Court?—(Sir Claud Schuster.) Historical reason is a reason and it is pure history.

3804. There is no other reason?—It would have been very difficult, on carrying out the new scheme to cut down the rate being returned on these people's deposits with us below the rates which they were then receiving.

Chairman.

3805. But I do not understand your question to be that, Sir Irving. Why in one case is it 2 per cent. free of tax and why in the other case is it $2\frac{1}{2}$ per cent. subject to tax?—I was not assuming that we should be expected to raise the one up to the other; I thought the suggestion was that we should cut the other down.

Sir Irving Albery.

3806. Which was settled first?—The Supreme Court rate, long ago and this in 1935, following on a long system under which the Post Office rate of deposit, which, I think, was $2\frac{1}{2}$ per cent., was being paid. This fund at its inception, which was two years ago, went on on the same lines as the old rate, which had always been, as far as we know, $2\frac{1}{2}$ per cent. (Sir Gilbert Upcott.) They compete with each other for antiquity, but they ran on separate lines. (Mr. Fraser.) I think this is a case where the trouble involved in uniformity is not worth while.

Chairman.] Are you satisfied, Sir Irving?

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Sir *Irving Albery*.

3807. No, Sir.—(Sir *Claud Schuster*.) May I put it another way. The funds of these people, who are of the type of the Post Office Depositor, when in our hands always received $2\frac{1}{2}$ per cent. interest as they would have done if they had been dealing directly with the Post Office. It would have been, I suggest, impossible for us, when we established a new system for our own accounting purposes and for that only, to make that an opportunity for reducing the rate of interest which they were previously receiving, and which they could have got if the money had been put in the Post Office. We are forcing them away from their individual account in the Post Office. We cannot, by reason of that, cut them down to our High Court rate. That is how it appeared to us, it is subject to the judgment of other people.

3808. I was not doubting the equity of the proposal; I was only raising the question of the difference of the procedure in the two Courts?—It is like a great many other cases; it has a historical reason, and perhaps I might add that here again I should not like a too close enquiry into a comparison between the two funds, because the result might be to hit me on both.

Sir *Robert Smith*.

3809. It may be the fact that the High Court is more expensive than the County Court and therefore you are entitled to a little more return on your money?—It may be so.

Chairman.

3810. Pages 4 and 5; we were told the relationship between the two accounts is exhibited?—(Sir *Gilbert Upcott*.) The second account is on page 6.

3811. Mr. Brittain, could you tell me in regard to item 3 (i) and (ii) what these funds are, where the money comes from? Does it come from Account 2?—(Mr. *Brittain*.) I am not quite sure which (3) you are referring to.

3812. Page 4 on the left hand side, receipts, "(3) Funds arising from . . . (i) and (ii)." Could you tell me what are these funds and where does the money come from. Where is it shown?—3 (i) Sir Claud has just been mentioning; before the new system came into force in January, 1935, these

suitors' moneys were invested in stock on the Post Office Register and moneys which had been so invested up to that date, when the new system came into force, were not disturbed; they were left there and these amounts represent proceeds of sales of that stock as and when the stock had to be realised. Funds subsequently received are invested by the National Debt Commissioners in new securities. (Sir *Gilbert Upcott*.) They were held by the Registrar. (Mr. *Brittain*.) The second part is dividends on the Post Office stock and also on securities lodged as securities in Court, not as cash which is subsequently invested. The latter dividends are received direct by the Accountant-General and not through the National Debt Commissioners.

3813. And they have nothing to do with what appears on page 6, I take it; is that so?—That is right, they do not relate to the National Debt Commissioners' investments at all.

3814. On page 5 1 (b) "Statement showing the variation in the balance", on the increases side—the second Table—item 4, "Sums transferred to the National Debt Commissioners for investment £512,636", where does that come from?—That is from the Accountant-General. The Accountant-General handed money to the National Debt Commissioners for investment and it is shown as a receipt in the National Debt Commissioner's return on page 6, "Sums received for investment".

3815. I would like you to explain, if you do not mind, that sentence under item 6, "Funds on Deposit" and "Funds invested," starting: "The difference between this total and the balance of £4,525,473 4s. 6d. shown above is due to the temporary use of other moneys by Registrars to make payments out of Court." What does that mean?—In order to economise balances in the Courts and in order to minimise transfers between the Accountant-General and a Registrar, the Registrar may have to pay out, in respect of funds which appear in these accounts, moneys for which he has not got cash readily available, and for that purpose he uses other moneys which are in his hands, that is, moneys which are not subject to investment, and also a small amount of voted moneys and so on,

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3816. In the column of receipts on page 6, "For securities sold, cost price, less loss on sale", why were they sold?—(Mr. Fraser.) The National Debt Commissioners changed the securities from a medium short dated stock to long dated stocks, in order to get a better yield. The loss is merely a paper loss.

Chairman.] Are there any further questions?

Sir Irving Albery.

3817. On the same point on page 6, securities sold, £500,000—is that a nominal amount figure?—No, they sold £500,000, 3 per cent. Conversion Loan and they bought Local Loans.

3818. It is a nominal amount figure?—(Sir Gilbert Upcott.) Item 4 gives the cost price. (Mr. Fraser.) The nominal amount is £500,000.

3819. I take it the net loss comes in as between the actual sale or cost as

compared with the nominal figure?—They paid £529,000 for the 3 per cent. loan and they sold it for £5,000 less, and with the proceeds they bought Local Loans, 3½ per cent. Conversion Loan and 3½ per cent. War Loan.

Mr. Peat.

3820. The cost price under item 4 is the price you originally paid for these securities, £529,000?—Yes. (Sir Gilbert Upcott.) The holding of securities is item 7.

3821. That is the nominal value?—That is the nominal holding.

3822. But you sold £529,000 of securities for £524,000?—(Sir Claud Schuster.) Yes. (Mr. Fraser.) Yes.

Chairman.] Are there any further questions? May I take it that this Account is approved? (Agreed.)

(ACCOUNT SHOWING THE RECEIPTS AND EXPENDITURE OF THE COUNTY COURTS, 1936.)

Chairman.] Account of Receipts and Expenditure of the County Courts. This is the White Paper that is circulated for information.

(The witnesses withdrew.)

(Adjourned till Tuesday, 3rd May, at 2.30 p.m.)

TUESDAY, 3RD MAY, 1938.

Members present:

Mr. MORGAN JONES in the Chair.

Sir Irving Albery.
Sir Edmund Brocklebank.
Mr. Culverwell.
Mr. Lathan.
Mr. Mabane.

Mr. Peat.
Mr. Pethick-Lawrence.
Sir Assheton Pownall.
Mr. Wilfrid Roberts.
Sir Isidore Salmon.

Sir GILBERT UPCOTT, K.C.B., Mr. W. R. FRASER, and Mr. H. BRITAIN called in and examined.

CIVIL APPROPRIATION ACCOUNTS, 1936.

CLASS II.

VOTE 12.

IMPERIAL WAR GRAVES COMMISSION.

(18th Annual Report of Imperial War Graves Commission.)

Major-General Sir FABIAN WARE, K.C.V.O., K.B.E., C.B., C.M.G., LL.D., called in and examined.

Chairman.

3823. Civil Appropriation Accounts, Imperial War Graves Commission. Will you please turn to page 86, Class II, Vote 12. Sir Fabian, I see under sub-head B that the Grant-in-Aid is down as compared with 1935?—(Sir *Fabian Ware.*) Yes.

3824. Could you tell us why the expenditure has fallen?—I should have to answer that at some length, Sir. (Sir *Gilbert Upcott.*) On page 88 under the column "France and Belgium" you see most of it.

3825. I was coming to page 88. I was wondering whether you could tell us why it fell as compared with 1935?—(Sir *Fabian Ware.*) I was looking to see whether it was a question of carry forward. I think it is largely owing to less construction work to do and in this account there is a considerable saving owing to the exchange which went in our favour in September.

3826. I was wondering whether it was due to a fluctuation in exchange?—I think so. That is certainly one of the elements.

3827. Could we get that cleared up a little bit. Could you give us the comparative figures for 1935 and 1936 in francs?—I cannot give you that straight away. That is a thing, of which, if I may venture to use the term, I should like notice.

3828. That is a familiar observation, not from you, but which we have heard elsewhere?—(Sir *Gilbert Upcott.*) The sterling expenditure in France and Belgium fell from £194,000 in 1935 to

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£179,000 in 1936, but it does not follow that the franc expenditure fell in that degree or at all.

3829. If you could not give that now, could you send it to me?—(Sir *Fabian Ware.*) Yes, the total franc expenditure for the year 1935-36 as compared with 1936-37?*

3830. Yes. Will you look at page 88 a moment, Sir Fabian?—Yes.

3831. You will see in note 10, receipts, there is a deduction. It says "Proceeds of realisation of surplus stores, etc., sale of Registers and Annual Reports, interest received, and a refund from the Government of India in respect of unexpended advances for maintenance"; what was that refund and how much was it?—£4,450. It was in respect of some graves west of the Indus which we thought they were caring for, and they found themselves unable to care for, and informed us of these graves, owing to a political reason, not being looked after, and they refunded that money.

Sir Edmund Brocklebank.

3832. Who is looking after the graves now?—They are being looked after now.

Chairman.

3833. By you?—By the Government of India on our behalf.

* *Note by Witness.*—In 1935-36, the expenditure in French francs was 10,269,820, and the average rate of purchase was 74.60; in 1936-37, it was 10,329,000, and the average rate of purchase was 88.07. For Belgian francs the figures were 3,564,100 in 1935-36 and 3,503,000 in 1936-37, the average rates of purchase being 145.35 and 146.60.

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Sir Assheton Pownall.

3834. On page 88 I see the salaries and wages under the five headings account for approximately four-fifths of the expenditure in France and Belgium, but surely the devaluation of the franc in September, 1936, would not affect them at all; it is only the money you spent in France, not the wages of British staff?—You mean because the wages were paid in sterling.

3835. Presumably? — (Sir Gilbert Upcott.) They were not paid in sterling at that date; they were paid in francs.

3836. This comes later on, on the Annual Report?—(Sir Fabian Ware.) Yes.

3837. Your staff are almost entirely British, are they not?—Almost all British except some casual labour; they are almost all British.

3838. Therefore the devaluation of local currency, if they are paid in sterling, obviously makes no difference at all?—At present it does. They pass through a stage at which they were being paid at a franc rate.

[Sir Assheton Pownall.] We come on to this, I gather, later on.

Chairman.

3839. So that we may not cover the ground again I will ask you if you will turn to the Report for a minute. You find on page 8, the last paragraph, just above your signature: "It was finally agreed between the Commission and the Wages Staff Association through the Joint Council, of which Mr. Graham Hamilton has accepted the chairmanship, that the whole question should be referred for arbitration to the Industrial Court in London" and there is a reference there to the Award. What was that Award? It would throw light on Sir Assheton's question?—That Award was only given recently; perhaps I might read the whole Award to you: "Gardener-Caretakers employed by the Commission" on 24th July, 1937, "shall be placed on the scale as from that date" the scale being this: "the rates of pay of the Gardener-Caretakers employed by the Commission in France and Belgium shall be £3 per week, rising by annual increments of 2s. 6d. per week to a maximum of £4 per week. These amounts shall be payable in sterling or their sterling equivalent (calculated at the rate of exchange current in London

on the day of remittance) in the currency of the country (France or Belgium) in which the employees concerned are for the time being employed. Effect shall be given to this Award as follows:—Gardener-Caretakers employed by the Commission on 24th July, 1937, shall be placed on the scale as from that date at the following rates:—Those with less than three years' established service at 67s. 6d. Those with three years' established service and over at 70s. and shall thereafter proceed to the maximum" £4. Then there is a proviso which I had better read: it is noted that "at the present time the wages of the staff are being calculated on a franc basis" which they were at that period but it was only an intermediate period "and they award that in applying the scale of pay set out above for Gardener-Caretakers and the consequential adjustments in the wages of other grades, in no case shall any reduction be made in consequence of this award and the number of francs receivable by any individual employee on transfer to the new scale shall be not less than the number payable to him prior to such transfer" so that as well as putting them on this scale for the present Gardeners, we are to be careful that none of them draws less in francs than he was drawing before.

Sir Assheton Pownall.

3840. That question could not arise because the French franc has now gone to 160 where it was 115 this time last year, so they are quite safe from that point of view?—Yes, we have not to pay for it at the present time.

[Sir Assheton Pownall.] They could not be paid more in francs at the present time for that reason?

Mr. Lathan.

3841. Except if a different situation should develop, which I hope and trust will not be the case; but if it happened that the franc was the other way in relation to the pound, as it was some months ago, that agreement compels you to pay them (and again I raise no objection to it), not less than the number of francs of which they were in receipt at the time the agreement was made?—Quite. Owing to various transactions which had taken place they are now getting 540 owing to the exchange, but if the exchange went back and we

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[Continued.]

reached that lower figure and got past that we should have to make it good.

3842. That is quite fair?—But it is expensive.

Mr. Culverwell.

3843. "Burial Fees, Scutari Cemetery"; what are they for?—They are for any civilians or other people buried there during the year. We look after the Scutari cemetery which is mainly a Crimean cemetery; we have a Great War cemetery alongside, therefore we care for that cemetery for the United Kingdom Government against repayment and in the non-military part of the cemetery civilians are buried and it is run by a Committee and there are fees paid. (Sir Gilbert Upcott.) There are no service cases affected. (Sir Fabian Ware.) I made that clear, did I not?

Mr. Lathan.

3844. Has the Imperial War Graves Endowment Fund mentioned on page 87 any relation to (I imagine it has) the Endowment Fund mentioned in the

(Major-General Sir Fabian Ware withdrew.)

Account which appears on page 86?—It is the same.

3845. Is the Endowment Fund used for the purpose of accumulating money? It seems to be an investment fund, £300,000 voted and simply invested?—No, a special Act of Parliament was passed to enable the Trustees to invest and accumulate until the necessary total was arrived at. That £300,000 is handed over to the Trustees who are then bound to invest it and the interest arising on that goes to the final total.

3846. Till the necessary amount is accumulated?—Till the necessary amount is accumulated.

3847. What is the necessary amount?—Somewhere about £5,000,000. They have under the Act power to accumulate; it was thought necessary to give them those powers by Act of Parliament. The Trustees have power to accumulate up to £5,000,000. (Chairman.) May I take it that this Account is approved? (Agreed.) The Eighteenth Annual Report of the Imperial War Graves Commission is before the Committee for their information.

VOTE 4.

DOMINIONS OFFICE.

Sir EDWARD HARDING, K.C.B., K.C.M.G., called in and examined.

Chairman.] Page 66, Civil Appropriation Accounts, Class II, Vote 4, Dominions Office. Are there any questions arising on this Vote?

Sir Assheton Pownall.

3848. What sort of journeys would these be on sub-head B, special journeys outside the United Kingdom?—(Sir Edward Harding.) There were three in the course of the year under review; one was by Lord Hartington, to Australia and New Zealand, one was by myself to Australia and New Zealand and the third was by one of the members of the Oversea Settlement Board.

3849. Surely you could not get all three of them done for £400?—No; Lord Hartington was the guest of the Commonwealth Government and I was the guest of the South Australian Government. There was, of course, a certain amount of incidental expenses, but the major part was not covered.

3850. It does not cover three people?—No.

Sir Isidore Salmon.

3851. I notice under the heading of the Oversea Settlement Department this is now appearing as a separate Vote, is it not?—No, Sir, I think there was always a Vote for Oversea Settlement. The staff of what was the Oversea Settlement Department has been under the heading of Dominions Office for some years.

3852. I agree, but I notice that under the heading of Dominions Office to-day, you do not seem to have any heading "Oversea Settlement Department"?—(Sir Gilbert Upcott.) I think what Sir Isidore is referring to is the fact that the staff have been transferred from sub-head C, where it used to be shown separately, to the main salaries subhead of the Estimates.

Chairman.] Are there any further questions. May I take it that this Account is approved? (Agreed.)

3 May, 1938.] Sir EDWARD HARDING, K.C.B., K.C.M.G. [Continued.]

VOTE 5.

DOMINION SERVICES.

Chairman.

3853. Page vi, paragraphs 10 to 12. If you look at page vii we get the major part of the paragraph. At the end of the first sub-paragraph I observe that it says: "I understand that the observations of the Newfoundland Government on a number of questions raised in this Report have only recently been received by the Dominions Office and are now under consideration." Could you tell us how that now stands; whether any decisions have been arrived at, Sir Edward?—(Sir *Edward Harding.*) The points at issue which are quite minor ones have been referred to the Treasury and are, I understand, under consideration by them.

3854. You have no decisions to announce to us?—No.

3855. Could you tell us how it stands, Mr. Erittain?—(Mr. *Brittain.*) I think it is largely a matter of the Treasury formally agreeing that the Dominions Office should make further enquiries from the Government in Newfoundland on a number of these points. Most of the points, I think, require further investigation in Newfoundland, but, as Sir Edward said, they are quite minor points and there is nothing of principle. (Sir *Gilbert Upcott.*) I understand that the Newfoundland Government themselves have taken action on a good many points raised by the Auditor General and it is only a certain proportion of the questions that are still outstanding. Satisfactory action has actually been taken by Newfoundland itself on a number of points.

3856. We pass the next sub-paragraph and come to the third sub-paragraph dealing with the question of the balances in the Newfoundland Exchequer. Could you tell us, Sir Edward, why the balances have grown in this way?—(Sir *Edward Harding.*) They have grown, I am glad to say, chiefly on account of the fact that the depression in Newfoundland has been gradually lifting since the Commission of Government took over.

3857. If you look at the middle of that sub-paragraph, I rather gathered that there was an intention to reduce the balance at June, 1937, to 400,000 dollars?—Yes.

3858. But in fact it worked out at 1,600,000 dollars?—Yes, that is so, and, in order to meet that situation, we have recently arranged to alter the estimating

of the Grant-in-Aid required for Newfoundland. We have changed the arrangement by estimating what will be required for Newfoundland during the United Kingdom financial year, which ends on the 31st March. It was difficult before, because you had to estimate, in making issues from the Grant-in-Aid, for a year which was only, so far as Newfoundland was concerned, three-parts ended. We have now got over that difficulty by estimating, as I have said, in relation to the United Kingdom financial year.

3859. But I still have a little difficulty. That sentence begins in this way: "Early in 1937" (that is the year that we are dealing with) "the Treasury held that a balance of 400,000 dollars should be regarded as adequate"?—Yes.

3860. And they made certain decisions?—Yes.

3861. But, in spite of that, within six months the balance was four times as much?—Yes. As I explained, the difficulty is that Newfoundland has been emerging, as the Committee know, from a period of deep depression. Seventy-five per cent. of the local revenue of Newfoundland depends upon its Customs. The Committee will realise from that that it is very difficult to estimate with any certainty what the amount of the local revenue is likely to be. On the other hand, certain grants have to be made to meet the deficit from the United Kingdom Exchequer, and the difficulty which we have been trying to adjust is to relate the amount of issues from the grant to the amount of the local revenue. If it does not work quite right, then the balances at the end of the Newfoundland financial year have been too large, assuming that the revenue has been good.

3862. I quite see that argument, but I still do not see how it is that, starting at the beginning of 1937, you could not have anticipated that the revenue would have been more, and that consequently this balance would have been considerably less than it was. It seems to me very bad estimating; that is how it strikes one at first, anyway?—I agree. I think there is a lot in that. We have been trying, as I say, to get over that difficulty by seeing that the amount of the grant at the end of the Newfoundland financial year shall be adjusted so

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[Continued.]

that not more than the working balance shall be kept, and we hope to achieve that this year.

3863. Mr. Brittain, would you like to say something on this, or would you, Mr. Fraser?—(Mr. Fraser.) The explanation is the one Sir Edward has given: The revenue was unexpectedly good. I think in three months they got 1,000,000 dollars more than they expected in revenue. They have done far better than anybody expected when the issue was made. The issue was expected to provide this balance of 400,000 dollars; in fact, it provided far more. The matter is going to be discussed with the Newfoundland authorities this summer.

3864. You are going to take certain steps after March, 1938, I understand?—(Sir Edward Harding.) Yes.

3865. That is from now on, so to speak?—Yes.

3866. I see in paragraph 11, the second sub-paragraph, that the Treasury has decided upon a change of practice as regards the use of the Colonial Development Fund, so far as it refers to Newfoundland. Could you explain that to us, Sir Edward?—The principle involved is this, Sir, that it was felt that, so far as possible services relating to Newfoundland should be financed either from the revenues of the Island itself or from the Colonial Development Fund.

3867. But not both?—But not both. In two cases, as is stated here, there have been payments, to some extent, from local revenues as well as from the Colonial Development Fund.

Sir Assheton Pownall.

3868. On the first point the Chairman asked you about, I work out this difference of surplus as £240,000, as between the 400,000 dollars you expected to have and the 1,600,000 dollars. It is not far short of a quarter of a million pounds. It is a very big sum. I should rather like to know if the Treasury, who, I gather, found that the Customs receipts were much more than they expected, had any estimate with regard to the amount of those Customs receipts in those 3 months ending June, 1937, compared with the actual amount received, because with a small Dominion like Newfoundland it does seem such a very big difference—nearly a quarter of a million pounds in 3 months Customs receipts?—

(Mr. Fraser.) We were given estimates from Newfoundland which we worked on.

3869. You have not got them here, I suppose, have you?—No.

3870. The difference is such a large one?—(Sir Gilbert Upcott.) There was a very substantial receipt from "Special Sales of Stamps."

3871. In 1937; Coronation stamps?—Yes, Coronation stamps. (Sir Edward Harding.) Yes, that would be it.

3872. But surely that would only account for some thousands of pounds?—(Sir Gilbert Upcott.) About 300,000 dollars.

3873. £60,000; of course, that is a very large sum?—The rest was Customs receipts. (Mr. Brittain.) The total revenue of Newfoundland is about 10,000,000 dollars, and it does vary enormously between quarter and quarter. The graph is surprisingly acute at different points.

3874. That second quarter in the year, it might be, is rather an exceptional quarter, because it is the end of the long winter?—Yes.

Mr. Lathan.

3875. This Report indicates, as you have explained, an improved internal position in Newfoundland. Does that mean that, because a balance substantially in advance of what was conceived to be necessary has now grown up, there will be a modification in local taxation, or, on the other hand, a diminution in subsidy from this country?—(Sir Edward Harding.) The effect would be a diminution in the subsidy from this country.

3876. Only that?—I think so. There might be minor adjustments of taxation in Newfoundland, but it is so largely dependent on a Grant-in-Aid from this country that a natural result is a reduction in the Grant-in-Aid.

3877. I wondered whether you had any information you could impart with regard to the development of the internal economy of Newfoundland in order to make it self-supporting once again?—The best information I could give to the Committee about that, I think, is that last year there was formulated at the instance of the Secretary of State what was known as a Reconstruction Scheme, a long-range policy, and that is now in process of being started, and it will be carried out during the course of the next few

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years. It is perhaps a bit too early to say what effect it will have on the internal economy of Newfoundland, but we would certainly hope that it will have an effect in restoring the island to a state of being self-supporting.

3878. It was because I have heard something of this internal development that I was anxious to know whether it was responsible in any degree for the improvement in the situation. I gather it is not?—I am afraid that is not so. The position is, of course, that during the first few years of Commission Government, the Commission has had to take steps to deal with a very unfortunate situation which it found. It has had to improve the administration; it has had to deal with very pressing problems, and at the same time it has had not very much time to think out what you may call a long-term policy. Recently it has got to the stage when it can think out, and has thought out, a long-term policy to the best of its ability, and that policy is now beginning to be put into operation.

Sir *Isidore Salmon*.

3879. The Commissioners have been there since 1934?—Yes.

3880. How much longer do you think they will have to remain there?—I should be very sorry to give an estimate, Sir, but my own view would be that it will be necessary for them to remain there for some quite considerable number of years.

Chairman.

3881. Turn, please, to page 67, Class II, Vote 5: "Dominion Services". I have only one question to ask on this particular page, Sir Edward. You will see the two notes E and F.2. There is a difference of terminology there—"Issues were restricted to the actual requirements of the Protectorate" under E, and "Issues were restricted to the estimated requirements of Newfoundland" in that year under F.2. Is there any difference implied?—Yes; the difference is, as I indicated just now, that the issues in relation to Newfoundland used to be made with reference to the Newfoundland financial year, which ended on the 30th June, but in the case of Bechuanaland they related to a year which is the same as the United Kingdom financial year.

3882. It is particular to Newfoundland and not to the rest, is it?—Yes.

Sir *Assheton Pownall*.

3883. On page 67, have you the figure under sub-head F.2? What have we put down for the year ending 31st March, 1938, and the present year too, if you have them? I want to see what reduction there has been in view of the large surplus we carried forward?—(Sir *Gilbert Upcott*.) It is £450,000 for 1937 and £320,000 for 1938. (Mr. *Brittain*.) £450,000 was the estimate for 1937-38, but no issue was made.

3884. Because of the large surplus we had?—Yes.

Sir *Irving Albery*.

3885. Under note A, I would like to ask this, with reference to the part that refers to South Africa. It says: "The liability for the cost of local postage, telegram, etc., services previously supplied free, was over-estimated". Does that mean that those services are no longer supplied free?—(Sir *Edward Harding*.) Yes. It is a story with a very long history behind it, with which perhaps I need not trouble the Committee, but in brief the position was that certain free services were given by the Union Government to the High Commissioner, and they were compounded for by, I think, a payment of £40,000 by the Union Government, and a sale of sites for new offices for the United Kingdom High Commissioner in Pretoria and Capetown.

3886. Take postage and telegrams and things: does our representative have to pay for all those things now?—Yes.

3887. And he did not have to before?—He did not have to before.

3888. What is the corresponding position here with the South African representative?—They would pay for their own.

3889. They pay here. They got no free services?—I do not think so.

3890. In other words, that has merely brought the matter into line in the two countries?—Yes.

3891. We are giving the South Africans the same facilities now as they give us?—Yes.

3892. That is what it amounts to, is it?—Yes.

3893. That is what I wanted to know. There is also: "The sum provided for additional representation in the Dominions was not required (£7,500)"?—That was provided in case it should be

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decided during the year under review to appoint a High Commissioner for the United Kingdom either in New Zealand or in what is now called Eire, or perhaps even in both, but, so far, that has not eventuated.

Sir *Isidore Salmon*.

3894. Could you tell us why, under sub-head C: "Telegrams on Dominion Service, including Overseas Telephone Calls," the amount is practically double that of the year previous: is there any special reason for it?—Yes, that was mostly on account of the Abdication crisis.

3895. Could you tell us why the item "Nauru and Ocean Islands" has disappeared this year from the Vote on page 67? Last year you had under sub-head D "Nauru and Ocean Islands"?—Yes. I think that was due to the fact that there was no profit, which is usually, I understand, re-voted. In this particular year there was nothing to vote.

3896. We have had a private paper sent to us showing a considerable amount of money they have taken this year?—(Sir *Gilbert Upcott*.) As you will see, when you get to the Accounts, it was all put into Reserve.

3897. When you have not any money to vote, it does not appear on the Appropriation Account; is that the answer?—Yes. (Mr. *Brittain*.) That is only used when we are putting back into the business money which we could take out of profits. In this year we did not take anything out and, therefore, there was nothing to put back.

3898. Would it not always be desirable to have a line on the Appropriation Account for "Nauru and Ocean Islands"? Does not it seem strange that you should open an Account and

try to make a comparison between one year and other, and then it disappears one year? Is it not a quite novel way of presenting the Appropriation Account?—I do not think it is novel doing it like that, because, if we had to perpetuate every sub-head which had ever been shown in an Estimate, it would complicate it. This item is shown in the Estimate, of course, for the year in which it is voted.

3899. Could we have an explanation with regard to the fact that the Swaziland grant is £14,000 less but the Bechuanaland grant is £10,000 more than last year? Are these places visited by the Auditor of your Department?—(Sir *Edward Harding*.) They have a local Auditor, but the Accounts of the two Territories are sent to the Comptroller and Auditor General.

3900. Is there any special reason why one Colony has an increase and the other has a decrease?—The reason would be that less money would be needed, of course, if the local revenue showed the requisite improvement.

3901. Under sub-head K (Grants for Research Work), you informed us last year that the Grants for Research had disappeared altogether and they would cease to appear in the Civil Appropriation Accounts next year, but, as a matter of fact, they have appeared, have they not, under: "Grants to Dominion Governments, Institutions, etc., for Research"?—I do not think I said—I hope I did not say—that they would cease to appear in the Accounts. I think I told the Committee that they had ceased at the time when I was giving evidence.

Mr. *Mabane*.] Yes.

Chairman.] Are there any further questions? May I take it that this Account is approved? (*Agreed*.)

TRADING ACCOUNTS AND BALANCE SHEETS, 1936. DOMINIONS OFFICE.

Mr. A. S. GAYE, C.B., called in and examined.

(*Confidential Report and Accounts of the British Phosphate Commission for the Year ended 30th June, 1937.*)

Chairman.

3902. Turn to the Trading Accounts, and with the Trading Accounts we take the confidential Report. Turn please to page iv. I think paragraph 3 on page iv

is quite formal, so we will pass on to the pages of the Accounts themselves, British Phosphate Commission, pages 64 and 65, Trading Account for the year ended 30th June, 1937. I take, of course, with that the document which has been

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circulated. If you look at the first page of the confidential Report, Mr. Gaye, at the end of sub-paragraph (a) you say "Phosphate consumption in Australia and New Zealand has risen by nearly 300,000 tons in two years, and there is every indication that considerably larger quantities will be required in future." Is that rise a continuing rise?—(Mr. Gaye.) It shows no sign of discontinuing; it has gone on very steadily for the last four or five years, it is up again this year and there is every prospect of its being up again next year.

3903. May I take it from your answer, Mr. Gaye, that your anticipation, as indicated in your Development Programme on page 4, is likely to be realised—a capacity of 1,500,000 to 1,750,000 tons?—I think it is quite likely in the next five years.

3904. That is assuming that there is no recession, as it is called in America, is it not?—And even if there were a recession I do not think the slump in phosphates would be so severe as it would have been some years ago, because the farmers in Australia and in New Zealand are much more phosphate minded than they were and I think they realise that even in bad times they will still have to use it on their land. They are so dependent upon it.

3905. They are so dependent upon it?—Yes. There is sure to be some drop if things go badly in the price of wool and wheat and dairy produce, but I do not anticipate a very big reduction. It may be stationary for a bit.

3906. Mr. Gaye, has the same difficulty with regard to rises in freight prices manifested itself in regard to Australia as it does here?—Yes, we have had a very disturbed year in making freight contracts; as a matter of fact, as far as Australia and New Zealand are concerned, the average freight is up by about one shilling a ton, which is very good. Our people out there have dealt very skilfully with the difficult freight situation and it works out at only one shilling a ton more. Of course, so far as the United Kingdom is concerned, during the greater part of last year business was impossible because freights were so high, but freights are down again now and within the last two months we have fixed two cargoes for the United Kingdom, one is on the sea now and the other is to be loaded next month.

3907. On page 2, in what form are your reserve funds held, Mr. Gaye?—Partly in the form of investments, as appears in the balance sheet, and partly in the business. You cannot point to any particular asset in the business which represents those reserves. The investments, as you will see on the assets side of the balance sheet, amount to £442,978; those are mostly investments in Government Stocks, and so forth.

3908. Australian or British?—Mainly Australian and New Zealand, but a certain amount in British.

3909. If you look at the detailed Balance Sheet, I see, Mr. Gaye, that your assets under sundry debtors have gone up from £118,000 to £147,000. I suppose that would be due in some measure to increased trade, but are they good debtors?—They are good debts. We are not anxious about any of them.

Chairman.] I have no further questions.

Mr. Pethick-Lawrence.

3910. I would like to ask Mr. Gaye this: on page 2 (c) it says: "Island Working Costs, at 5s. 9.9d. per ton create a new low record being 8.46d. per ton under the 1935-36 cost". With regard to that, to what is that reduction in the working costs due mainly?—Partly no doubt to the larger output and partly to better organisation.

3911. How do the wages compare with what they were?—The tendency is upwards, I think.

3912. You say "the tendency". There has been a great deal of prosperity there; one would imagine that some of it would go to the people at work. What sort of improvement have they had?—You mean the actual labourers who produce the phosphate?

3913. Yes?—I cannot give you any particulars of increases from memory.

3914. Have there been any labour difficulties recently?—None whatever.

3915. Could we have a Table showing what the wages are now and what they were a little while back, two or three years ago?—Yes, I could easily let you have that.

Chairman.

3916. Will you put that in?—Yes, I will put that in.

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Mr. Peat.

3917. I was going to ask whether the policy of the Company is to make themselves in any way independent of competitive freight rates by building these other two ships they have in mind?—We can never make ourselves independent without a very big fleet, but the possession of four ships does help to steady the freight over our whole shipments.

3918. I was going to ask why there was such a big amount on deposit. You have £442,978 invested representing, to a certain extent, the Reserve Funds and then you have £369,000 deposits. I presume that means deposits with Banks?—Yes.

3919. At a very low rate of interest?—Mostly $2\frac{1}{2}$ per cent. That figure will be very much less for the current year because it is out of that that these ships are being paid for very largely.

3920. I thought probably that was the answer, but I presume the policy as a rule is to keep the deposits as low as possible?—Yes, but we get very big receipts and very big outgoings from time to time and we have to keep a fairly big amount of free money.

3921. Who are the royalty owners?—Partly the two Governments, who get 6d. a ton on each island, and partly the owners of the land, who at Nauru get $7\frac{1}{2}$ d., $4\frac{1}{2}$ d. of which goes to the individual landowners, $1\frac{1}{2}$ d. goes to the administrator to be used solely for the benefit of the Nauruan Community and 2d. goes to the administrator to be held in trust to accumulate at compound interest for 20 years. At the end of that time that 2d. will cease to be paid by us and that fund will be available for the landowners and their dependents.

Chairman.

3922. To the second fund you pay $4\frac{1}{2}$ d.?— $4\frac{1}{2}$ d. to the individual landowners.

3923. And the third thing?— $1\frac{1}{2}$ d. for the community, 2d. to a trust fund which is accumulating at compound interest for 20 years, at the end of which time the capital will remain at that figure and the interest on that capital will be paid to the landowners and their dependents or heirs. I ought perhaps to add that these arrangements at Nauru are at the present time under consideration not only with the Nauruans but also with

the Australian Government, because under this old arrangement, which dates back for 11 years, the amount of the royalty was due to fall with a fall in the f.o.b. price. There was going to be a very serious fall and we, on our own initiative, approached the landowners in Nauru with a suggestion for a more equitable arrangement in their interests in future. It takes a very long time to negotiate with Nauruans and any arrangement we come to has to be approved by the Australian Government and that is the position at the moment. It is not settled.

Mr. Peat.

3924. The Nauruans and the other private owners are mostly natives, are they?—Yes.

Mr. Mabane.

3925. Your surplus on sales is about 7d. a ton more than it was last year. Is that because you were unable to avoid making that additional surplus but because you deemed the margin necessary for safety to be greater?—We always have to leave a margin for safety, looking forward, and we cannot judge how much it will work out at.

3926. You could not help making the additional 7d. a ton?—No.

3927. However hard you tried?—Unless we had been wonderfully good prophets.

3928. It is your purpose not to make a surplus?—Our object is not to make a surplus to carry forward, but we must not make a loss so we always make a surplus to avoid making a loss.

3929. 16s. 10d. a ton was the net proceeds. Could you tell us what the world price of phosphate was during that period?—It varies very much in different parts of the world. In some countries the costs of production are about the same as ours. Possibly they might be a bit lower; I do not know.

3930. That was not so last year. The price of these phosphates was considerably lower than the world price last year; you said so. I do not know; you are my authority?—Our f.o.b. price to Australia and New Zealand, at which we sell, is lower than anywhere else in the world because we do not make profits. Other concerns make profits and if they produce cheaply they get the advantage of the world price.

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3931. Does that mean that the phosphate price here, the price at which you sell phosphates, is lower, equal to, or higher than the price at which phosphates could be bought elsewhere?—In the United Kingdom?

3932. Yes; supposing you were buying phosphates in the United Kingdom, would it be cheaper to buy these phosphates or not?—This week it may be and next week it may not be; it all depends on freights, so far as the United Kingdom is concerned.

3933. Your sales to other countries declined during the year slightly?—Slightly.

3934. Did Germany buy any phosphates during the year? Last year there was one cargo?—We sent one cargo to Germany last year; we have not sent any since. We send practically none to Europe, because of the high freights.

3935. Last year I asked you whether Germany was able to buy at the same price as phosphates are sold in this country; you said "No"?—No, because we are bound by our constitution to sell, to other countries than the United Kingdom, Australia or New Zealand, at the best price obtainable. That is laid down in the Act of Parliament.

3936. I cannot understand why you are able to sell at all at this higher price to other countries if this price of 16s. 10d. is no lower than the world price?—Because certain works particularly like our grade of phosphate. That sometimes induces them to pay more for it than for other phosphates.

3937. They are buying a better article?—It may not be a better article but more suitable.

3938. Better from their point of view?—From their point of view.

3939. If they want it they cannot buy it at the same price that it can be bought at in this country?—No.

3940. The difference is a matter of 12s. a ton?—Yes, approximately.

Sir *Irving Albery*.

3941. Can Mr. Gaye give us an idea of what is the largest quantity which has ever come to the United Kingdom in a year in recent years?—The year before last when we shipped 22,300 tons.

3942. May I ask a question of Sir Edward? Has it ever been considered whether it would be worth while and advantageous to hand this business, which concerns Australia and New

Zealand so much and us so little, over to them by funding the amount. After all a loan could be issued to repay the United Kingdom and we could be shut of it altogether?—(Sir *Edward Harding*.) I do not think that point has ever been considered so far, but I may point out perhaps that we have a quite considerable financial interest in the business; for example, you will see in the Dominions Services Vote that we get 6 per cent. on the capital which we advanced, which was 42 per cent. of the whole, and also, I think, if I remember aright, in the memorandum which I furnished to the Committee last year, I pointed out that in shipping freights we had gained (of course, we might still gain them) something in the neighbourhood of £6,000,000.

3943. In shipping freights?—I mean that shipping freights had been paid to British ships—freights had been paid to British ships amounting since the business started to something in the neighbourhood of £6,000,000.

3944. You mean that, by remaining in the partnership, although we do not take much of the phosphates, it is of great benefit to the British shipping industry?—Yes, and to the Government, I think. It has been a very good investment.

3945. I do not think the investment part of it appeals to me so much; that is not our business?—(Sir *Gilbert Upcott*.) Sir Edward pointed out in the memorandum last year that the Commissioners spent, apart from freights, about £1,000,000 on purchases in this country since its establishment.

Mr. *Mabane*.

3946. We have no interest, have we, in the Mandate?—(Sir *Edward Harding*.) The Mandate was handed over to the British Empire which means, in fact, for this purpose, the United Kingdom, Australia and New Zealand jointly.

3947. Why just those three. They are not the British Empire?—No.

3948. I always understood that it was a Mandate directly to New Zealand and Australia?—No.

Sir *Irving Albery*.

3949. Do the three Commissioners represent, one Australia, one New Zealand and one the United Kingdom?—Yes.

Mr. *Mabane*.

3950. We have a mandatory interest?—We have a mandatory interest; the administration is, in fact, exercised by

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Australia but we have a mandatory interest. (Mr. Gaye.) Ocean Island is part of the Crown Colony of the Gilbert and Ellice Islands.

3951. It was not transferred?—No; it has always been British.

Sir Irving Albery.

3952. Is the shipping to Australia and New Zealand invariably done in British ships?—Not invariably, but whenever possible. You cannot always get a British ship of the right tonnage at the right time in the right place.

3953. Could you give one an idea of what percentage?—At a guess I should say about 99 per cent.; it is practically all.

Sir Isidore Salmon.

3954. I did not understand Mr. Mabane's statement that there was less tonnage. I understand you agree that there was less tonnage produced in 1936-7 than in 1935-6? It seems to me that there was more produced?—Less exported to foreign countries.

Mr. Mabane.] Less exported to foreign countries.

Sir Isidore Salmon.

3955. The reason that we have not bought as much as we did previously was, I understood you to say, that freight was against us from Nauru to this country?—That was last year.

3956. I am talking of last year, the figures that we had before us?—Yes.

3957. Does it not seem a little unfair to this country that, because the freight is against us and the ships you are building are to help Australia and New Zealand, you debit the cost of building those ships to the expenses of producing the phosphates; we pay towards that expense and we get no benefit from it. The point I want to put to you is this: would it not be possible to consider a subsidy for the transportation of phosphates from Nauru to this country?—A subsidy?

3958. For freightage only, or have an equalisation fund for freightage?—It could be considered; I do not think that it would be very favourably received in Australia and New Zealand.

3959. What occurs to me is that Australia and New Zealand have a great benefit over us in that, although it is

true they pay a shilling a ton more for freightage, their raw materials and costs are 2s. 6d. less, so that we suffer to such an extent that we have to reduce any import of it to this country?—I am very doubtful (I should like to consider the point further) whether under our powers we could give any subsidy on freights to the United Kingdom.

3960. If you were to pool the freight as a whole—this is all f.o.b., is it not?—That is the basis on which we sell. It is only for convenience that we take charge of the freight arrangements for Australia and New Zealand.

3961. You have an equalisation fund, have you not, for certain purposes?—An f.o.b. equalisation fund.

3962. You do not think it is within practical politics to consider an equalisation fund for freightage, be it for this country or Australia, whichever the case may be?—I should like to consider it before committing myself on this point.

Chairman.

3963. You may be sure that Sir Isidore will ask you that question again next year?—I hope to be prepared for it.

Mr. Mabane.

3964. On Sir Irving's question about the ships, I observe in this book you passed round, apparently the largest vessel shown was one of the Mitsui Line, a Japanese vessel?—I noticed that myself and I thought possibly it would arouse a question. (Sir Gilbert Upcott.) With reference to Sir Isidore Salmon's question, the Schedule to the Nauru Island Agreement Act of 1920 provides that phosphates shall be supplied to the United Kingdom, Australia and New Zealand at the same f.o.b. price.

Sir Isidore Salmon.] That really disposes of my suggestion, notwithstanding the fact that we are contributing to the building of ships to cheapen the cost for the purpose of delivery to Australia and New Zealand. It does not seem to me to be quite equitable.

Sir Assheton Pownall.] We get the building of the ships.

Chairman. Are there any further questions on this document or on the Trading Account? May I take it that these Accounts are approved? (Agreed.)

(Mr. Gaye withdrew.)

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[Continued.]

CIVIL APPROPRIATION ACCOUNTS, 1936.

CLASS II.

VOTE 6.

IRISH FREE STATE SERVICES.

Chairman.

3965. Page vii, paragraph 13, Irish Free State Services. This is a record, I think and nothing much arises from it. I take it that I am right in saying that this reference will be continued for 1937 and for a part anyway of 1938; is that so, Sir Gilbert, in view of the present position?—(Sir Gilbert Upcott.) I would not like to commit myself to what I shall say in my Report next year but these receipts continue for 1937 anyhow.

Chairman.] Turn to page 70; I have no questions.

Sir Assheton Pownall.

3966. On page 70, sub-heads A and C, will these payments, which should have been made by the Irish Free State and for which we have been responsible, continue indefinitely or were not they for a period of say 60 years from about 1900, I think, when they started?—(Sir Edward Harding.) Yes, they were for a period.

3967. When would they run off in the normal course?—They would have run off at different times. For instance, with regard to the local loans, the payment ran for 20 years from 1926.

3968. In other words, expiring in 1946, eight years from now?—I think that is right.

3969. The land purchase?—The land purchase one was longer; I am not quite sure to what date, but I think it was about 1980. (Sir Gilbert Upcott.) You cannot fix any precise date for the expiry of the land purchase annuity, because the land purchase annuity would be determined when the accumulated sinking fund was sufficient to wipe out the capital and that would depend upon the rate of interest during the period of accumulation.

3970. I thought there had been a fixed sinking fund which would automatically wipe off this amount in the course of about 60 years?—The amount of accumulation would depend on the rate of interest during the period of its accumulation.

3971. One can tell within five years when an accumulated sinking fund would be wiped out and when would that come approximately?—I do not know whether

the Treasury have ever calculated the date. (Mr. Brittain.) I think the period would be originally somewhere under 70 years from the time the stock was originally issued.*

3972. Which was?—Started in 1891 and continued until just before the War. (Sir Gilbert Upcott.) No, the issue of stock continued for a number of years after the War.

3973. You are getting on towards 1980 or 1990 before this £2,600,000 would normally cease to be payable?—It would be somewhere about that time. I do not know that I have ever seen any specified date for the final termination of the Irish Land Stock.

Sir Assheton Pownall.] It is germane obviously to matters about which we are now having discussions.

Sir Irving Albery.

3974. I wanted to ask Sir Edward: I understand that this payment of £10,000,000, which we received from Ireland, is in some way tied up with the Local Loans Fund. If it is in order I was wondering whether Sir Edward could explain that to us?—(Sir Edward Harding.) Perhaps the best answer is to hand to you the financial memorandum which prefaces the Bill which is to be discussed on Thursday. That deals with the situation.

Sir Assheton Pownall.

3975. And which has been circulated to Members of Parliament, has it not? Yes.

Sir Irving Albery.] I have read the financial memorandum once but I do not say that I understand it.

Sir Isidore Salmon.

3976. Perhaps you can explain this conundrum for me. In looking at the Appropriation Accounts on page 70, in 1935 I see the total expenditure is £2,292,000 and when I look at it for the year under review it is £2,992,219 12s. 2d., £700,000 up. Is there any special reason for that?—Yes,

* *Note by Witness.*—The stocks would have been completely bought up in slightly under 70 years if the Sinking Funds had been invested in the stocks at par. Owing to purchases having been made below par, the period mentioned will be substantially reduced.

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the reason is explained. (Sir Gilbert Upcott.) It is explained in paragraph 13 of my Report. (Mr. Fraser.) These big items appear for the first time. It was only after 1935 that we started paying these amounts to the Local Loans Fund and Land Purchase Fund. (Sir Gilbert Upcott.) It is the provision of £750,000 for making good arrears to the Irish Land Purchase Fund and the Local Loans Fund out of the receipts from the Irish Free State special duties.

3977. Does that answer the question? If you take sub-head A, 1935 you see under Land Purchase £2,289,000 and in the year under review, 1936, it was £2,639,353 os. 2d.; that presumably has nothing to do with Local Loans?

—(Mr. Brittain.) A similar sort of payment. There are certain Land Purchase payments which were not provided for until the yield of the special duties exceeded the payments previously borne on the Exchequer. Those amounted to the difference to which you are calling attention, a difference of between £300,000 and £400,000. This year, 1936, is the first year we provided for those.

3978. So they have never operated until that particular year?—Not until 1936-7. (Mr. Fraser.) The Committee remember that I put in the usual paper about this when the Local Loans Fund Accounts were before the Committee.

Chairman.] May I take it that this Account is approved? (Agreed.)

VOTE 7.

OVERSEA SETTLEMENT.

Chairman.

3979. Page 71, Class II, Vote 7, Oversea Settlement. On sub-head E, Sir Edward, I see that you have only spent half the Grant. You give the explanation, I observe, underneath?—(Sir Edward Harding.) Yes, Sir. There were various discussions as to the establishment of new Fairbridge Schools (the Committee will understand what they are) and a rather similar school in Victoria and the negotiations were not completed in time for the money to be spent in 1936.

Sir Isidore Salmon.

3980. Do you hope that the working of the Empire Settlement Act is going to be extended?—I would certainly say so, and there are certain signs of revival of migration as far as Australia is concerned, but I should not like to say that there are similar signs, so far as Canada and New Zealand are concerned, at the present moment.

Mr. Culverwell.

3981. To which voluntary societies do you subscribe?—The Society for the Oversea Settlement of British Women; the 1820 Memorial Settlers' Association, the Scottish Immigrant Aid Society and the Anglo-Canadian Education Committee. Those are the four.

Chairman.

3982. What is the last one?—The Anglo-Canadian Education Committee arranges for boys to go out from schools in the United Kingdom to Canadian Universities, that is its object.

3983. Was that the one which was recently endowed by a Yorkshire gentleman?—No, not to my knowledge, Sir.

Mr. Culverwell.

3984. They do not settle out there?—They are sent out there in the hope that they will settle; I would not say that they all do.

3985. Do any of them settle?—I think so. (Sir Gilbert Upcott.) The Grant to that Committee was only about £100. The bulk of the expenditure is on the other three societies.

Chairman.

3986. On page 73, what is that scheme, No. 4 in the notes: losses. I understand it was a sort of joint scheme of the Hudson's Bay Company and the Canadian Pacific Railway Company and ourselves?—(Sir Edward Harding.) Yes.

Sir Irving Albery.] Could Sir Edward give the number of settlers involved?

Chairman.

3987. What was the total number of settlers and how many out of the total settlers gave up their farms?—221 families altogether were concerned in the scheme and 86 of them had withdrawn up to the 30th September, 1937.

Mr. Lathan.] Is there any enquiry into the circumstances?

Sir Irving Albery.

3988. On the same subject, but under heading 6, I see there is a Canadian Pacific Scheme and there were 1,000 families and there the loss appears to have been very small, only 1,973 dollars

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[Continued.]

on 1,000 families. I was wondering whether anything more is to be done on those lines?—It was called "The thousand families scheme," but I am afraid, in effect, it was limited to nine. That explains why it was so small.

3989. The note is rather misleading; nothing is said about nine families; it puts 1,000. It looks most attractive?—I am sorry.

Sir Isidore Salmon.

3990. Is there any reason why it should appear as 1,000? Who is responsible for the note?—I expect that at the time it was known as the "1,000 families scheme" and that name has stuck to it ever since; I am afraid that is the only explanation I can give.

3991. Does not the Comptroller and Auditor General look into that?—(Sir Gilbert Upcott.) The Accounting Officer is responsible for the note. (Sir Edward Harding.) I must apologise to the Committee.

Mr. Lathan.

3992. Is there any inquiry made into the circumstances which have brought about the abandonment of their farms in the case of the 86?—What has happened in the case of all these schemes, I am afraid, is that there was great depression in Canada and the inevitable result was that a number of settlers who hoped to make good did not make good. I think you may be certain that all possible investigation was made into the circumstances and every possible effort made to help the settlers.

3993. I thought this Report covered a period subsequent to the depression in Canada?—I do not think it would be fair to say that the depression in Canada has altogether lifted yet, as far as any of these settlements are concerned.

3994. You say inquiries were made. Some statements have appeared in the public Press with regard to the withdrawal of people in Canada and their losses there that are rather disturbing, to say the least?—Yes.

3995. There are two points of view; first of all, there is the financial responsibility associated with it, which is comparatively small, but there is a larger and more important question of the effect it had upon those who went out as settlers?—Yes, I quite agree.

3996. And, in respect of that, inquiry is made, you say?—I would not like to say that a definite inquiry was made into

the circumstances of each particular settlement, but I think I should be justified in saying that all possible help was given to see that if the settlers could be kept going, they would be kept going.

3997. I was struck by the proportion of failures to the total number?—Yes.

3998. The percentage is very high, I think?—Yes, I quite agree, Sir, it is high.

Mr. Culverwell.

3999. What is the percentage?—It must be between 30 and 40 I should think.

Mr. Lathan.] It seems to me to be an important question.

Mr. Culverwell.] Is that on all schemes?

Mr. Lathan.] It seems to me that the circumstances associated with the promotion of this scheme invite an inquiry if 30 to 40 per cent. of those who participated were compelled to withdraw with personal loss and loss to this country.

Chairman.

4000. Has inquiry been made?—I was just explaining that I would not like to say that a specific inquiry had been made into each of the schemes, but I added that I was quite sure that every possible help that could be given to the settlers was given to them.

4001. But that does not quite dispose of Mr. Lathan's point, unfortunately, does it?—No, I agree there.

4002. Who would be responsible for making an inquiry if one were made, the Overseas Settlement Committee?—The Canadian Government, I think. After all, they have a general supervision of these settlers.

4003. I take it we shall be returning to this next year; we shall have this sort of item before us?—Yes. (Sir Gilbert Upcott.) There are a number of losses still to be written off.

4004. I wonder whether between now and next year you could get some sort of observations and assistance from the Canadian Government to explain this very high proportion?—(Sir Edward Harding.) I will look into that.

Mr. Culverwell.

4005. When you said 40 per cent. of the failures, did you mean all the schemes or one particular scheme?—I was referring to the one under Note 4.

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4006. Take the 3,000 families, for instance? What is the proportion there?—In all, 3,346 families sailed of whom 2,000 odd were on the farms at March, 1932; by December, 1937, this number had fallen to 1,600 odd.

4007. That is 50 per cent., is it not?—It depends on whether you take the families who sailed or the families on

the farms. If you take the families on the farms in 1932 it comes to 20 per cent., I think.

Mr. Lathan.

4008. They may not all have gone on to the farms?—That is so.

Chairman.] Are there any further questions? May I take it that this Account is approved? (*Agreed.*)

(The witnesses withdrew.)

(Adjourned till Thursday at 2.30 p.m.)

THURSDAY, 5TH MAY, 1938.

Members Present:

MR. MORGAN JONES in the Chair.

Sir Irving Albery.
Mr. Benson.
Sir Edmund Brocklebank.
Mr. Culverwell.

Mr. Peat.
Sir Assheton Pownall.
Sir Isidore Salmon.
Sir Robert Smith.

Sir GILBERT UPCOTT, K.C.B., Mr. E. E. BRIDGES, M.C., and Mr. H. BRITAIN called in and examined.

TREASURY MINUTE ON PARAGRAPHS 2 AND 3 OF THE FIRST REPORT AND PARAGRAPHS 20, 21 AND 22 OF THE SECOND REPORT OF THE COMMITTEE OF PUBLIC ACCOUNTS, 1937.

Sir ARCHIBALD CARTER, K.C.B., K.C.I.E., Mr. C. B. COXWELL, O.B.E., and Mr. E. C. JUBB, O.B.E., called in and examined.

Chairman.

4009. We take the Navy Accounts to-day. Turn please to the Treasury Minute dated 8th November, 1937, on the first and second reports of the Committee of Public Accounts, 1937, paragraphs 2 and 3 of the first report. I think nothing arises on these paragraphs. Turn please to paragraph 20. This, Sir Archibald, is the question of losses on exchange. Could you tell me whether the Admiralty regulations have been amended at all in this matter?—(Sir Archibald Carter.) Yes, I think I told the Committee last year that we had them in contemplation and we actually issued the new regulations on the 2nd December last.

4010. Could you give us the gist of them?—Very roughly speaking, they come to this, that both as regards withdrawals or deposits, no transaction may be made in the local currency beyond

the limit of a month's pay. If anybody wants either to withdraw or put to his credit more than that it has to be a purely sterling transaction. In addition to that there is what I might call something in the nature of a moral homily saying that Naval Institutions are not to be used to make a profit by exchange.

4011. Might I ask Mr. Bridges whether the Treasury is satisfied that these amended regulations will be sufficient to prevent any similar occurrence in the future?—(Mr. Bridges.) We went into this very fully with the Admiralty and we were consulted over the details of the amendments and are quite satisfied.

4012. Have you experienced any difficulties recently from exchange fluctuations in the recent disturbances in the Far East?—(Sir Archibald Carter.) So far we have had no difficulties. There have, of course, been rather serious fluctuations, but up to date no trouble has arisen from them.

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Mr. C. B. COXWELL, O.B.E., and Mr. E. C. JUBB, O.B.E.

4013. Would you mind looking at the last point which we make in paragraph 21, the specific point as to bringing the system as far as possible into conformity with the system that prevails in the War Office. Have you looked at that, Sir Archibald?—We have and I am afraid we have found very great difficulty in giving effect to the suggestion of the Committee, primarily owing to the fact that our system does differ rather radically from the War Office system. The War Office Paymasters and particularly the Command Paymaster are directly responsible to the War Office and to the Accounting Officer there in a manner which is not really comparable to our Accountant Officers on board the ships who, for reasons which I think the Committee will appreciate, are directly responsible to the Captain of the ship. The position is much more analogous in the Dockyards. There the cashier, although he is under the general superintendence of the Admiral Superintendent of the Yard, is directly responsible to the Director of Navy Accounts and through him to me, in a way that is fairly closely analogous and, in the particular case of the Dockyard cashier our existing regulations, though I am afraid we failed to point it out at the time last year, are not exactly the same as the War Office regulations, but are pretty close to them. Perhaps I ought to observe there that, in spite of that fact, part of the trouble did occur last year in the Dockyards. But we have so far found great difficulty in inventing a rule for the Accountant Officers on board ship that would be the counterpart of the War Office rule, without going rather in the direction of upsetting the primary responsibility of the Captain of the ship; but I may say we have not reached any absolutely final conclusion upon it. We are still discussing the matter with the Treasury and it may be that we shall be able to invent something that perhaps will be a help, without infringing the principles of Naval discipline; but it has presented difficulty.

4014. Since you say it is still under discussion with the Treasury perhaps I ought not to ask Mr. Bridges whether he has any observations to make at this point?—(Mr. Bridges.) Only to say that I think we agree with Sir Archibald that there are real difficulties in the way of introducing directly into the Admiralty anything like the Army system, because

of the difference in conditions. I think we agree that you cannot apply the Army system directly. We are hopeful that on further investigation we shall be able to find some other way of getting the same result, but it is a very troublesome matter.

Sir *Isidore Salmon*.

4015. Sir Archibald, as regards the position of the Captain *vis-à-vis* the Paymaster on board ship, is the Captain really responsible for all the work that the Paymaster performs or the accuracy of the way in which he does his job on board ship?—(Sir *Archibald Carter*.) It is a difficult question to answer quite accurately, but, in theory, yes. There are under King's Regulations certain specific functions placed upon the Accountant Officer, and I suppose you could say that for those the Captain's responsibility was of a very general character, but they are rather limited and, generally speaking, I think you could say that he is intended to have a general responsibility for everything that happens on his ship in whatever sphere. For that reason, we should very much regret anything that looked like putting the Accountant Officer of a ship directly in touch with the Admiralty; at all events, if you did it, it would have to be safeguarded very very carefully.

4016. The only point that occurred to me was, did the Captain of a ship have sufficient time to give any really effective help or protection for the object that you have in mind?—I am not sure that this does not arise on something which I imagine the Committee will wish to examine a little later, the case mentioned in paragraphs 17 to 19 of the Comptroller and Auditor General's report. There, I think, we shall have to discuss the system of checks by the Captain or Officers acting for him. The existing rules in themselves show how largely the Captain is held responsible, because under the rules as they stand at present he has to do a monthly check and also a check at unexpected intervals. It is true that under special circumstances he is allowed to depute that to two other Officers, but that in itself establishes the principle that the Captain is regarded as primarily responsible.

Sir *Irving Albery*.

4017. May I ask, Sir Archibald, is there a material difference between the responsibility of a Superintendent of a Dockyard and the Captain of a ship?

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Mr. C. B. COXWELL, O.B.E., and Mr. E. C. JUBB, O.B.E.

—I think there is. I think his superintendence is of a very much more general nature than that of a Captain of a ship. In many matters in a Dockyard, not only as regards the cashier, there is a very much closer connection between the Admiralty and the Dockyard than there would be between the Admiralty and a Captain of an individual ship. It is true that the Admiral Superintendent has general powers of supervision, but, as I say, there is a much more direct contact between the Admiralty and the various branches. I will not enumerate them, but they are very much more closely in touch and supervised much more directly by the Admiralty.

4018. I suppose the Captain of a ship is responsible for all the engineering department in his ship?—That is so.

4019. Is there no direct contact between the engineering department of the ship and the engineering department of the Admiralty?—It would all go through the Captain of the ship.

Sir Assheton Pownall.

4020. Would it not be possible that, in the case of say the China Squadron, where there is the Fleet Paymaster, without the Paymaster on a ship going direct to the Admiralty, it might be referred to the Fleet Paymaster?—The Commander-in-Chief has what is called a Fleet Accountant Officer who is the general financial adviser of the Commander-in-Chief.

4021. But in this particular case the Accountant Officers made adequate representations. Were these matters brought to the Admiral's Accountant Officer or was it more the junior people who raised the question?—As regards the Commander-in-Chief and his Fleet Accountant Officer, they were away in North China at the time these transactions took place; they had some knowledge of them reported to them by telegraph but he was not on the spot and was not in a position to appreciate the whole position. As regards the Dockyard at Hong Kong, it is perfectly true there that the cashier said: "I think this ought to be reported to the Admiralty for instructions" and the Commodore took the line: "As far as I can see, there is nothing in the regulations that prevents what is taking place, so I do not see any necessity for reference to the Admiralty". I think the cashier, though no doubt it would have

placed him in an awkward position, could have insisted on a report being made to the Admiralty, but, however, he did not; his superior officer, the Commodore said "As far as I can see this is entirely within regulations and there is an end of it so far as the Dockyards are concerned".

4022. With regard to what you said just now about a Captain of a ship and his financial responsibility, it came rather as a surprise to me, because one knows the very strict Naval rule that, with regard to any question of navigation, the Captain is entirely responsible; but have you had cases where Paymasters on board ship defaulted, or something of that sort, and in a case of that sort has the Captain of the ship also been court-martialled and had his conduct investigated as well?—Certainly.

4023. He is also regarded as having a certain measure of supervising responsibility over the Paymaster?—Most distinctly.

4024. You mentioned how these new regulations took effect from early in December. What happened between 1st April last year when we investigated this question and the 2nd December?—The old rule stood, but, to the best of my belief (I have not verified it) I do not think during that period there were any very wide variations in the Shanghai and Hong Kong dollars. I have not looked it up, but I think there has been no big and sudden movement in them until comparatively recently. I think I am right in saying our new regulations were out before there were any appreciable alterations in foreign exchange.

4025. In any case the notice of the responsible people had been called to what had happened so it could not take place again?—Undoubtedly.

4026. Otherwise there was a considerable loophole during those eight months?—Undoubtedly.

Chairman.

4027. Paragraph 22, in regard to the failure to obtain Treasury authority for expenditure. I observe that the Treasury agrees with the Committee in its recommendations. I should like to know if the Admiralty also agrees with the Treasury?—Certainly.

Chairman.] Are there any questions on that paragraph?

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Chairman.

4028. Turn please to the Appropriation Account, page iii. Paragraph 1, I think is formal. Paragraphs 2 and 3 are statistical. Paragraph 4 I think we shall have to look at when we get to that particular point on Vote 8, but in regard to the £400,000 the reference in the last sentence starting "The receipt of £400,000 provided in the third Supplementary Estimate," am I right in supposing that it was not due to the option of the Admiralty that this was not received?—(Sir *Archibald Carter*.) No, it was a receipt from the Canadian Government and they assured us up to almost the very last day that it would be paid before the end of the year and indeed I think they had Parliamentary authority for it at their end, but, for some reason which we never discovered, they did not quite do it and it was received a few days later. It was quite beyond our control; indeed we pressed them to make the payment before the end of the year if they possibly could.

4029. Paragraph 5, "Control of Establishment of Officers." I think this is a sort of machinery, is it not?—Yes, it became really an extremely troublesome business to get constant changes in the Orders in Council laying down the number of Officers that might be borne in each rank. It is rather a long and cumbrous procedure getting an Order in Council and you cannot always get one very quickly. It really did not amount to very much, because, if the Admiralty and the Treasury were agreed, you got your Order in Council, if you went through the due formalities, without question, so it seemed to us that it would be a great simplification if we had latitude, with the Treasury approval, to vary without having a fresh Order in Council every time. However, it was felt that that did not necessarily apply to Flag Officers and Captains, in which we do not want to change the establishment so often, and that was left on the old historic basis.

4030. May I take it that, in point of fact, this re-arrangement or change of form does not in any way weaken Treasury control?—In no sense, because the Treasury assent is required to just the same extent as it was before.

4031. I take it that the Treasury are satisfied, are they, Mr. Bridges?—(Mr. *Bridges*.) Yes, we are satisfied.

4032. Would you answer one other question, Sir Archibald? Why has the old system been retained for the higher officers?—(Sir *Archibald Carter*.) I am not sure that it was not perhaps partly a matter of sentiment and we did not mind because there were nothing like the constant changes. It was probably only occasionally that one would want to alter the establishment of Flag Officers and Captains. That is the answer from the Admiralty point of view. I am not sure that the Treasury may not have had a point of view; I think they rather asked us to keep this on. We had no objection so far as the Flag Officers and Captains were concerned; I am not sure whether they had an additional reason. (Mr. *Bridges*.) The Treasury suggested it, partly having in mind that in the Army the establishments for General Officers and Colonels of the Combatant Arms were fixed by the Pay Warrant, and we thought that if one kept the Order in Council procedure for Captains and Admirals in the Navy it more or less made a consistent scheme between the two Forces. We felt that if the method was appropriate for one Service it was appropriate in the other.

Sir Isidore Salmon.

4033. Does the same thing apply in the Air Force, to the same ranking?—I am afraid I am not certain, without reference. I can easily find out and let you know.

Chairman.

4034. Paragraph 6: "Developments of Contract Procedure"?—(Sir *Archibald Carter*.) If you are agreeable, Mr. Chairman, I think perhaps Mr. Jubb, who is Director of Contracts, who is here, would answer certainly with much greater knowledge than I should on paragraphs 6 to 10, unless some very general point arises, if that is agreeable to the Committee.

4035. Very well. It might be that the Committee will have to ask you something?—Certainly. I am quite willing to answer questions on it, but I think you will get more information from Mr. Jubb.

4036. We appreciate that, but you are the Accounting Officer? Could you tell

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us what the present system is, Mr. Jubb?—(Mr. Jubb.) It has varied. In some cases the principal technical costing officer, in reporting his estimate to us, would simply give us the figure which he recommended as a reasonable estimate of cost. In other cases he would give us details showing how he had built up that estimate of cost as between the material, labour, establishment charges, carriage and sub-contracted work, but in that case he might not have stated specifically what the rate of overhead charges was, or how it had been arrived at. In other cases he would attach a report from our principal accountant recommending that the rate of overhead charges to be applied in the case of this particular contract was such and such a percentage on such and such work, so that it has varied to some extent. What we are proposing now is that the fullest information that has been given in any particular case should be given now as a regular procedure, that is, that the technical costs section in reporting the estimate of cost should give full details under "Materials, labour, overhead charges, sub-contracted work, delivery" and attach to their estimate the recommendations from the principal accountant of the rates of overhead charges to be used for that particular contract. That is the information which would be utilised by the Director of Contracts in negotiating a final price.

4037. Are you satisfied, Mr. Jubb, that it is an effective method of securing economical prices?—Yes.

4038. You are quite satisfied?—Yes.

4039. Have you any observations to offer for the Treasury, Mr. Bridges?—(Mr. Bridges.) No, only the very general observation that this business of non-competitive tenders is admittedly a very difficult one and that although I think we are fairly generally satisfied with the position up to date, we do not mean to lose any opportunity of seeing how far, as we get further experience, we can improve the system.

4040. I see that you, Sir Gilbert, say in the last sentence "The increased number of cases in which estimates of costs play a part has led me to suggest to the Admiralty that the information furnished to me as to the composition of these costs might be amplified." Have you had a reply at all?—(Sir Gilbert Upcott.) Yes, Sir. From my point of view the fact which impressed

itself on my consideration is that estimates play a rather more important part in the Admiralty method than they do in, let us say, the Air Ministry cost accounting methods, and therefore, in order that I might be able to form some opinion at any rate on the effectiveness of the system, it was very desirable that I should have some indication to show how the estimates were made up. The Admiralty have agreed to give me additional information on the lines that Mr. Jubb has just explained, which will show separately the amounts for material, labour and establishment charges and therefore make judgment easier for my officers. I should not like at this early stage to commit myself to the confident opinion that I should not find it necessary to ask for anything else, but, at any rate, I hope that it will be possible for me to form some more useful opinion on the basis of the information on these lines. I want to make it clear to the Committee that, as I said on the Air Accounts last year, I do not think that it is my function to review the work of the Admiralty Technical Officers or to express a judgment upon it one way or the other. I do not think that that is my function and it is not possible for my Department effectively to do that. Of course, it would be quite out of the question for me to send down officers to examine contractors' books but, as I explained in the case of the Air Accounts last year, what I do regard it as my duty to do is to satisfy myself as far as I can that the recognised form of procedure is duly applied. Of course, if anything unusual or incomprehensible were to emerge, I should naturally ask for further explanations and I have no doubt the Admiralty would do their best to make their position clear to me and, if it was not clear to me, then I might find it my duty to report a case or cases, but I do not regard it as right that I should attempt to do over again the work of the Admiralty Technical Officers or to review it, but only to ensure by such tests as my officers can apply that an effective procedure is put into force. (Mr. Jubb.) I take it that the work of the Director of Contracts too would not be subject to review in that respect. The Director of Contracts is the negotiating officer in the light of the information he has received and he negotiates a reasonable price. I take it that that

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question of the reasonable price is not subject to review any more than the Technical Officers' estimates.

4041. As I understand it (I speak subject to correction) whatever officer it may be, in whatever stage he may be brought into the proceedings, it is the business of Sir Gilbert to satisfy himself that due precaution has been made and that proper economy has been exercised. Is not that so?—(Sir Gilbert Upcott.) Yes, my function is the same as regards the Director of Contracts as it would be as regards the Costing Officer. I have to do my best to see that an effective procedure is applied. (Sir Archibald Carter) I think the position is fairly clear, is it not? The Comptroller and Auditor General ought not to express the opinion that if he had been the Director of Contracts he would have got it a fraction cheaper; that it not his function; but it is his duty, as I understand it, to call the attention of the Admiralty, the Treasury and (if necessary) the Public Accounts Committee, to any case where he completely fails to understand how any reasonable man could think that was a fair price. That is how I understand it. (Sir Gilbert Upcott) I think that is a very fair statement of the position.

Sir Isidore Salmon.

4042. Would you say, first of all, what is the percentage of the sub-contracts to a particular job. I suppose you will answer that they vary but, taking an average, what is the percentage of sub-contracting—the value of the total job?—(Mr. Jubb) It is impossible to answer a question like that.

4043. Let me put it another way then: it varies, of course; some are very high and in others not quite so large an amount is sub-contracted?—Yes.

4044. What check have you, if any, over the sub-contractor?—Where you get competitive tenders you would rely on competition to ensure that your prices were reasonable, because the competing firms would do their best to get their sub-contracts at the most reasonable prices. Where you have not got a competitive tender and you use the estimate we have been referring to, that of a technical estimate of costs, the Technical Costing Officers would apply the same procedure in the case of sub-contracts as they would in the case of the main contract, that is, when we ask them for an estimate of cost for such-and-such a job and they go to the

works to see the methods of production, they would ascertain from the main contractor what portions were being sublet, to whom, and at what prices; and if they saw any reason to think that those prices were too high or needed checking they would estimate the cost in the same way for those sub-contracts as they would for the work done by the main contractor.

4045. How would they be in a position really to gauge what the cost of the sub-contracting work would be if they had not any figures or data before them to work out the cost of the particular sub-contract?—They would use their discretion in a case like that. If the sub-contract was substantial and they had nothing by which to check it, they would produce an estimate of cost.

4046. Furnished by whom?—By themselves.

4047. Does it not often happen, with these modern improvements, that the particular sub-contracting work might be of a highly technical and specialised character?—Yes; they are Technical Officers, and their normal procedure would be to go to the works of the sub-contractor.

4048. Of the sub-contractor?—Yes, certainly.

4049. They have the right of entry to the sub-contractor's works to get all the details they want?—Not the legal right of entry, just as we have no legal right of entry in a main contract, unless you have definitely laid it down, but our experience is that that right has not generally been denied.

4050. For sub-contractors?—For sub-contractors.

4051. Therefore, if you have any doubt as to what a sub-contractor is charging a main contractor, your officers go to the sub-contractor's works and examine the account?—That is in the case where we have our estimates of cost produced by our Technical Costings Section.

4052. Where do you draw the distinction? You say when you have your estimates of cost done by your Technical Costings Section. I do not quite follow the point?—In the case of some non-competitive contracts we need an estimate from the Technical Costings Section to check the price, but in the case of other non-competitive contracts we may have Technical Officers in the Admiralty who have sufficient information to say whether a price is reasonable.

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4053. Although the direct charge is not to the Admiralty but is to your main contractor?—Yes.

4054. Do you arrange that the percentage of profit that is going to be given to the main contractor on his sub-contracting work is a different figure from that on articles which he produces in his own factory?—Yes, that is a very usual procedure. It is recognised that he should not have the same rate of profit on the sub-contracted work as on the work that he does himself.

4055. As regards the percentage of profit that you would allow the main contractor taking on sub-contractors, might it vary as to the cost or the value of the sub-contract?—Yes

4056. I suppose there is someone in your Department that really does review this sort of procedure?—It is part of my functions to deal with estimates.

4057. But when you have an estimate presented to you and a number of estimates presented to you, is it quite fair to say that you ask and see every time what the sub-contractor is making on a particular job or the price that the sub-contractor is charging the main contractor, or, if your officials tell you that the price the sub-contractor is charging the main contractor is a reasonable figure, are you satisfied with that?—In the generality of cases we should leave it to the Technical Costing Section to ascertain what the price of the sub-contracted work was and to check that up in cases where they think they have not enough information to say whether it is right or not. If it shows too great a margin that would be reported to me, and it would be for me to negotiate the final price with the sub-contractor.

4058. So really the responsibility of calling your attention to it is that of your officials if they think that the price that has been charged by a sub-contractor to the main contractor is too high?—Yes.

4059. If in working out costs they thought the total came to too much, part of which was attributable to the high price which the sub-contractors were charging to the main contractor, what would they do?—It would be up to them to mention that in their report to me.

Sir Irving Albery.

4060. Can Mr. Jubb give us a rough idea of what profit percentage is allowed in these kind of contracts?—It has to

vary with the different nature of the contracts. You cannot lay down any percentage of profit which is applicable in general.

4061. No, but it would be from a certain percentage in, say, small cases to a different percentage in large cases. There would be a top and bottom to it?—Yes.

4062. Do I understand that when a contract is to be placed, not competitive, you get an estimate from a contractor. Is that the first step?—A price from the contractor.

4063. What he will do it for?—Yes.

4064. Then, if that appears to you to be a fair price, do you occasionally accept that right away?—Yes.

4065. If it does not appear to you to be a fair price then your costings system comes in?—Yes.

4066. What is the procedure then? Supposing you have a price, whatever it may be; supposing the price is £100,000 and your Costing Department works it out at only £80,000, what is the next step?—The next step would be to have a conference. It may be that our estimate is only £80,000, but they might not agree that a fair estimate was £80,000. One has to hear the arguments on both sides and see whether £80,000 is too low an estimate. But it has reached what I might call a negotiating stage then. If you have your estimated figure of £80,000 and a price quoted of £100,000, the quickest way of dealing with it is to get round a table with your Estimating Officers and the firm's representatives and negotiate a price.

4067. Suppose the firm gives you a price of £100,000 and your Costing Department makes it only £80,000 and the firm refuses to reduce its price, what happens then; would they lose the contract and would you go somewhere else?—That is not always possible. Any such case would be extremely exceptional.

4068. They nearly always do reduce the price?—In the big majority of cases we are able to get our Technical Costs people to have the necessary facilities to provide an estimate of cost and that having been done I cannot recollect any firm coming and saying to me definitely "I do not care; you say the estimate of cost is £80,000, my cost is £100,000. I am not prepared to talk to you; £100,000 is the price." I cannot recollect anyone adopting an attitude like that.

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4069. Do you remember cases where there has been a considerable difference between your costing price and the contractor's price?—Certainly.

4070. If that is so, that means that there are frequently cases when the price quoted to you is considerably higher than it ought to be?—Yes.

4071. Therefore, it rather seems to me to be the weakness of the system; if we are to presume that those prices are honestly made out it may occasionally happen that the costing prices, even though honestly made out, may both be much too high; I did not know whether there was enough control over it. I imagine there is room for a good deal of opinion in the whole thing?—To a certain extent, yes, but I would say that our Technical Costs Officers, when they go to the works like that, would go very carefully into the prices, for example, that the contractor has to pay for any steel that he buys. There is a good portion under the heading of material which would be a question of fact: "What do you pay for your steel? What do you pay for your gun-metal castings, and things like that?" When dealing with the question of labour, a lot of the labour will be a question of what piecework prices have been arranged. Therefore we ought to be able to get down to brass tacks very closely in the matter of labour. On the question of overhead charges we have a Chartered Accountant who would go into that, and there again it is very largely a question of dealing with figures and dealing with facts, so that when we get an estimate from our Technical Costings Section we generally regard it as being a pretty close estimate of what the fair cost should be.

4072. Therefore the price from the contractor and your estimate of your Costing Department ought to be quite close?—They ought.

4073. Would you say that they frequently are or generally are not?—I would not say generally, but I would say that we get a good number of cases in which the contractor's price shows a high margin between his and our estimates.

Mr. Peat.

4074. What are the main differences which you find between the contractor and your Technical Cost experts? You have your prices for your raw materials

and your wages which are matters of fact on which there can be very little argument. The only point of argument would be their overheads. Is that where you find a divergence of opinion?—Yes, there is very often a big divergence in connection with overheads because a firm might, for example, be using an overhead rate which applied to the previous year; it might be the latest rate of overheads which they had available. Our Accountants would not be satisfied with a rate like that. They would say "What is likely to be the rate of overheads during the period in which this contract is going to be executed," and if that is a period during which a much bigger volume of work would be executed they would naturally press for a much lower rate of overhead charges.

4075. My question was: Where do you find your difference as a rule? You have indicated that very often there is a considerable difference between the contractor's price and the estimated price prepared by your experts. I was asking you where, as a rule, do you find that difference? I suppose you are in a position to put your finger on it every time where a difference arises?—I would say to that that it arises sometimes on the wages and sometimes on the material when you really get down to the detail of it.

4076. Both those items are matters of fact?—Largely matters of fact which have to be dealt with for each particular case.

Chairman.

4077. Turn to the next paragraph: I think perhaps it would be convenient to the Committee if we took the next three paragraphs together because they deal with the same subject, "Provision of Capital Assets". Paragraph 7 I think is narrational. Paragraph 8: I do not know whether you, Sir Archibald, and Mr. Jubb, or the Treasury could answer this. Could you tell me what are the principles laid down by the Treasury Inter-Service Committee referred to in this paragraph?—Yes. (Sir Archibald Carter.) Unless the Treasury would prefer to. (Mr. Bridges.) No. (Mr. Jubb.) The principles are that, where there is what I might call a self-contained extension, the Government should pay 100 per cent. of the cost and own that extension, but that in other cases such a scheme might be inappropriate; it might be that it was

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an extension to part of a contractor's existing factory or an existing building, or might be just a certain addition to his plant and, in that case, it might not always be appropriate that the Government should own. In that case you could make an arrangement with the contractor either to provide it all himself or to give a contribution from the Government on the understanding that the contractor owns the property. Which of those particular schemes is appropriate has to be decided in the light of the circumstances of any particular case.

4078. It is probably my fault but I have not got the alternatives very clearly in my mind even now. Would you put them again?—The first alternative would apply chiefly, shall I say, to what you might call self-contained extensions.

4079. What do you mean by that?—Self-contained would be something separate altogether from an existing factory; it would not be an extension to an existing building, but a new building altogether, fully equipped with plant and entirely and separately identifiable from any existing part of the contractor's property. In that case, unless you can make a better bargain, the general policy would be to pay 100 per cent. and the Government to own that extension.

4080. Own it?—Yes. As they pay the whole cost, they would own it. The other alternative would be that, if it is not a self-contained extension, if it is a few machine tools, or machine tools which would be mixed up with the contractor's existing plant and used by him indiscriminately for any work that was going through, or an extension to an existing building, then it would be more appropriate to say to the contractor: "If this property remains yours, what terms would be proposed?" Many contractors, of course, have extended their works entirely at their own expense and without saying anything about it, but in other cases the Government would have to make a contribution towards the capital expenditure in a case like that. So that the two alternatives are either the Government paying 100 per cent. and owning the property or the Government paying a contribution of such and such a percentage and the property remaining with the contractor.

4081. In the case of the first alternative, would the contractor who is on the

spot, so to speak, have a lien upon the property after a given number of years, after its usefulness to the Government has been exhausted, and the right to buy it at a certain price?—He would have the option to buy it if in the future the Government had no further use for it. He would have the option to buy it at a mutually agreed price, but, if you could not arrive at a mutually agreed price, you would put it to arbitration, but neither side would be bound by the arbitration price.

4082. So that it really comes to this, that at some future date, if the person on the spot is not prepared to pay the price asked for by the Government, he can hold out and get it for any price he likes?—No; I do not think that is quite the position, because he only has the option. The general policy would be either to buy the land on which a self-contained extension was erected, or at any rate to obtain a very long leasehold of it, so that, if negotiations fell through, we should be able to dispose of it. He only has the option to take it over. If negotiations to that effect failed, then the Government is in the position of being able to dispose of it in their own way.

4083. But many of these buildings are erected right in the centre of a contractor's property?—Some would be.

4084. What good is a building of that sort, in the centre of somebody else's property, to anybody else?—That is just the sort of consideration that has led us in some cases to arrive at a settlement on the other alternative.

4085. I see. You sometimes would prefer the second alternative to the first?—Certainly.

4086. What are the "certain records" being instituted which are referred to in that paragraph, Mr. Jubb?—That would be a detailed inventory of the plant.

4087. I think, before I ask the Members of the Committee to ask questions, I might perhaps go on to paragraphs 9 and 10, and then we will each of us range over the whole area. On this paragraph 8, first of all, might I ask you, Mr. Comptroller and Auditor General, if you have anything to say as to whether you regard this position as satisfactory?—(Sir Gilbert Upcott): I have attempted to set out what I understand to be now the position, but, as far as I am

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concerned, I cannot yet express a firm opinion on the adequacy of the records to which you have just alluded. I shall have to wait and see whether they are, in my opinion, adequate as records of the property belonging to the Admiralty, but I am not in a position to say whether that is so, because I think they have been actually instituted in only a small number of cases, and I do not know that I am yet aware of the finally decided form.

4088. Paragraph 9 deals with the question of sub-contracts for plant. How does the Admiralty deal with the claims for plant purchased from sub-contractors, especially when there is no competition?—(Mr. Jubb.) All the expenditure under these extensions is checked, as far as possible, by the Technical Officers, and any items of plant we should endeavour to check up, as far as possible, either by our Technical Costing Section or appropriate Technical Departments of the Admiralty, or, in some cases, we have got the firms to agree to an accountancy investigation. In the case of buildings, we have our own Technical Department at the Admiralty which will certify the fairness of the price in that respect. Apart from that, there will be certain commercial items, and we should have to compare, as far as possible, the prices that have been charged to us with the prices that the firms were charging for standard products to commercial users.

4089. Could you tell us, Mr. Jubb, what is the proportion of purchases that are non-competitive?—On these extensions?

4090. Yes?—I could not say.

4091. Is it great or small?—I am afraid that any answer I could make in regard to that would vary in connection with different extensions.

4092. It is rather important because it depends really, as to whether your check is an effective check or not as to prices, does it not, whether the contractor's charges are carefully checked or not, and, if the proportion of non-competitive purchases is very high, it is important that the check should be pretty accurate?—Of course, it is in the cases in which any items that the main contractor obtains are non-competitive that we apply most particularly our own technical check, to see that

the prices are reasonable. I mean, if our Technical Officers are checking the price of any particular item, one of the first things they will do will be to say: "What competition was there for this? If they see that competition was obtainable, and that is enough to satisfy them that the price is reasonable, there would be an end of that particular item, but it is precisely on the non-competitive items that they would exercise their technical check, as far as they can.

4093. Would they apply that to all the non-competitive items?—They would endeavour to apply that to all the non-competitive items that were of sufficient magnitude to justify such an investigation.

4094. The last sentence, if you look at it in that sub-paragraph, reads as follows: "I observe that a provision has been introduced into some of the later contracts requiring competitive tenders to be obtained for the plant purchased." I really am anxious to know what is the proportion of these non-competitive purchases?—Yes. I think that "some" might have read "all", really.

4095. That is vital; do you think it should?—I think so. (Sir Gilbert Upcott.) I should observe that the Admiralty did not challenge that statement when I showed it to them in the Draft Report. (Mr. Jubb.) I should say that "all" ought to be inserted instead of "some" in the phrase "has been introduced into some of the later contracts"; I should have said that ought to be "all of the later contracts". It was just a batch right at the outset from which that provision was omitted, but I think the contractors for this (it was one of the big extensions) were perfectly aware that competition should be obtained, as far as possible, and one of the provisions of the arrangement was that they had to satisfy the Admiralty that the expenditure was reasonable.

4096. You would appreciate, of course, Mr. Jubb, that the importance of this arises from the fact that there is such a huge expenditure in progress now, not only in your Department, but in other Departments as well, and that public attention has been concentrated a little upon this point of checking costs, and so on?—Certainly.

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4097. I dwell upon this point a little bit because I think it is one of importance?—Yes.

4098. In the last sub-paragraph of paragraph 10, I just merely note that the Comptroller and Auditor General says: "I should make it clear that my examination is dependent upon the certificates and reports of technical officers, and departmental investigation of Contractors' books at later stages."?—(Sir Gilbert Upcott.) My position is very much the same as I explained on the previous paragraph.

Sir Irving Albery.

4099. I would like to ask Mr. Jubb with reference to where the Government purchases the whole plant: Is that only done when the contractor will not erect it on any other terms, or is that sometimes at the suggestion of the contractor or of the Admiralty?—(Mr. Jubb.) So far as the Admiralty are concerned—I can only answer so far as the Admiralty are concerned—I think the answer to that is that the 100 per cent. is adopted, not only in cases where they will not erect it on any other terms, but also in cases in which the terms which they offer are not acceptable.

4100. In other words, in those cases you come to the conclusion that, all things being considered, it is more economical, from the Admiralty point of view, that they should own the plant?—That the Admiralty should own the plant and pay the whole lot. The sort of case that might arise would be a firm saying: "We really do not want this new plant, but we are prepared to own it ourselves if you will give us a contribution of say 85 per cent., or something like that". We might say that for the Government to pay 85 per cent. of the cost and leave the property with the contractor is not such a good proposition as the Government paying 100 per cent. and owning it themselves.

4101. With reference to the whole system of checking these contracts, would you regard that as the best possible check you could introduce in conditions which are in the nature of an emergency, or would you regard this system as being a sufficiently good check for permanent use?—Are you thinking of War conditions?

4102. No. I was thinking that this large increase in armaments is in the nature of an emergency; it is not

normal?—Yes; I think the answer to that is that in the absence of legal powers the arrangements that we have made are the best that can be devised.

4103. Even if there were no what I would call "emergency", you would still be satisfied to continue on this basis for normal requirements?—(Sir Archibald Carter.) I think it would be true to say (Mr. Jubb will correct me if I am wrong) that what we are doing now is merely an extension, over a rather larger field, of what we always have to do. We are always faced, I think, with a position in which we cannot get competitive tenders, so it is not a brand new system invented within the last two years, so far as we are concerned. It is the old system expanded, strengthened and operating over a wider field. (Sir Gilbert Upcott.) I think that the Admiralty and the Treasury still adhere to the view which this Committee have often expressed, that no departure from competition should be made unless it is absolutely necessary. (Sir Archibald Carter.) Certainly.

Mr. Peat.

4104. Mr. Jubb, what reductions in the items of cost are obtained by the Navy when they are buying materials produced in workshops which they have put up themselves, which they own themselves, or with machinery which they have supplied themselves?—(Mr. Jubb.) I think no such case has yet arisen. We have not settled the price, as yet, for anything that has been produced from any extension for which we have paid in full. Take an extension being put up for the manufacture of guns: That extension probably took, at the very least, 18 months, I should think, to complete.

4105. What items of cost would you expect to find saved to the Admiralty, taking the case of a building you own entirely yourself?—No depreciation of any of the Government assets would be allowed to appear in the costs of the article, and no interest on the capital expended in putting up the extension would be allowed as part of the item of profit.

4106. Do the Government hold themselves responsible for the upkeep of the building?—No. While the contractors are using a new building like that for the production of, let us say, guns, they would have to maintain it in proper

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order, and any costs of maintenance would go into their overhead charges and so into the price of guns, just as it would in an ordinary factory.

4107. There is never any question of charging a rent?—Not as a general rule. In one case I have in mind that has arisen, where we have rented a factory.

4108. Then the only advantage you get in the case of machinery is depreciation?—Depreciation.

4109. You save depreciation?—You save depreciation, and you would save interest on capital, because the Government has provided the capital and not the contractor.

Sir Robert Smith.

4110. It is rather the same point upon which I wanted to ask a question. You say you have no cases in which goods have been produced in extended factories, but I understood from Sir Archibald Carter that he said a minute ago that this was an extension of an old system?—(Sir Archibald Carter.) I think I was there dealing with our methods for fixing prices where there was no competition; it was not these capital extensions of factories and plants.

4111. Have there been no extensions at all until lately under these proposed plans where you have these units set up? There are no cases where firms have increased their works in order to meet the Admiralty demands in the last three years or so?—(Mr. Jubb.) I should say they would begin in 1936—these big extensions that we have in mind.

4112. You have no goods produced in these additions to factories, on Mr. Peat's point? Surely you must have had some experience of what happened?—No completed articles have yet come from these extensions for which prices have been settled and in regard to which that particular point has yet had to be taken into account.

4113. None at all?—None.

4114. Yet it was in 1936 that you say these extensions were made?—Begun.

Sir Robert Smith.] But you have none completed?

Chairman.

4115. The witness said it would take about 18 months?—Yes.

Sir Robert Smith.

4116. With regard to these units which you put up, of which the Government pays 100 per cent. of the cost,

is not the power for these units probably obtained from the factory close to which they are put up?—Normally, I should say that would be the case.

4117. But in the case of one of these being required to be sold by the Government, is there not rather a difficulty in arriving at a price, since these extensions are not of much value if power has to be installed for them to be used as factories, and disposed of as separate factories? Is that consideration taken into account? It is of very great value to the factory next to which they are put, and from which the power is obtained, but they are of very little value if they are going to be sold in the open market, are they not?—That, if I may say so, is a point that may never arise, because these extensions are put up in close proximity to a big contractor's factory, and one visualises that the normal result will be that a firm in that position will exercise its option, and that, wishing to exercise its option, it will come to reasonable terms with the Department.

4118. You imagine that will be the case, but supposing it is not. Is the Government safeguarding itself to see that it is not at a disadvantage?—I do not see that the Government can have any better right than that of retaining the property, and its right of disposal to another buyer, if necessary.

4119. In the choice of, say, the fitting up of these factories, does it rest with your technical experts, or does it rest with the owner of the factory?—The choice of which alternative should be adopted—the 100 per cent. or the other?

4120. No, not the alternative but the equipping of these factories?—The proposals for the factory necessary to produce whatever output the Department calls for emanate from the contractors, and are subjected to criticism by the Department.

4121. Supposing there is a feeling in your Department that their proposals are not acceptable, do they ever put forward alternative proposals?—Alternatives have been considered, but, generally speaking—

4122. Considered by the firms?—By the firm; in the first place they would consider alternatives before they put up the scheme that they thought the best, but those are checked

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by our own people, and, if any alteration was considered necessary, it would be made.

4123. What I am trying to get at is this: It seems to me that you are the technical body for the Admiralty, and your technical people ought to know what is the most efficient and the most suitable form of machinery, and yet you say you leave it to a factory to decide what they want, and you generally accept their terms. It seems to me, when the Government is paying 100 per cent. of the cost of that factory (because it practically comes to a new factory), that the Government would then be the body who would put forward more or less a specification of the nature of the factory and its equipment?—I hardly agree. I think the manufacturer and not the Government is the one who has to produce the gun or the armour that you are calling for; it is surely the manufacturer who has had the years of experience in the manufacture of these things, and it is, therefore, the manufacturer who is in the best position to initiate the proposals for producing what we require in the most economical way, putting the plans before the Department for approval.

4124. If there were to be a special article produced, according to the requirements of your technical staff, it does seem to me strange that you should leave it entirely to others?—It is not left entirely to others.

4125. It is left to them to produce the most efficient machine and the one which is going to do the work best, is it not?—(Mr. *Bridges*.) Is it perhaps fair to point out that we are dealing in these paragraphs, not with the provision of capital assets for the Rearmament Programme as a whole, but with the particular case of the Admiralty, in connection with armour and gun mountings, which are the most extremely highly specialised articles, and there are a very limited number of firms which have a very high degree of technique. (Mr. *Jubb*.) That is true. Take armour, for instance: That is made by three firms, and there is no Government factory; so there is no Government establishment which has the information which the armour manufacturers themselves possess. The same would be true of gun mountings, and they are the two biggest items for which we have had to extend works.

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Chairman.

4126. Is it your point, Mr. *Bridges*, that these capital assets that are referred to in the Comptroller and Auditor General's paragraphs refer simply to armour and gun mountings?—(Mr. *Bridges*.) In regard to the Admiralty, by far the major part of the capital assets relate to the manufacture of armour and gun mountings. There are certain other items, but these are the main ones.

4127. Higher up there is the reference to "plant and buildings for the production of armaments and munitions"?—It does cover that also, but I think it is fair to say that this business arose, in the first instance, in the Admiralty with armour and gun mountings, and armour and gun mountings and guns represent by far the greater part of the Admiralty expenditure.

4128. I can see Mr. *Bridges*' point, if it relates to armour and gun mountings, because that is highly specialised work?—(Mr. *Bridges*.) I think if you came down to shells, and so forth, in which we have the experience of Woolwich Arsenal behind us, the procedure would be rather different. You would probably find the Technical Officers were concerned in the lay-out at a rather earlier stage. (Sir *Gilbert Upcott*.) We are dealing in these paragraphs only with the Admiralty undertakings. (Mr. *Bridges*.) Yes.

Sir Robert Smith.

4129. You are dealing with a specialised item which is a specialised thing, but I thought we were dealing with a factory which might produce other things than specialised articles for the Navy, because, if that is so, and you have an armament factory, it is practically a Naval factory, and nothing else. It is rather a different thing; I was thinking of the other? There is one other question I would like to ask. You have told us that the profits you allowed on the contracts varied from a given figure to another figure. Do you take into account in the profits which you allow the fact whether the whole cost of the extension is paid by the Government or not?—(Mr. *Jubb*.) Are you talking about the extension?

4130. I am putting the extensions connected with the work produced in those

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extensions, for which you have to pay?—You wish to ask a question about the profit we should allow on the articles turned out from the extension on which we have paid 100 per cent. of the cost?

4131. Yes; it will be turned out from the extension, I suppose, and the rest of the factory?—You are not talking of the profit on the extension itself, but on the articles turned out from the extension?

4132. Do you have a rate of profit on articles turned out from extensions for which the Government has paid 100 per cent?—The difference would be that we should allow no depreciation in connection with the expenditure on Government assets and no interest on capital in connection with this.

Mr. Benson.

4133. There was one phrase Mr. Jubb used. I gather the costing arrangements were quite satisfactory, apart from possession of legal powers. What exactly did you mean by that, Mr. Jubb?—If you had legal powers, you would have the legal right to settle what a reasonable profit should be in any instance. There would be no argument about it, or, if there is an argument about it, the final word as to what a reasonable profit should be would rest with the Department under its legal powers. If you had legal powers, you would also have the right to go into a Contractor's works and get any information you wanted about costs, overhead charges, and anything like that. (Sir Archibald Carter.) I think Mr. Jubb is trenching on rather wide questions of policy as to what might happen in the event of war conditions.

Mr. Peat.

4134. Mr. Jubb mentioned interest on capital?—(Mr. Jubb.) Yes.

4135. Would you give me a case in point? You have a concern which is entirely engaged in manufacturing things for the Navy; it has a share capital of £100,000. In computing the cost of that article, do you add on a percentage for return on capital as well as profit?—No; the profit, when I mentioned that, was on the cost; that would cover any interest on capital. Interest on capital comes out of the profit. (Mr. Brittain.) The capital which Mr. Jubb was speaking of a short time ago was rather differ-

ent from the capital which Mr. Peat was speaking of. Mr. Jubb was saying he would not allow any interest on capital outlay for the erection of the buildings and plant.

Sir Robert Smith.

4136. In the case where the Admiralty put up 100 per cent., do you have more power of supervision and watching the upkeep of these parts that are 100 per cent. than in the case of those which are put up by the firms themselves? Do you demand a right of entry, and that kind of thing?—(Mr. Jubb.) The arrangements for the extensions throw upon the contractor the responsibility for maintaining these things in proper order when they are manufacturing.

4137. Have you power to enter these premises at any time to see that they are properly maintained?—Yes, we have.

4138. You have special powers to do that?—Under the arrangements.

Mr. Benson.

4139. With regard to the fixing of the rate of interest, have you any broad, general rules, or does not each case vary so much that you have to make an *ad hoc* decision as to how much profit you are allowing?—Each case has to be dealt with on its individual merits in the matter of profit.

4140. With regard to the question of the output and the amount of capital involved, the rate of depreciation is so varied that you really cannot state it?—It is the amount of material that they buy in relation to the labour that they themselves have to put into it, and that sort of point.

4141. In fact, you have to decide what looks like a reasonable amount of profit?—In each particular case.

4142. To that extent, you are very largely in the hands of the contractors, are you not?—No; I would not put it that way. We have to negotiate with them, but, generally speaking we find them open to reason.

4143. Do you have at the back of your minds some theoretical, desirable profit that they should make on the capital?—Yes.

Mr. Benson.] I suppose, for instance, you would say at the back of your mind that no firm should make 25 per cent. per annum on its total capital. What have you fixed in your mind as a reasonable return on capital for these firms?—

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Chairman.

4144. I do not know that Mr. Jubb can say that. Paragraph 11, "Purchase of General Reserve Stocks". Am I right in assuming, Sir Archibald, that these stocks are kept as a war reserve?—(Sir Archibald Carter.) That is right.

4145. Could I ask the Treasury if they would be good enough to give us some further explanation of the policy that is indicated in this paragraph?—(Mr. Bridges.) These are reserves of various kinds of metals of which there might be a shortage in emergency and of which one cannot rely on making purchases at the outset of an emergency and therefore purchases are made beforehand.

4146. I think there are no questions arising on that. Paragraph 12, "Contracts for Battleships of 1936 Programme." In this matter the Comptroller and Auditor General reminds us that the First Lord of the Admiralty on the 29th July, 1936, stated that the public interest would be fully safeguarded. Might I ask if the First Lord's assurance has been made effective?—(Sir Archibald Carter.) I think so, Mr. Chairman.

4147. Could I ask whether the tenders for the 1937 battleships have indicated effective competition?—It is difficult to say that it is very effective competition, simply because there is a limited number of firms that are capable of building a battleship, but for the three 1937 battleships four firms tendered so there was competition to that extent. One firm did not get the contract but, frankly, when we are building a large number of battleships at the same time there is only a limited number of firms who can handle them.

Chairman.] Are there any further questions on paragraph 12?

Mr. Peat.

4148. When you are building a battleship it is fairly common knowledge what is the cost per ton of the hull; you know fairly well the cost per ton of the hull and that cost, I assume, can be fairly easily equated to your cost of steel and materials?—You can get fairly close to it.

Mr. Benson.

4149. What about your own Government Yards?—They are absolutely full

up with ordinary repair work but still more with what amounts in some of the capital ships almost to a complete rebuilding. They have been completely modernised and that is the work that is primarily going on in the Dockyards now. Those are the big jobs; there is a certain amount of building going on but as regards battleships I think I am right in saying that without a great deal of fresh capital expenditure we have not got any slip in one of our Dockyards that would take a modern battleship. I speak subject to correction by the experts, but that is my impression, that it would take a good deal of capital expenditure to put us in a position to build a battleship as distinguished from a cruiser. We are completely modernising several battleships and that is the biggest job that is going on now in the Dockyards.

4150. That ought to give you a possibility of fairly accurate check on the cost of building?—Undoubtedly our Dockyard experience gives our professional and technical officers a very good idea of what the price ought to be.

4151. Can you give any idea as to which is the more economical price, the private price or the Dockyard price for comparable work?—It is a question that has very often been asked and I think, so far as I have been able to understand it, the position is this, that there is no doubt that for repairs and work of that kind the Dockyards are undoubtedly cheaper but when it comes to new construction there is really nothing in it. I think, broadly speaking, that is the answer, that one might at one time do it a little cheaper in the Dockyard and at another time one might get it a little cheaper from the contractors, but by and large for new construction I do not think there is much difference between the two. I do not know if Mr. Jubb would bear me out but that is certainly the impression I have got. (Mr. Jubb.) Yes. (Sir Archibald Carter.) If we were able to handle more construction at the Dockyards without impeding their present work we should do so. Our Dockyards are working to capacity.

4152. That means you have an adequate check and can keep the cost of a battleship down to a reasonable basis?—We have a very good idea of what it should cost, certainly.

(Mr. Jubb withdrew.)

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Chairman.

4153. Paragraph 13, "Acquisition and Conversion of Ships. The S.S. 'Majestic'." There are two matters arising from this and subsequent paragraphs. There is the question of the transaction dealing with the acquisition and, secondly, the reconditioning of this ship. The first, paragraph 13, deals with the acquisition of it. Could I ask you one quite direct question: Why was it that the "Majestic" was not bought straight away from the Cunard people?—To be quite frank, it was offered to us a few months before we came to the decision that it would be useful for a training ship, and at that time nobody in the Admiralty thought that it was at all likely we should want her; she then went to Ward's, the ship-breaking firm and shortly afterwards we came to the conclusion that that would be the best way of dealing with our very urgent need for an additional training establishment for boys. Whether, in fact, we should have done a better deal if we had bought her straight from the Cunard people is an open question: I do not know: it may well be that if they thought the Admiralty had a use for her they might have been asking a rather larger price than they got when they simply sold her as scrap. I do not know. We had to pay, when we bought her back from Ward's, rather more than they paid for her but whether, in fact, we should have made a better bargain if we had realised a few months earlier that we really should want her I am not sure anybody could say.

(Questions 4154 to 4155 not printed.)

4156. I see you have made some inquiry, Mr. Comptroller and Auditor General. Have you anything to say as to the reply to your inquiry?—(Sir Gilbert Upcott.) I have given the Admiralty answer, but I told the story in my report because I thought that the Admiralty answer rather invited further inquiry from the Committee. The Admiralty in explaining the price obtained for these destroyers which were to be scrapped have referred to the average price obtained for destroyers over a period. Of course, the satisfactory nature of this purchase depends upon whether the price obtained for the naval vessels which were to be exchanged, in effect, for the "Majestic" was satisfactorily determined. The price

obtained in 1936 for these destroyers I do not think is necessarily a satisfactory price if it compares favourably with the average price obtained over the period 1934 to 1936, because over that period prices for scrap iron and steel were rising very steeply and one would expect the price to be obtained in 1936 to be very much higher than the average of the prices over the period 1934 to 1936. I have not given the prices in this paragraph because, in accordance with custom, the Admiralty did not wish the contract prices to be quoted, but Sir Archibald may no doubt give the Committee some further information. Upon such knowledge as I possess I should say that the price obtained for these destroyers in 1936 is not as much above the average price for 1934 as one might expect. It is true no doubt (and Sir Archibald will probably explain that in due course) that the matter was complicated by the fact to which the Admiralty refer, namely, that they were under the necessity of reaching a conclusion in this matter without delay because they urgently required the ship, but the point which I think particularly deserves further examination by the Committee on this paragraph is whether the price obtained for these destroyers in 1936 was satisfactory.

4157. Sir Archibald, I think it is fair to ask you to say what you have to say now?—(Sir Archibald Carter.) I think our professional people are satisfied that it was certainly the best bargain we could make under the circumstances and not an unreasonable bargain. Ward's were rather unwilling sellers of the "Majestic"; they were not keen to part and it was part of the contract that the prices should be specified at the time for a certain amount of the tonnage to be handed over. I think one figure that is significant is that the price for certain destroyers was x shillings per ton (*figure given*); the average for 1934 to 1936 which we got on other destroyers over this period of years was ($xm5$) shillings per ton. The Comptroller and Auditor General suggests the prices were rising, as no doubt they were, and that there ought to have been a bigger margin, but scrap values depend very much on the nature of the particular vessel and the conditions of the time. You cannot say that there is an absolutely steady figure for a given moment and there was a

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good deal of hard bargaining with Ward's before they would accept those prices. I think we are quite satisfied that they were the best terms we could get and not in themselves unreasonable. It is, as I have said, a higher price than we had been getting over the years immediately before it.

Sir Irving Albery.

4158. On that point I rather take it the nature of the transaction was that when you acquired the "Majestic" it was part of the contract that you should sell to Ward's a certain amount of naval tonnage?—Yes.

4159. You have told us the price for the naval tonnage?—Yes.

4160. Can you tell us the price for the "Majestic" tonnage; you have already explained you had to pay something extra?—I should have to do the sum.

Chairman.

4161. Yes?—We actually paid for her £140,000.

Sir Irving Albery.

4162. I think you said *x* shillings was the price for the destroyers?—Yes.

4163. This would work out at what?—I have no special knowledge of these things but I imagine it is a very different process to break up a destroyer than to break up the "Majestic". I should think you would expect to get different figures. It must be a very much more difficult operation to break up the "Majestic" than to break up a destroyer.

4164. You mean the figures I am seeking do not give any information?—I should not think they were comparable at all but I have no special knowledge of that.

Sir Irving Albery.] Then I will not pursue it.

Mr. Peat.

4165. Did you have any idea what Ward's paid for it?—Yes, I have the figure here. (*Figure given.*)

Chairman.

4166. You told us earlier that inquiries were, in fact, made by you as to whether the "Majestic" would be available before she left the Cunard?—No, I am afraid I misled the Committee if I said that. The Cunard approached us and said they were disposing of her and had the Admiralty any use for her.

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4167. Could you tell us precisely when that was?—(Sir Gilbert Upcott.) May, 1936. (Sir Archibald Carter.) Yes, May.

4168. When was she sold to Ward's?—That I do not think I have got.

4169. Does anybody know?—(Sir Gilbert Upcott.) 19th May. (Sir Archibald Carter.) I do not think I have seen that date. I have no reason to doubt it.

4170. What is the 19th May?—(Sir Gilbert Upcott.) She was sold to the shipbreakers on the 19th May by the Cunard.

4171. When did the Cunard write to the Admiralty?—(Sir Archibald Carter.) I think it was early in May. (Sir Gilbert Upcott.) My information is that the option to the Admiralty was offered on the 5th and declined on the 14th May, and that she was immediately, within a few days, sold to the shipbreakers; I think that information comes from the Admiralty papers.

4172. The Cunard people wrote to the Admiralty about the 4th May?—(Sir Archibald Carter.) Yes.

4173. The Cunard sold to Ward's on the 19th; when did the Admiralty buy from Ward's?—19th August.

4174. That is three months later?—Yes.

4175. I want to get at this point. Here we are told that the Cunard people offered this ship to the Admiralty; the Admiralty at that time said they were not interested apparently?—Yes.

4176. Then it is sold to the shipbreakers and suddenly (for it is relatively suddenly), within three months, the Admiralty go to this firm of Ward's and are in such a desperate hurry that they must reach an agreement without delay. What in the world happened to change the situation so completely in so relatively short a time?—I think I can tell you. Perhaps if we had had sufficient pre-vision in May we might have thought of it, but the position as regards training of boys was one as to which we had only a few months before to take stock of our position, when the Government had decided that there was to be an increase in the Fleet, and not only an increase but a very rapid one. We had not seriously got down to the problem of what our extra intake of boys was to be and where we were going to put them. I think I can say, although it was probably not the date of

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the final decision, that what one might call the effective date so far as the Admiralty was concerned was sometime early in July, when there was a conference inside the Admiralty on what was the best way of handling this problem of getting a lot of extra boys and finding accommodation for training them.

4177. It was the urgency of getting accommodation?—I think it was at that conference that it suddenly occurred to somebody that we were offered the "Caledonia," not very long ago, and would not this suit us better than building huts? I think that is how the thing took place.

4178. That is the explanation anyway?—Yes.

Chairman.] I am only concerned at the moment to keep the discussion to the business of the acquiring of the "Majestic"; we will deal with the reconditioning afterwards.

Mr. Peat.

4179. I was going to ask whether Ward's had shifted the "Majestic" and where had they taken delivery of her?—So far as I am aware she was at Southampton the whole time, but I should have to verify that. (*Sir Gilbert Upcott.*) Yes, that is so, she was at Southampton the whole time.

4180. There is no question of Ward's having gone to any expense moving her or having begun any operations on dismantling her?—(*Sir Archibald Carter.*) That I believe they had begun. I believe they had sold some scrap but I do not know whether it amounted to very much.

Sir Robert Smith.

4181. Why did the Cunard offer her to the Admiralty?—I think that is not uncommon.

4182. That is not uncommon?—No, it is not uncommon if they are finally disposing of a big ship.

Chairman.] In any case it is not for the Admiralty to answer that, is it?

Sir Robert Smith.

4183. No, but it does seem to me rather strange that the Cunard should know that such a ship was required by the Admiralty for the purpose?—They did not.

4184. That was my point, whether they knew?—No.

4185. But it is quite common?—I do not know about quite common, but I have certainly seen other offers made before handing a ship finally over to the shipbreakers.

4186. No inquiries were made of other firms with ships of the same nature?—When in July we came to the conclusion that probably the best way was to use ships, we did not merely have the bright idea: There is the "Caledonia" that was offered to us. We inquired what other ships were in the market and there were four or five ships in the market, but except for the "Caledonia" they were all much smaller and would have meant establishments comprising three units and therefore were not so satisfactory.

Chairman.

4187. Have you anything to say on behalf of the Treasury concerning the acquisition of the "Majestic," Mr. Bridges?—(*Mr. Bridges.*) No, I do not think we have.

4188. I am coming to the reconditioning presently?—We came into the story in August when this matter was put up and it was considered; the various alternative means of acquiring a ship were considered at two or three meetings of the Inter-Service Committee and finally we sanctioned it.

Sir Robert Smith.

4189. Sir Archibald made a remark earlier by saying that the breaking up of the "Majestic" you thought would be a cheaper thing (or which way was it you put it?), than breaking up destroyers?—(*Sir Archibald Carter.*) No, I said I thought it would be a much more expensive operation.

4190. Why?—I confess I can only give you a layman's opinion on that, but it is obviously, I should have thought, a very much more difficult and longer job. To begin with, your capital is laid up for a longer time and is useless.

Sir Robert Smith.] I see that, but if you get it in larger quantities, just for the same reason that one large ship is more convenient for your job than two or three, I should have thought the breaking up of a large ship such as the

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"Majestic" would be a much cheaper job than breaking up a number of small individual ships.

Chairman.

4191. Is that very relevant for us to discuss now?—If the Committee would like some information on it I will certainly get some from our technical people because, frankly, I do not know. I was only speaking as a layman on these matters.

4192. I think the simple point for us to discuss is as to whether the "Majestic" might have been sold (I will not put it higher than that) by the Cunard direct to the Admiralty; that might have been done; and, secondly, whether the terms of the acquisition might have been different. Those are the only points that concern us?—(Mr. Bridges.) On the first point I would like to direct the Committee's attention to paragraph 2 of the Comptroller and Auditor General's Report: "2 (ii) £1,059,000 by a second Supplementary Estimate (H.C. 138, 1935-6) presented in July, 1936, to extend and accelerate the New Construction Programme." That is a Supplementary Estimate presented in July. I rather think the decision which was responsible for that Supplementary was probably also largely responsible for adding to the numbers in training, and therefore giving rise to this domestic problem.

4193. I think that is in consonance with what Sir Archibald has said?—Yes; I only wanted to draw attention to that.

Sir *Irving Albery.*] Can we know exactly what the Treasury sanctioned with regard to the "Majestic"?

Chairman.

4194. Was it the price?—We sanctioned the price of £140,000, and we sanctioned the method of dealing with it, namely, by exchange of destroyers, after considering several other ways of dealing with it. (Sir *Archibald Carter.*) The Cunard in offering the ship did not name any price or figure. They never got as far as that. (Sir *Gilbert Upcott.*) The Treasury did not take any part in the fixing of the exchange price of the destroyers. (Mr. *Bridges.*) We sanctioned dealing with it by exchange, but we did not fix the exchange prices. (Sir

Gilbert Upcott.) The price was fixed between the Admiralty and the ship-breakers.

4195. Shall we get to the next paragraph, paragraph 14, where the "Majestic" gets transformed into the "Caledonia." Sir Archibald, I am bound to say that I attach some importance to this part of the story (not that the other is unimportant), because it seems to me to require some justification. Could you tell us what was the figure it was expected would have to be spent when the "Majestic" was acquired?—(Sir *Archibald Carter.*) You mean for the conversion?

4196. Yes?—The very tentative guess which our technical and professional people made was about £250,000 but, we explained at the time to the Treasury when we were seeking sanction that it was quite impossible for anybody to give a firm estimate until the ship had been opened up and we knew in detail what would have to be done, but, for what it was worth, that was our guess at about the time the work was being started.

4197. Shall we apply ourselves a minute to that paragraph 14 at the bottom of the page. You see the Comptroller and Auditor General says "The 'Majestic' was required for" purposes which we now know. "The Admiralty informed the Treasury that the cost of the only alternative, the construction of hutting accommodation, would be prohibitive. This cost was estimated at £150,000, which, however, I have since been informed did not provide for officers and staff or for heating, lighting and equipment." Was the figure which you have just given me (£250,000) intended to cover this point, namely, the ship plus hutting accommodation?—No, the hutting accommodation is a conceivable alternative. The two plans before us (at that time, anyhow, and indeed now we have decided that it would be useful to have permanent buildings at Rosyth) were for a long term project. The issue with which the Admiralty was faced was, shall we have temporary hutments till brick buildings can go up, or shall we have a ship? The figure of £250,000 which I have given you was a guess at what it would cost to convert the "Caledonia", although we said very carefully at the time that nobody could give an estimate. (Sir *Gilbert Upcott.*) I think that there may be some confusion about the dates at which these things

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[Continued.]

happened. It may be that the Admiralty formed an initial estimate of £250,000 for reconditioning the "Majestic" as soon as they got possession of her, but I find it difficult, on the story as I read it, to suppose that the £250,000 was the figure in the mind of the Admiralty when the acquisition of the "Majestic" was under consideration, because I find in a letter to the Admiralty from the Treasury (and it is the impression which I have also gathered from papers I have seen) that the Treasury at that time understood that the cost of conditioning the "Majestic" might be in the neighbourhood of £150,000 and that is why I have quoted £150,000.

4198. That is exactly what I am after. You have a figure of £150,000 in your Report; to what does that £150,000 refer?—(Sir Archibald Carter.) The £150,000 arises in this way: it was while they were considering whether it was the best thing to do to have a ship. Some inquiries were made about the cost of hutments, and I am bound to confess that at that time no proper estimate was made of the cost of hutments. This figure of £150,000 was the bare cost for the boys only, without the staff and without anything for heating, lighting and drainage.

Sir Irving Albery.

4199. How many boys?—It is hoped eventually to have 2,000 boys (we have not quite worked up to that) plus staff. I can give you the actual number of boys on the "Caledonia". May I say frankly that we none of us expected that the cost of the conversion of the "Caledonia", though we could not be certain what it was, would mount up to as much as it did; I think one must explain that frankly; but I think the explanation of why there was not any very exhaustive examination of the alternative cost of hutting, and why we relied on a sort of guess, was the time factor. That was really the important thing. We had to get these boys into training as soon as we could, and we thought then (and indeed I think it has proved to be so) that it was very much faster to have a ship rather than hutments. We certainly saved six months, if not more, by using the "Caledonia." I am not sure that we made that as plain as we might to the Treasury in the initial stages, but the dominating factor

all the way through was to get something that would be ready at the earliest possible date. I can, if it is of any interest to the Committee, give the recent estimates of what the cost of hutting would be, but I do not know whether you would like them or not, because, frankly, they were not made at the time.

Chairman.

4200. I do not think it is very material now; we have taken our leap, so to speak?—Quite.

4201. You start with a sort of estimate of £150,000?—That was a figure that was named as the probable cost of hutments, and was not a complete figure for them. Nobody suggested, I think, that £150,000 was the cost of the conversion of the ship. That is how the £150,000 arises, but it was an incomplete estimate or guess of the cost of the hutments scheme.

4202. Now you have gone up. What was your original estimate of the cost of the "Majestic": £250,000?—That was the first guess they made, but, frankly, they said: "Nobody can tell until the ship has been opened up, but if we must guess it is £250,000."

4203. You have gone up from that figure (whatever it was) until you got to £326,000?—It is beyond that.

4204. That is in 1936?—Yes, I beg your pardon.

4205. In 1936 it became £326,000 odd; you have ultimately moved up to £468,000, including some machinery?—Yes.

4206. Could you tell me, did anyone at any point call your attention to the fact of the mounting cost of this proposition?—I think it began, well after the work was started, to be fairly evident that it was going to be more than we had originally contemplated, but I think the job must have been finished before we really knew what the final bill was going to be. There were certainly signs while the work was under progress that our original guess was very much out, and indeed that was apparent, because when the machinery, and particularly all the tubing and piping was opened up, it was in a very bad state, a far worse state than anybody had guessed.

4207. I want to apply myself to one principle, if I may. You are the Accounting Officer, but you naturally

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cannot keep your finger on every single item in this office, though you would be responsible for it to this Committee. What is the system in your office whereby you can become acquainted of the expense of a particular piece of work that may be decided upon; at what point are you brought in? Is there someone who is responsible for acquainting you or does anybody just go ahead?—Of course, in this particular case there were on the spot not only the Technical Overseers but there were also people watching the accounting side of it; but I do not think they were in a position until a late stage to say what the total bill would be. The figures were coming in to the Director of Navy Accounts, and it was certainly becoming obvious that the bill was mounting. I should not like to say offhand at what stage one began to realise that, but certainly before the work was finished. I am not clear that it was a position in which anybody could have done anything; the job had been begun.

4208. I will be quite frank with you. I have been in this Chair some years now, and certainly a few years ago, before you came to the chair at all as a witness, I have noticed that incidents have occurred where expenditure has been embarked upon, upon a particular project, and I am wondering whether there is in your Department someone whose business it is to pass financial criticism upon pieces of work from time to time?—Oh, certainly. I do not know if I might be allowed to read to the Committee what we said to the Treasury or the Treasury Inter Service Committee at the time we were seeking sanction to the conversion, but I think it is rather relevant: "The major items (1) (that is, structural and other alterations necessary to adapt the vessel for use as a training establishment) and (3) (renovation generally, including repairs to existing structure and fittings, painting, cleaning, etc.) are at present quite indeterminate. The work covered by (3) in particular could not be determined exactly without a full survey which would take many weeks and require a special staff. In fact, apart from main features, the alterations required, which it is intended to keep to the minimum necessary, can only be determined in detail as the work proceeds and for this reason, apart from the time factor, it is quite impossible to prepare plans and specifications in sufficient detail to form

a basis either for competitive tendering or for the quotation of a firm price, before the commencement of the work." I sought leave to read that because it did show that it was a business in which one could not say beforehand what it was going to cost.

4209. May I put the question in another way: if a particular project, once embarked upon, shows signs of becoming too expensive or rather more expensive than you first anticipated, can anyone in your Department alter it without reference to you? Can they embark upon a more expensive scheme or a less expensive scheme?—No; if it were a more expensive scheme, it would mean in many cases going to the Treasury for further sanction. Certainly no addition would be made to an approved scheme without further sanction.

4210. Take the other way about, cutting it down; would it be their business to call attention to this and say, "This is becoming too expensive; what shall we do?"—Certainly.

4211. Was it done in this case?—I should not like to say from memory at what time I heard it was going to be more expensive. It was before the work was completed, but we did not know to what extent it was going to be above our original guess until the work had been completed.

4212. There is another point in regard to this, and it is this. I have been looking this matter up a little bit. You see that the contract was placed on a cost-and-percentage basis?—Yes.

4213. If you look at the Report of the Committee of Public Accounts for 1916, there is a specific reference to this question of contracts on the percentage system, and it reads as follows, "The Admiralty allowed the adoption of the net cost plus percentage system, but stated very fully the objections to which it was open, and reminded the officers of the assurance which had been formally given to Parliament that resort would not be had to this system except in cases of very great emergency." I do not know if you regard this as a case of very great emergency or not?—I think, Mr. Chairman, the answer is "Yes." As I say, our dominating condition was to get something ready for the boys as soon as possible, and the reason why, I think, we had to resort to this form of tender was that the contractors were in

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precisely the same position as we were. Just as we said that it was impossible to tell the Treasury what this was going to cost until the ship was opened up, the contractors were in the same position; they could not tender a firm price for it; nobody in the world would have done it.

4214. Have the Treasury anything to say on this point?—(Mr. Bridges.) The cost-plus-percentage basis?

4215. Yes?—We dislike the cost-plus-percentage basis intensely, and when this matter came up we went into it with the Admiralty to see to what extent it was possible to limit cost-plus-percentage. I am afraid we came reluctantly to the conclusion that there were only a couple of small items for which we could get fixed price tenders at the outset, and the contract was placed on that basis.

Sir Robert Smith.

4216. Had the Treasury any figure given to them at the time at all of what it was likely to come to?—The first figure given to us was the figure given at a meeting of the Treasury Inter-Service Committee with all reserve and under the statement that at that stage any estimate could only be a guess, and that figure was £150,000, but that was given under very considerable reserve.

Chairman.

4217. Is not there a difference between what you are saying and what Sir Archibald is saying? You are saying that the figure given with all reserve was £150,000?—Yes.

4218. For reconditioning?—Yes.

4219. Sir Archibald is saying that the figure of £150,000 referred to hutments?—(Sir Archibald Carter.) I am sure that was the origin of the thing; none of our professional people ever gave a figure of £150,000 for converting it.

Sir Robert Smith.

4220. Surely there is a letter to which Mr. Bridges refers?—(Mr. Bridges.) This was given to us orally at a meeting. (Sir Archibald Carter.) I think it is highly likely that how that figure arose was, that whoever was there had in their minds the figure of £150,000 that had been mentioned for hutments. I am not sure that I have it with me, but I can easily let you have the precise

date at which this guess of £150,000 first emerged in the Admiralty. I have not it with me, but if the Committee would like it I can let you have it.

4221. According to Mr. Bridges this £150,000 was in a letter to the Admiralty?—(Mr. Bridges.) I beg your pardon; the Admiralty gave this £150,000 figure to us at a meeting of the Treasury Inter-Service Committee.

4222. And in a letter?—We sanctioned it; we agreed to the proposal and the thing was put in the minutes of the Committee. At a later stage we wrote an official letter, when all the negotiations were finished, giving our sanction and summing up the business, and in our letter of October we quoted that figure of £150,000.*

Sir Robert Smith.] That is my point, that it was mentioned by the Treasury to the Admiralty in October, £150,000, and you have no statement by the Admiralty that that figure was not referring to that but to hutments. It was never contradicted by the Admiralty.

Chairman.] We cannot carry it further, Sir Archibald. There is Mr. Bridges' observation, giving his explanation of the figure given to the Inter-Service Committee; there is Sir Archibald's explanation of what he thinks was the figure.

Mr. Benson.] Where there is such an enormous variation in the possible figures of £150,000 and £250,000 between the spending Department and the Treasury, I think we ought to know how that mistake occurred.

Chairman.] If there are documents available, please let us have them.

Mr. Benson.

4223. I think we ought to have them?—(Sir Archibald Carter.) I can certainly undertake to give you the date of the minute on which this guess of £250,000 first appeared. I will also do my best to trace further the origin of this £150,000 figure, but I am fairly confident, though I am sure it was a genuine misunderstanding, that it was a figure somebody had got into their mind from this guess at the precise cost of the hutments. I am pretty clear that, although we may have misled the Treasury unintentionally, our professional people did not

* See Question 4262.

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volunteer £150,000 as the cost of conversion; but if I may I will verify it and let the Committee know.

Sir *Irving Albery*.

4224. I want to be quite clear on this point, Mr. Chairman: It does seem that the Treasury, when they sanctioned the acquisition of the "Caledonia" or the "Majestic", did sanction it on the understanding (though there may have been a misunderstanding) that the conversion was to cost round about £150,000, very roughly?—(Mr. *Bridges*.) We sanctioned the acquisition and we sanctioned the conversion on the time and line basis, because we thought no other basis was workable. We did not sanction it within an estimate, because no accurate estimate at that time could be framed.

4225. That is an important point?—It is quite true that we had been given this figure, with all reserve, as to what the cost might be, but we did not sanction it on the understanding that the cost was not more than that figure.

4226. Would one be correct in saying that the Treasury sanctioned the acquisition of the "Majestic" and further sanctioned its conversion quite irrespective of what it would cost?—I think that is going a little far the other way. (Sir *Gilbert Upcott*.) In fairness to the Treasury, in sanctioning the conversion they asked to be furnished with an early estimate of the cost. In paragraph 15 I say that the Treasury in sanctioning the conversion asked for an early estimate.

4227. But the point I am trying to get at is a very important one; the Treasury sanctioned the acquisition of the "Majestic"?—(Mr. *Bridges*.) Yes.

4228. They further sanctioned its conversion; there is no doubt about that? Yes.

4229. There was no specific limiting amount put in?—No.

4230. There may be all kinds of explanation for what was done, but in practice it comes to this, that the Treasury did sanction the purchase of the "Majestic" and they did sanction the conversion; they may have asked for estimates to be given to them as early as possible, but in the meantime,

owing to pressure or one thing and another, they did actually sanction the conversion irrespective of what it would cost?—If you will substitute for the words "irrespective of what it would cost" the words "without imposing any upward limit on the conversion," I would accept the statement.

Sir *Irving Albery*.] That is what I mean.

Chairman.

4231. I do not think there is much difference between the two things?—If one says: "irrespective of what it would cost," that might mean millions.

Sir *Irving Albery*.

4232. Where was the "Caledonia" converted?—(Sir *Archibald Carter*.) At Southampton.

4233. Before leaving?—Yes.

4234. About how long did that take?—The work began on the 2nd September and she left Southampton on 8th April.

4235. I understand from what has already been said, that, although the boat was at Southampton, which after all is a big seafaring port, it was not considered possible to get any estimate for carrying out that work there?—I do not think any contractor (unless you were going to open up the ship first, which was a matter of months) would have quoted a figure, any more than our professional people were prepared to give an estimate.

4236. Would not the ship have to be opened up anyway?—As the work was done.

4237. If you were going to convert her, it seems to me that any preliminary work which you would have to do to get an estimate would have to be done eventually, anyway; it seems to me that that could have been done first, and then an estimate obtained?—We would have wasted several months. Time was of the essence of the business.

4238. I do not understand why it would have wasted time?—Our professional people said that to open up the ship and get a real, proper estimate of what it would cost, would have taken several months, and would of itself have cost £50,000, which would have been wasted money if we had decided not to go on with the business.

Sir *Irving Albery*.] That is technical. I must accept that.

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[Continued.]

Chairman.

4239. The last sentence in this paragraph says: "The reply concludes by stating that it is hoped to use the ship for at least 10 years, and that the circumstances in which the total expenditure has been incurred are being reported to the Treasury." I take it that that will be so?—It has been done.

4240. Has the Treasury anything to say at this point?—(Mr. Bridges.) About the 10 years?

4241. About the circumstances in which the total expenditure has been incurred?—We sent a long letter to the Admiralty and asked for explanations as to why the cost had risen so much.

Mr. Benson.] We have not left paragraph 14 yet, have we?

Chairman.] I was just going to say, I think we are now in a position to review the whole of those paragraphs 13, 14 and 15. If you have any questions to ask, will you ask them, please?

Mr. Benson.

4242. What puzzles me is that the statement that the cost of hutments would amount to £150,000, plus certain other expenses, should be regarded as prohibitive, whereas the Admiralty were quite prepared to buy a ship for £140,000 and spend £250,000 on it, making £390,000 in all. Why an expenditure of £150,000 plus should be regarded as prohibitive and £390,000 should be regarded as reasonable for apparently supplying the same accommodation, I do not know?—(Sir Archibald Carter.) The first point I would like to make in reply to that is that, as regards the initial purchase, she was bought practically as scrap. When we have finished with her, she will be again sold as scrap. We can none of us say what the scrap value will be in 10 years' time, or whenever we happen to get rid of her, but there is no particular reason to suppose that it will be anything different from what we bought her at. No doubt Ward's made a certain profit, and you never get quite as much when selling as when buying, but, apart from that, there is no particular reason why we should not dispose of her for what we paid for her. We might get more; the scrap value may be higher. Therefore, except for interest on capital during the 10 years or the whole period of user, one might say, the

purchase value one hopes to get back; whereas, in the case of hutments, their scrap value would be almost nil. In fact, I think you could say, broadly speaking, that the comparison to be made, when you are reviewing the hutments scheme and the "Caledonia" scheme, is the cost of the huts against the cost of the conversion. Frankly, at the time when we made up our minds that we wanted the "Caledonia," the dominant consideration in our minds was speed, but we were also under the impression that it would prove cheaper. Actually, it has proved more expensive, though I think probably not a great deal more expensive. I think just now you said, Mr. Chairman, that you were not sure that you wanted any estimates of what the hutments would cost, but, if the Committee would like to have them, I can let you have them. They are not estimates made at the time the decision was taken, but are estimates made now and framed after some informal consultation with the Air Ministry, who have probably greater experience of putting up hutments than we have. The figures now given are for hutments that would last 10 years. That is, for boys and staff, £310,000, with an additional £90,000 for heating, lighting and drainage, making a total of £400,000, which is not so very much less than the £425,000. If the hutments had been purely temporary (and, indeed, in the initial stages that was really what we were thinking of; it was a much later decision to keep the "Caledonia" for 10 years), instead of £400,000, they estimate now that the purely temporary hutments would have cost £340,000, including drainage, heating, lighting, and all the rest of it; but frankly those are estimates made recently, and are not estimates made at the time.

4243. That means, for housing, £200 per boy—for 2,000 boys in hutments. Is there anybody whose job it is to consider whether you are going to get value for money for any particular scheme?—Certainly.

4244. Or do your technical people decide whether this is desirable? Is the matter decided purely on technical grounds?—No.

4245. Have you any financial machinery?—Certainly.

4246. For weighing up this question?—Certainly.

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[Continued.]

4247. Is there value for money?—Oh, certainly. Any question as big as this would come before the Board with a view to considering the financial merits and demerits of the scheme undoubtedly before the Board took a decision.

4248. Which Board?—The Board of Admiralty.

4249. They have a machinery of financial criticism?—Yes.

4250. It is the Department whose job it is to say: "We do not think this is worth the money"?—Yes. It is primarily my job to do that, with the assistance of my Departments, of course.

4251. Do you consult with the Treasury before you make any recommendations to the Board?—No. As a rule, the procedure is that the Board makes up its mind, says it wants something and goes to the Treasury for sanction, but there are many cases in which, either formally or informally, we consult the Treasury before we put the thing before the Board. But perhaps the more normal course is for the Board to decide they want something, and seek sanction.

4252. Do the Board decide before or after consultation on a financial point?—After; the financial consideration is recorded on all papers before the decision is taken.

Sir Robert Smith.

4253. Might I ask a question: How long was the "Majestic" out of commission before she was bought by Ward's?—I am afraid I could not answer that; I could no doubt get the information.

4254. It is rather important because, if a ship has been lying idle and has not been looked after, naturally things will deteriorate. The cost of reconditioning is very much greater if she has not been looked after?—Quite.

4255. It does not matter to a man who is breaking it up what the condition is, but it is rather a different thing if you are going to use it again. If you are only going to use it for scrap metal, it

does not matter. If she had just come out of commission, her piping must have been in fairly good order?—It certainly was not in good order.

4256. It is much more likely?—I agree.

Mr. Peat.

4257. I was going to ask about the machinery: Why is there this expense on reconditioning the machinery? Is it intended that she should ever put to sea under her own power?—No. I say no; she did move from Southampton to Rosyth under her own power, but we have no precise figures as to that part of the cost of the machinery which was for that purpose, but I am told that it was negligible. It was practically nil. You can take it the whole of the cost of putting the machinery in order was for the auxiliary machinery for heating, lighting, drainage, and things of that kind.

Sir Irving Albery.

4258. Do we understand that she still has propelling machinery in her?—Yes, but I think (I am not quite positive) that we came to the conclusion that, if we ever had to move her again, we should probably tow her; I should not like to be pinned to that statement, but it is highly probable that we should.

4259. Was it imperative that this school should be at Rosyth?—Yes. That had been decided, I think, at a slightly earlier stage, that we really did want a training establishment in the North. We were not at that date quite sure how large it had to be.

4260. Had it got to be at Rosyth?—I think other sites were considered, and that was thought to be the most suitable. I think they considered one or two other places, even when they were thinking of having it as a Shore Establishment. To-day, indeed, we still hope at some time or other we shall have bricks for a permanent Training Establishment for Boys at Rosyth.

(The witnesses withdrew.)

(Adjourned till Tuesday next at 2.30 p.m.)

TUESDAY, 10TH MAY, 1938.

Members Present:

Mr. MORGAN JONES in the Chair.

Sir Irving Albery.

Mr. Benson.

Sir Edmund Brocklebank.

Mr. Culverwell.

Mr. Mabane.

Mr. Pethick-Lawrence.

Sir Assheton Pownall.

Sir Isidore Salmon.

Sir Robert Smith.

Sir GILBERT UPCOTT, K.C.B., Mr. E. E. BRIDGES, M.C., and Mr. H. BRITAIN called in and examined.

NAVY APPROPRIATION ACCOUNT, 1936.

Sir ARCHIBALD CARTER, K.C.B., K.C.I.E., and Mr. C. B. COXWELL, O.B.E., called in and examined.

Chairman.

4261. We continue to-day the Navy Appropriation Account. We were last time on paragraph 15 when we adjourned. You promised to give us some answers to-day, did you not?—(Sir *Archibald Carter.*) Yes. May I, first of all, mention a small point that was asked and I could not answer it at the time, and that was how long the "Majestic" had been out of commission when we bought her. The answer is a shade under six months. As regards the point which I promised the Committee to look up, that was the first date on which anybody made a provisional estimate in writing, that is to say, a real estimate as distinct from a guess, it was on the 21st and 23rd October, 1936. There were two dates, because two different people gave different parts of the estimate, the figure came to £251,000 for conversion. At first sight that looks as if somebody had estimated extraordinarily accurately, but the odd thousand was simply because they knew something small was coming under one sub-head and put £1,000 in, so it is really the round figure of £250,000. That was the first time the Admiralty made any real attempt to estimate the cost of conversion. It is going back a bit to the date at the end of August when the Treasury, at a meeting of the Treasury Inter-Service Committee, sanctioned the project for the conversion of the vessel. At that time, as I think I read out to the Committee on the last occasion, we said in writing, and I think the Treasury accepted it, that we really could not give an estimate. Nevertheless, as was very natural, during the course of the meeting they did ask "cannot you give

us some idea of what the scale of the thing is?" and that figure that was mentioned last time of £150,000 was given. Here, I am afraid, I rather misled the Committee.

4262. The £150,000 was something to do with the cost of conversion?—It was, and here I rather misled the Committee; I am sorry, but, as I say, the estimate I have just referred to was the first thing in writing. For any other figure we have to go back to the memories of people nearly two years ago, so that is the reason why we are not too clear as to exactly what happened, but I, judging from the papers, had come to the conclusion that the £150,000 given had been deduced from the fact that huts had been alleged to cost £150,000, and this was said to be probably cheaper, but I find I was wrong. I have talked to one or two people since, and it is fairly clear there were conversations in the Admiralty before the meeting of the Treasury Inter-Service Committee in which the professional people had said, "We cannot give a cost, but I should think it is something like £150,000," so that for what it is worth that figure was given to the Treasury, I think I might also say that the Treasury, when they wrote confirming the proceedings of the Treasury Inter-Service Committee, although that figure had been mentioned with great reserve, did not in their letter of sanction mention that figure. (Mr. *Bridges.*) I said something to the contrary at the last meeting which was not right. I was under the impression that, in setting out the facts, we said we had been given that estimate; we did not do so in our official letter of October last.

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4263. Have I got it right now, Sir Archibald, that the first figure set down concretely was £250,000 for the cost of the vessel?—(Sir Archibald Carter.) No, for the conversion; there was never any doubt about the cost. The cost was £140,000.

4264. That was in October?—That was earlier; that was in August; the contract was actually placed for the purchase on the 19th August with Treasury approval and there was never any doubt what the price was; it was £140,000 firm. The only issue that arose there was that it was to be paid, not in cash but by other scrap and there was some doubt about the value of the scrap handed over, but there was no doubt about the price itself.

4265. Once we have got over that little controversy, expenditure began to be incurred?—That is right.

4266. It was quite obvious that it was going to cost much more than you originally anticipated, whatever that figure might have been?—That is right.

4267. Could you tell me, if you were in touch with the progress of the expenditure, how it is that the Treasury were not furnished with the early estimate of the cost of conversion scheme for which they had asked? That seems to be implied in paragraph 15, that the Treasury were not furnished with it?—That is so. What roughly happened was that the Treasury's formal request for an estimate came in about the end of October, we sent it to our professional people to say "Do you still stand by your estimate of £250,000?" which I had just mentioned, and they started to go into it; the bills kept coming in and it became fairly clear that we did not quite know where we stood. I am afraid we should have reported to the Treasury that the figure would be in excess of what had been mentioned to them, but we did not know what it actually would be; I am afraid we did not and it was left till a quite late stage when we had some idea of what the final figure was going to be. Undoubtedly we should have told the Treasury that there was a mounting bill but we did not know what it would be. (Sir Gilbert Upcott.) The report to the Treasury followed my raising the question. I raised the question whether the Treasury had received the report. (Sir Archibald Carter.) I think, although we never named a

figure to the Treasury, that this £250,000, as a matter of fact, found its way into the Estimates, because some figure had to be put into the Estimates for the purpose of Parliament, I think the Treasury were aware the costs were going up in a general sort of way, because we had some lengthy informal discussion with them on the question of the permanent buildings at Rosyth, which were then in the picture, and one of the reasons which led us to defer, for some years anyhow, the permanent project was not only the increased estimates for the cost of that but the mounting cost of the "Majestic," so although it is quite true we never gave the Treasury any figure, I think probably informally they were aware, as we were, that we were going to have a considerably larger bill to face for the Majestic than we had originally thought.

Sir Irving Albery.

4268. I want to be quite clear on this point. Did the £250,000 estimate appear in any written communication or was that verbal?—No, that was started as a written document in the Admiralty. What was eventually passed on to the Treasury is the only estimate we then had for our third Supplementary Estimate in 1936; that is when it first appears and appears in the Estimates laid before Parliament. The figure there, I think, is—(Sir Gilbert Upcott.) £391,000 in the 1937 estimates. (Sir Archibald Carter.) The third Supplementary Estimate mentioned a figure of £366,000 for the purchase and conversion, but that was not quite the total figure; it was the estimated expenditure in the financial year, 1936, but was in fact based upon our estimate of £250,000 for conversion. (Sir Gilbert Upcott.) I may just supplement that. The figure of £391,000 appears in the Navy Estimates Programme for 1937 which is no doubt composed of an estimate of £140,000 for purchase and £251,000 for conversion. (Sir Archibald Carter.) That is right.

Sir Robert Smith.

4269. Might I ask if the £250,000 appeared in any Treasury document as a figure?—(Mr. Bridges.) No.

Chairman.] Have we exhausted this subject of paragraph 15? Are there any other questions upon it?

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Sir Isidore Salmon.

4270. Is the £468,000 the total figure for the "Majestic," or are there any further sums due under this head?—(Sir Archibald Carter.) I have a total figure, which was communicated to the Treasury for conversion (this is leaving out the purchase) of £475,453 and I am told that there should be deducted from that a small sum of £3,000 odd for metal or scrap that was sold, giving a net figure of £472,058 for the conversion.

Sir Irving Albery.] For completion?

Mr. Mabane.

4271. Is that a final figure?—That was a final figure for what was paid to Thornycroft's.

Sir Isidore Salmon.

4272. Is there more money being spent on it?—There is Vote 10, expenditure at Rosyth of, I think, about £4,000 in connection with joining up the drainage system to the dock system.

4273. Will that £4,000 complete the "Majestic" in all respects?—I should not like to say that, because since, as part of the cost of the training establishment (I do not think you can link it all necessarily with the "Majestic" as against a permanent building) there have been sanctioned a swimming bath and (Mr. Bridges may remember; I am not sure) I think there is a gymnasium still under consideration, and some further hospital accommodation, I think, still under consideration, but that will all be wanted for the permanent buildings when, as we hope, they are finally put up.

Sir Robert Smith.

4274. Are they ashore, not on the ship itself?—Ashore.

Sir Isidore Salmon.

4275. The £450,000 is entirely on the ship?—That is Thornycroft's bill for the conversion of the ship. (Sir Gilbert Upcott.) That does not, of course, include the cost of acquisition.

4276. The acquisition of the ship itself?—Yes, that cost £140,000.

4277. So that the figure goes to an enormous figure?—£612,000 is the figure for the acquisition and the conversion.

Mr. Mabane.

4278. And £4,000 additional we have just been told about, £616,000?—(Sir Archibald Carter.) I think it is about £4,000 for works really on shore.

4279. They would not be necessary if the ship were not there?—No, they would not.

4280. But that is final?—That is final.

Sir Isidore Salmon.

4281. Sir Archibald, when you bought the ship you bought it with the idea, as you thought, to save money instead of putting up temporary buildings?—That is not, if I may say so, quite the whole story. We were at the time under the impression that it would be cheaper than temporary hutments, an impression which was wrong. How much wrong it is difficult to say, but clearly it was more expensive; but the absolutely dominating factor was the time factor. We were trying to find the quickest way of getting accommodation for the boys and it is clear, I think, now, after the event, that the "Caledonia" was ready and took boys at least six months, possibly eight months, before they would have been ready with any hutments scheme, which has been of enormous assistance to us.

4282. The hutments scheme was anticipated to cost how much?—No proper estimate was ever made of the hutments scheme at the time, but a figure of £150,000 was mentioned and I think I gave some figures last time to the Committee of what our present estimate of the hutments scheme would have been and it comes to £340,000.

4283. Before you decided upon having the "Majestic," as I understand it (I want to be quite clear on this) you came to the conclusion that the scheme of purchasing the "Majestic" would be cheaper than hutments?—We were certainly under that impression.

4284. What estimate did you have for the hutments at that period?—We had again not a proper estimate but a guess at £150,000, again not a written estimate but a verbal guess which, on further investigation, proved was for the boys only and not the staff and did not allow for heating, lighting and things of that kind. It is quite plain we had not before us anything that afforded a real guide as to the cost either of the huts or of the conversion; I think that is plain.

4285. The thing that strikes me on the statement I hear now is that it was rather loosely dealt with?—I think on the financial side one must agree, yes; the dominating factor was the speed, to get something ready for the intake of boys.

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Chairman.

4286. On page 80 of the Navy Appropriation Accounts, Item 79a, "Boys' training establishment," refers to Rosyth and I gather the "Caledonia" is also at Rosyth. The estimate under Item 79a for 1936 is £1,000 and the total for works £750,000. That is entirely separate, is it?—A figure of £750,000?

4287. Yes?—That was the estimate for the permanent establishment on shore.

4288. That has nothing to do with the "Caledonia"?—Nothing whatever to do with the "Caledonia." The original idea was to have the "Caledonia" temporarily to cover the two or three years during which the permanent buildings would be erected and money was put in the estimates for Parliament for £750,000. The subsequent history of that was that we found from the Office of Works that £750,000 was not nearly enough and also that our own bill for the "Caledonia" had been growing fast in the meantime and we got a view that probably we could use the "Caledonia" for something like 10 years anyhow. So we decided to abandon, anyhow for the time being, the project of bricks and mortar at Rosyth, but that £750,000 is what was put in as the first estimate of what the permanent establishment would be.

4289. But that is not being expended?—No, not at all.

4290. Is that abandoned?—It is abandoned for the time being.

Mr. Mabane.

4291. How many boys are there?—There is a certain amount of expenditure on workshops. The "Caledonia" houses partly seamen boys and partly young artificers and there are some buildings ashore and plant for training the young artificers.

Sir Isidore Salmon.

4292. Are the buildings you have ashore of a permanent character?—Yes.

4293. Are they put in such a position that they will fit in the picture when, if ever, you put up the new buildings?—That is so.

4294. It will not mean scrapping any of them?—No.

Sir Irving Albery.

4295. I wanted to ask Sir Archibald if he will remind me what was the date of the purchase of the "Majestic"?—The purchase agreement was made on the 19th August.

4296. And the date of completion of the conversion?—The "Majestic" left Southampton on the 8th April, arrived at Rosyth on the 10th April and the first boys arrived on the 10th May.

Sir Robert Smith.

4297. 1937?—1937.

4298. What number of boys are at present on the ship, about?—On the 1st April of this year there were 1,643 boys on board and 647 staff of all kinds, making 2,290 people on board.

4299. The total complement will be what?—We are rather hoping that one might be able to work up to 2,000, that is to say from 1,643, but it is not quite certain whether it will be advisable to do so. We may be able to work up to that.

Chairman.

4300. Did you say 1,200 boys and 600 staff?—No, 1,643 boys and 647 staff, making a total on board of 2,290.

Chairman.] That is better staffing than in schools.

Sir Assheton Pownall.] More than we have here.

Sir Robert Smith.

4301. You say the boys were put on board in May?—They began to arrive.

4302. What was the number that were put on board when first the ship was used?—15th May, 35 (these are boys under instruction); 12th June, 163; 10th July, 309; 4th September, 619; 30th October, 1,000 odd; they ran up progressively.

4303. Did you have an estimate (you say that you went on in the ship because it was going to be so much quicker) of how long it would take to put up hutments? We have never been given time, we have been given cost?—Yes.

4304. What were the estimates you were given of how long it would take to put up the necessary hutments?—Our Civil Engineer in Chief said about 12 months and the people responsible for heating and lighting said another six months, 18 months; I asked him not at the time, but later, if that was not rather long and he said he might have cut it down a bit, but to cut it down to anything like the eight months of the "Caledonia" he did not say it was humanly impossible, but it would have meant a job of which the costs would have mounted terrifically. In the normal way he said it would be something like 15 to 18 months.

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4305. I understand the Rosyth Dockyard was put on a care and maintenance basis?—That is right.

4306. Were there no buildings when it was a complete Dockyard that might have been turned into temporary accommodation? You were not going to use it as a Dockyard but merely for these boys. There must have been some permanent buildings there which must have been maintained on a care and maintenance basis. Was there never any talk of re-adjusting them?—No, and I cannot imagine that any Dockyard buildings would have been suitable for boys.

4307. I am merely asking the question; we know the Dockyard was there and I should have thought there must have been large hangars and sheds and things of that sort which might have been refitted temporarily for boys; was that ever considered?—I should not like to speak with any first-hand knowledge. I have never seen Rosyth, I can imagine perhaps for a few weeks trying to house boys in that way. If there are buildings, as no doubt there are, as you say, if there are any empty, I can imagine for a few weeks it could be done, but we were contemplating a period of much longer than that, of some years, in preparation for the then contemplated brick buildings. I am pretty sure there would have been nothing suitable in the Dockyard to house boys for some years.

4308. With regard to the "Majestic" you took her over and got her in August and you had her ready for use in the following May?—Yes, that is right.

4309. Was there any statement as to the cost of alterations being greater owing to the demand of having the work completed quickly?—I think, undoubtedly.

4310. What would have been the difference? Say you had taken a year to do her, what would have been the cost? Have you any figure?—No, I am afraid I could not say.

4311. I wondered if your cost had been made higher owing to the fact of expediting the work?—Undoubtedly, and the position was made even worse owing to an outbreak of influenza among Thornycroft's workmen, which put the thing back. There was a lot of overtime paid.

4312. It was just about double what the cost of the hutments would have been?—Well, I cannot say that.

Mr. Benson.

4313. I should like to ask what the Treasury have to say about all this guess work both on the hutments, where the original guess of the Admiralty was about 50 per cent. of the final estimate, and the alteration of the "Caledonia" was a bare 50 per cent., and on the permanent buildings I understand their £750,000 was below the mark. Has the Treasury anything to say as to insisting on more accurate estimates?—(Mr. Bridges.) As regards the cost of conversion we have set out our views in a long letter to the Admiralty. I do not know whether you would like to hear it.

Chairman.

4314. We have not heard that; you had better tell Mr. Benson what was the substance of it?—We wrote a long letter to the Admiralty putting them on their defence on this matter and asking them to explain exactly why the estimate had gone up and whether it would have been possible to have kept better control so as to avoid the cost going up. We have now had a letter from the Admiralty giving their full explanation. I do not know whether the Committee would wish to have those letters put in. They are long letters and it is rather difficult to summarise the whole story.

4315. I appreciate that, and yet I think the Committee has manifested a very close interest in this matter and it would be helpful to the Committee I think, if we had copies of those letters?—(Sir Archibald Carter.) If it is convenient I can hand in a copy now.

4316. Later, if you will; we cannot look at them now?—(Mr. Bridges.) It would take up a lot of time to try to summarise it.

Mr. Benson.

4317. I think it would be better if they were put in; what about future work, are the Admiralty given to guessing?—As regards the permanent work, £750,000, we went into that with the Admiralty at the time when the Admiralty estimates for 1937 were under consideration and the Admiralty have now agreed to postpone that undertaking more or less indefinitely, subject only to this exception, that the Admiralty either are building or have built on land the workshops which are required for training the artificer boys,

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and I think are proposing to build a swimming bath and gymnasium for which room cannot be made on board the ship. Those buildings will fit into whatever permanent scheme may possibly be required at a later date.

4318. The point with regard to the £750,000 was that I gather from Sir Archibald that that also was an underestimate?—I think the position on that is this, that if you look at the estimate you will see that the Admiralty only proposed to spend £1,000 on this work in 1936. Actually, I think that this estimate was put in in order to obtain authority to start the work in 1936.

4319. That is not my point. My point is that there are three capital figures in the whole of this business; there is the £150,000 guess for the hutments, the £150,000 guess for the conversion and there is the £750,000 guess for permanent buildings; all three apparently have been underestimates. Two of them turned out to be very considerable underestimates. The question I want to raise is how far are the Admiralty accustomed merely to submit guesses for this type of work? How far do the Treasury insist that they shall attempt to estimate accurately on these things?—I think you could say that we do our best, when figures are submitted to us, to make sure that they really are estimates which have been properly prepared and can be regarded as reasonably firm estimates. I think in this case of the alterations, admittedly it is true that the discrepancy is very wide, but it is the type of case which is probably the most difficult to estimate and it is for that very reason that it is impossible to arrive at a price or to place of tender on a fixed tender basis.

4320. I can understand that, as regards the "Majestic," but not as regards the hutments?—As regards the hutments I do not think it is unfair to say that the Admiralty at the outset formed the opinion that the cost of hutments was going to be very much larger than, or substantially larger than the cost—

Mr. Benson.] Again that is not my point. My point is that their guess was £150,000 and their ultimate careful estimate was £340,000.

Sir Irving Albery.] On a point of Order I only wanted to ask you, Mr. Chairman, whether, in view of the fact that these two letters are now going to be put in and, as they will obviously

cover a lot of questions which might be asked, and, furthermore, that other questions may arise from those letters, would it not really in the long run be a saving of time and to the convenience of everybody if we adjourned the discussion on this particular matter until we have had the letters?

Chairman.] It is scarcely a point of Order. It would be more convenient for us, no doubt, if we were sure that we should have to call Sir Archibald back again, but I was rather hoping that we should conclude his examination this afternoon, and, in that case, we shall not have an opportunity of cross-examining Sir Archibald and the Treasury again this year, unless we ask for him back especially for the purpose. Mr. Benson, I am sure, sees the point that if we are to have the correspondence, as we have already decided to do, and if, as I rather fear now it might be necessary to have Sir Archibald back again, then it would be more convenient to postpone the cross-examination.

Mr. Benson.

4321. I quite agree?—(Mr. Bridges.) I would say that we did not deal with the hutting point in our letter, so I should be getting out under false pretences if I suggested that we did.

4322. We will not let you get out under any pretences at all?—(Sir Archibald Carter.) May I say one thing about the £750,000 for the cost of the permanent buildings? I think that what we intended in 1936 was to get on with the surveying and plans and things of that kind and put in £1,000 for that purpose, but we had to put in some figure of the total cost at that stage; the plans had not been properly drawn up and it was decided at an early stage that the work, if done, was to be done by the Office of Works, and our £750,000 was only for the purpose of putting something into the Parliamentary estimates. The final figure had not been approved.

Chairman.] If you agree to postpone it, perhaps we had better pass on from that point now and return to it later when a convenient opportunity offers itself?

Mr. Benson.] Yes.

Mr. Culverwell.

4323. The only point I wanted to ask was not on the question of the cost, but on the question of the staff. Why is it necessary to have 600 to look after

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1,600 boys?—These are of all kinds from Naval Officer instructors down to sweepers. It was an omnibus figure of every kind. I believe I have some comparative figures. I do not know whether they would be of any interest to the Committee; I have some comparative figures of the number of staff per 100 trainees at three or four of our biggest training establishments. This is the number of staff per 100 trainees, "Caledonia," 51; the "Ganges," that is at Shotley, 28; "St. Vincent" at Portsmouth, 44; and the mechanical training establishment at Chatham, 36.

4324. Are they carrying out different classes of work; they are not all training the same type of boy?—Subject to correction I think the "Ganges" and the "St. Vincent" are seamen boys only; I do not think there is any mechanical training establishment there. The Chatham one is only a mechanical training establishment. The "Caledonia" is a combined one; I think it has roughly two seamen to one mechanical trainee—no, seamen boys, 1,289; artificer apprentices, 341; those are the figures.

4325. Would not it have been better to have combined the same class of training under one roof and have all the artificer training in one place and all the seamen training in another? Would not that save your staff considerably?—I think there is great congestion at Chatham; I do not think we could have extended our mechanical training at Chatham.

4326. Is it mixed training at Chatham?—Yes.

4327. You have seamen training at Chatham?—No, that is only the mechanical training establishment at Chatham and we definitely wanted a place in the north and one wanted to tap Scotland as a source of supply, undoubtedly.

4328. I am not in a position to speak, but it seems a very big percentage of staff to people?—I agree.

Sir Assheton Pownall.

4329. On that same point could you give us the main categories of the 647: how many, for instance are teaching and how many are, may one say, charladies?—I think I had better send you in a return on that.

4330. It seems such a very high figure of nearly 50 per cent.?—I have some figures here.

4331. I think it was 647 on 1,600?—I think the figures I gave you (we had better not have a misunderstanding about this) were for the staff actually living in the ship; there are some ashore.

4332. If Mr. Bridges in the Treasury Minute is going to show that this question has been raised I will postpone it?—(Mr. Bridges.) No, it will be simply on the cost of conversion.

4333. This is quite a different point: the question of staff?—(Sir Archibald Carter.) As we are handing in the papers, would it be more satisfactory if I let you have a Table showing the staff?

Chairman.

4334. I thought you said the 600 were merely the people on board ship?—That is right.

4335. There are also some people on the shore?—That is right. The position on the 1st April, this year, is 1,643 boys on the ship, 647 staff on the ship, that is, 2,290 living on the ship, and 179 staff living ashore.

Sir Assheton Pownall.] That is just the 51 per cent. that you mentioned.

Chairman.

4336. What is the total staff?—826.

Sir Assheton Pownall.

4337. It is just the 51 per cent.?—Yes, 51 per cent.

Mr. Mabane.

4338. There are three questions I would like to ask arising out of that. We were told that it would take 15 months to erect the temporary hutments. Could Sir Archibald tell us why that length of time was necessary? Was it due to the absence of labour in the locality? I have recollections of hutments being built during the War at some more rapid speed?—I was looking round to see whether Mr. Anderson, our Civil Engineer in Chief, who was coming for a later part of the Votes was here, because he would give you a more informative answer than I could; as I said earlier I did ask him about it and he said the time could have been cut down but only by rush tactics which would have cost very much more.

Chairman.] This is not the only opportunity you will have of raising it.

Mr. Mabane.

4339. I raised it because of the cost of the hutments. It seems to me to be almost cheaper to build a permanent

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house for every two or three boys. The third point is whether the Admiralty had made an estimate of the capital cost per year per boy of this venture, that is to say, a matter of £616,000 has been spent. It is going to endure for ten years. I wondered what the capital cost per boy per year was?—I am afraid I have not done that sum, but I might perhaps on that point mention again, as I think I remarked before, that we may, when we finally get rid of the "Caledonia," get back to something like our original purchase price. The scrap value may be very much what it was when we bought her, so I think on that part of it it would be fair to take the interest on the purchase money over ten years.

4340. I make it work out at about 30s. per week per boy capital cost?—That may be so.

Sir *Assheton Pownall*.

4341. You will get back the scrap value not the conversion?—No, the scrap.

Sir *Isidore Salmon*.

4342. On the question of numbers, if you had had hutments for training these lads, would the staff have been as large or smaller than on board ship?—It is frankly a case which I should like to confirm but I think it would have been somewhat smaller, but how much smaller I should not like to say.

Sir *Irving Albery*.] I want to raise one point if you consider it is in order. Could we have some explanation as to why there has to be a staff of 826 for 1,643 boys? From the pure point of view of economy the personnel must play a very large part both in the building and in the general upkeep. This is not the first time the question has cropped up but this is rather a striking example and I think it would be useful if we could have information.

Chairman.

4343. I thought that was the drift of the questions but you put it specifically so perhaps Sir Archibald will answer it?—May I be allowed when I hand in the Tables classifying the staff roughly, to put in any comments I may have on that point?

Sir *Irving Albery*.

4344. May we have some information as to what system of control there is at the Admiralty on the question of staff?

—I can say that as regards the teaching staff there is a fixed establishment depending on the nature of the training, which applies in all our establishments. That is laid down. I think, particularly with the more subordinate staff, it is hardly possible to do that, and I think it is worked out as to the apparent needs of the establishment, I cannot say that there is anything hard and fast laid down about that, but there is as regards the teaching staff.

4345. Would that mean that whoever was in charge of a training establishment gets whatever staff he asks for?—No, certainly not.

4346. That is what I want to know?—It requires to be sanctioned by the Admiralty certainly.

Chairman.

4347. Before I pass from this I should like to make this request, if you do not mind? If we are not able to conclude your business this afternoon, I have it in mind to suggest to the Committee that we should take you next Tuesday afternoon, that is a week to-day?—Yes.

4348. Would you therefore, if we have to decide to follow that course, please give us these returns in good time for that meeting?—Yes.

4349. It can be done, I take it?—Yes.

4350. We pass, please, to paragraph 16, "H.M.S. Vulcan." The last sentence in this paragraph says "The Admiralty are now investigating the reasons for the large excess over the original estimate." Has the reason been ascertained?—To tell you the truth I am a little puzzled as to what Sir Gilbert meant by that sentence. I do not know quite what he based it on, it looks as if there was something we did not know all about, but perhaps Sir Gilbert could explain it. I was a little mystified by that sentence.

4351. Sir Gilbert is here?—(Sir *Gilbert Upcott*.) I think I have often explained to the Committee that in preparing my reports, one of my first pre-occupations is to ensure that there should be no dispute at this Committee about the facts, and, for that reason it is my practice to send a draft of the report to the Accounting Officer in proof stage and I did so in this case. This paragraph is based on information which appeared to emerge from the Admiralty papers as a statement of fact. Sir

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Archibald did not take exception to it as a statement of fact; I can therefore only say that I understood that to be the case, that the Admiralty had asked for a report as to the causes of the difference between the estimate and the actual expenditure. (Sir Archibald Carter.) I thought Sir Gilbert might be able to explain exactly what he had based it on, but I think this is merely based on a note on the files that it would be useful to have an analysis showing how the excess was made up; I speak subject to correction by Sir Gilbert but I had assumed that that was what he meant.

4352. Might we assume that, even if Sir Gilbert had not made this reference, the Admiralty would have made an investigation?—Yes, certainly.

4353. Have they?—Certainly. It is the word "now", if I may say so, that is a little misleading. I do not know if you would like me to say very shortly what is the story about this ship?

4354. Please?—This, I think you can say, is really an experimental service, it is the depot ship for the motor torpedo boats, about which a certain amount was said in Parliament not long ago. When it was decided to send the first flotilla of six to the Mediterranean, it became plain that they wanted a depot ship for spare torpedoes, spare engines and the like. In the early stages it was not too clear what the requirements would be. We came to the conclusion that probably the best thing would be to buy a trawler and convert it for the purpose. We went to the firm that built the trawler to do the conversion because, I think, probably quite rightly, we thought they would do it both more quickly and more economically than anybody else. Our original estimate of £7,000 for conversion was, I am afraid we must admit, before all the staff requirements for this new type of depot ship had really been fully worked out. As regards the method of placing the contract, that is to say, the contract for conversion, we gave them our initial requirements and the firm tendered a price and said they would give us full facilities for satisfying ourselves as to the reasonableness of the price. As the work went on, our requirements were altered and we added a good deal of additional work which was not in the original specification at all. About the time the work was concluded we had still not finally agreed

the price with the firm for the original work for which we had tendered a specification, and we came to the conclusion that it would be more economical to settle on a cost plus percentage basis. The firm had disclosed, as far as I know with complete willingness, when we were investigating their original tender price for the first part of their work, that they were working at a margin of so much per cent. profit and a lower percentage on sub-contracts. They agreed what seemed to us the most suitable way of dealing with it, that they would charge a lower profit on the contract, which was no doubt bigger than they had originally tendered for, and also a lower percentage on sub-contracts, that is to say, they reduced their rate of profit and it seemed to us, as (1) the original rate of profit was high, and (2) we had added a good deal that was not in the original contract price, that that was the most satisfactory way of dealing with it.

4355. Do I understand that the whole cost of this scheme is not £31,696 but really £50,000?—Yes.

4356. Because you have to add that original £19,000 to the £31,000?—Yes.

4357. On that phrase "in view of the extent of extra work" could you tell us who it is that orders that extra work?—This would probably be a combination of the Naval staff and the professional and technical people, that is to say the Engineer in Chief's Department and the Director of Naval Construction. They would work together but, as I say frankly, this was the first time we had done this, and I think they rather improvised; as they went along they found they had to provide for other things they had not thought of. It was really the first ship of its type.

4358. It conveys an impression which I had from the discussion arising from paragraph 15, and here it is on paragraph 16 again. You estimate for a particular job to cost X pounds, then you find the extras are mounting up. I may be wrong but I do not feel satisfied that there is anyone in your Department who acts as a sort of financial critic and says, "This thing is getting too expensive; cannot we get this a little cheaper?" Is there some machinery of that kind in the Admiralty? I have a feeling that there is not; I may be wrong?—I think I can certainly say "Yes," but the most difficult cases we have, I think,

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are these conversion cases. Until you have started on them you never know what they are going to cost and once you have embarked on them, of course, in theory, there might be a case where the most economical thing would be to cut your losses and try some other plan but I should think that must be very, very rare indeed.

4359. I do not mean cutting your losses; you may feel you are bound to get the job done and I do not object to that, but my feeling is that, even though you have to get the job done, you see that it is going to cost much more than you anticipated. Is there someone who can step in and say "We must get this job done, granted, but cannot we get it done more cheaply?" ; is there someone there who will act as a financial censor, so to speak?—We certainly had in the case of the "Majestic" a resident overseer there all the time whose job is to make sure that the thing is done as cheaply as possible.

4360. Do not you, or someone on your behalf, go into it, cannot someone refer to you and ask the Chief at the Admiralty whether this job could not be done more cheaply, or is someone given *carte blanche*?—No, certainly not. Additional requirements would require to be approved; but the difficulty in the middle of a conversion job is that you do not know probably what the total cost is going to be. We frankly dislike conversion jobs and, for that reason, wherever we can we do them in the Dockyards where there can be no possible suspicion that anybody has inflated the cost unnecessarily, but they give us more trouble from that point of view than any other class of job, because you cannot tell until the work is finished what it is going to cost.

Sir *Isidore Salmon*.

4361. Is not the fault here one of lack of co-ordination as to what the requirements really are? It does strike one as an extraordinary thing that you do not provide sufficient staff accommodation. Surely in the initial stages I should have thought that would have been essential if there was somebody co-ordinating all the requirements that are necessary. On the Chairman's point, so far as checking the financial side is concerned, I should have thought one of the most important things to check was to have someone to see that before a final estimate is given, you have

really a list of all the requirements necessary before you can possibly arrive at an estimate, and here, it seems to me, there was a lack of any co-ordination as to what your requirements were from section to section of the Admiralty?—As I think I said, in the case of the "Vulcan" I think it was rather an improvised job, they did their thinking as they went along; it was a brand new job providing this depot ship for the motor torpedo boats and I think they did their thinking as they went along.

4362. Is there or is there not anyone held responsible to pass a scheme and to see that all the requirements of the different sections of your Department are embodied in that scheme?—Yes.

4363. There is someone?—Certainly.

4364. There is a definite officer for that purpose?—I would not like to say that.

Sir *Isidore Salmon*.] Then what does it mean when you say "Yes." I do not want to press this point unduly, but it strikes me that the only way you will ever get to the bottom of this is to go into the detail of it, and surely the real crux of the thing is, is the organisation of such a character that you have someone that you can look to to say "You ought to have seen this before you passed it out to be estimated for"? If businesses were run on these lines I am afraid a lot of them might be in Queer Street.

Chairman.

4365. Will you look into that matter?—I will certainly; the trouble is we cannot abandon the job because it costs more than we thought it was going to.

Sir *Isidore Salmon*.

4366. I am not now discussing the question of cost at all. I say before you arrive at your cost you ought to know what your requirements are?—I agree, and ordinarily we do, of course.

Mr. *Mabane*.

4367. These conversion jobs are extraordinarily difficult jobs to estimate accurately, I gather?—Yes.

4368. May I ask if there is any case on record of the cost of the conversion turning out to be less than the estimate?—I should not like to answer that.

4369. There is this feature about these cases that the difference between the estimate and the cost is that the

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cost is approximately four times the amount of the estimate?—I should think that is a coincidence.

4370. There might be some factor like that which might be useful to multiply an estimate by, if you see what I mean. I wondered if there was a case where the cost of conversion had ever turned out to be less than the estimate?—I should not like to say off-hand. I should think there probably have been some.

4371. It would be fortunate if the estimate for conversions was always about the same degree below the actual costs. It would seem to me to be a greater help to the Treasury if they could know that?—I think you can generally say that when you open up an old ship she is worse than you thought.

Mr. *Mabane*.] My point is that you might not think so, if you know it is going to be worse than you thought.

Sir Robert Smith.

4372. I would like to go back to Sir Isidore Salmon's point with regard to this question of who designs the boat or finds out what are the requirements. Supposing, instead of converting this trawler, you had decided to build a new ship, surely you would then have known exactly what your requirements were going to be and the work would not have been altered and made to suit various Departments, as you went along?—That is so, certainly.

4373. If you can do it in the case of building a new ship, why cannot you do it in the case of conversion?—The "Vulcan" had rather special features; as I say I think some of the thinking was done as they went along, but ordinarily the trouble, as in the case of the "Majestic," is not so much a variation in the requirements as that you find the ship in a different condition from what you expected. If you are building a brand new ship you can estimate what the cost of your labour and material will be.

4374. What was the size of this boat, what were her dimensions?—That I have not got; it was a fairly normal trawler.

4375. A trawler is about 80 to 120 feet or even more. They vary very much?—I think it is possible that a current Navy List may give it, but I am afraid I have not got one.

4376. What age was she?—That I am not sure that I have got; 623 tons.

4377. Is that her net or gross tonnage?—(Mr. *Coxwell*.) Standard displacement.

4378. They are not very large ships and surely the cost of finding out the condition would have been a very small figure?—(Sir *Archibald Carter*.) I said in the case of the "Majestic" and what is the usual difficulty is that you do not know what the state of the ship is. In the case of the "Vulcan" I think there is no suggestion that she was in a worse condition than we had anticipated. It was a case of ourselves adding fresh requirements. As I say, we were doing our thinking as we went along.

4379. With regard to the main machinery for propulsion of the vessel, was it altered in any way or was it not?—I am not sure that I could answer that off-hand, but I do not think it was. I think one of the great troubles was arranging proper stowage for the spare torpedoes and spare engines. Subject to correction, I do not think there was any alteration in the propelling machinery. I have a list of various things here, but I do not think there is any suggestion that the propelling machinery was materially touched.

4380. Have you any idea of what the complement of her crew would be when she was finished? How many people would be on this boat?—I am afraid I have not any particulars here. I could get them for you, but I am afraid I do not know.

Mr. Benson.

4381. I should like to know why a trawler was bought and converted; the cost apparently to buy was £40 a ton second-hand and, on page 25 of the Dockyard accounts, we have 20 trawlers there and their average cost to build new is apparently only £40 a ton. This boat complete seems to have cost over £80 a ton after it has been altered?—I think it is plain that if we had built a special ship, for which there is something to be said, she would not have looked very like a trawler, that is if we had designed and built a ship specially for the purpose; but I think your first point was that the cost of purchase apart from the adaptation, was about the same as a new trawler.

4382. £19,000; it cost £30 a ton to build; so far as I can tell, by rough

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calculation, the trawlers you are building cost approximately £20,000 each, £23,000 and they are approximately the same size. You paid for a second-hand ship here £19,000 and I assume you did not very greatly increase the burden, or whatever you call it?—No.

4383. Eventually it stands at £50,000 as against a new ship, £20,000?—I am afraid I have not got here how old she was. I ought to know, but I am afraid I do not know whether she was practically a new ship when we got her or not. I am afraid I do not know.

4384. Why take a ship and alter it instead of building a new ship? You say it would not look very like a trawler; I do not know whether looks matter?—Perhaps I was using rather loose language. What I meant was if we had decided to design and build a special ship for this purpose, as we may do I think at a later date if we get many more motor torpedo boats, it would not have been designed on the lines of a trawler. We thought the best thing to do was to take a trawler which we could buy on the spot—there was that advantage—and get it quickly.

4385. What saving in time was there between building *de novo* and buying and altering?—I should not like to say, but it must amount to several months.

Sir Robert Smith.

4386. Might we have the question asked directly: how long the alterations took?—That I have got. They began work, I think (at least they accepted the order) on the 24th July, 1936, and she was finished some time in April, 1937; I have not got the exact date in April.

Chairman.

4387. Nine or ten months?—Yes.

Sir Robert Smith.

4388. It would be quite possible to build a vessel easily in that time of that size?—I should not say it was impossible.

Mr. Benson.

4389. Were there any very special fittings that would raise the price per ton to something like £80?—Yes, I think there were. They had apparently to fit special derricks for lifting the sterns of the motor torpedo boats.

4390. What do they cost?—I have not got a separate figure, I am afraid; it is

available in the Admiralty but I have not got it here. They had to re-plan the space entirely to make the space for the spare engines and the torpedoes.

Chairman.

4391. Have you any assistants with you who could give that information to Mr. Benson?—I am afraid not. I could give you, if you would like, a table of the make-up of the work, certainly.

Mr. Benson.

4392. Has the Treasury investigated in detail this cost?—(Mr. Bridges.) No, we have not. I should explain that this case really only came to us because it involved an alteration in the new construction programme for which our authority was required. This type of job is the sort of job in which the Admiralty obtain Treasury authority for the amount of money required in the estimate, but they do not normally come to us for sanction for each and every of a large number of individual jobs which go to make up the total estimate.

Mr. Benson.] I think in view of what appears to me, an entirely ignorant person on the matter of ships, that the cost per ton of the finished job is so high, that we might have a detailed report from the Treasury or some investigation as to why the cost was high and if that cost was justifiable.

Chairman.

4393. I see no reason why you should not ask the Treasury for a report of that sort, but a much more pertinent thing would be to ask Sir Archibald?—(Sir Archibald Carter.) I think we should be in a better position to provide the information.

Mr. Benson.

4394. Sir Archibald, if I may say so without disrespect, is on his defence and I was suggesting the Treasury as an independent body?—(Mr. Bridges.) If we were asked we could only, in the first place, ask the Admiralty to give us what figures they could and possibly see if we could get any other information to bear on it. But we should have to go to the Admiralty in the first place.

Mr. Benson.] Certainly.

Sir Isidore Salmon.

4395. You have the advantage of the Admiralty Dockyard in acquiring a ship of this sort. Did you ever ask their

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advice as to the pace or the speed at which they could have delivered you a boat or the cost of a boat such as you required?—(Sir Archibald Carter.) I think probably it was not because we were under the impression if we could buy a trawler, which we could get at once, it would be much quicker to go to the original man who built it.

4396. That I quite understand if you decided to buy a second-hand one, but in deciding whether to buy a second-hand one and convert it do you enquire of the Dockyards how long it would take to build a new one, or the cost of building a new one, as against the cost of buying and converting a second-hand one?—We had bought trawlers before; I am sure we had comparative figures of the cost of building and the cost of converting. It is not the first time by a long way that we have bought a trawler.

Mr. Benson.

4397. I would like some detailed information?—Certainly.

Mr. Benson.] I do not know what to ask for, but I want something.

Chairman.

4398. Mr. Benson, I wonder if I may say this at this point and I hope the members of the Committee will support me in saying what I do say. I think we all feel that this thing requires much more ample justification than we have yet had, Sir Archibald. Would you please look at this thing in the light of the questions that the various members have put to you and I think we shall have to return to it next Tuesday when you come back. I think we cannot leave it where it is. Perhaps you will prepare for further cross-examination on this point next Tuesday?—Certainly. As I understand it, what the Committee would like is the cost per ton of the trawler as originally purchased; the cost per ton of her as finished; the cost per ton of other trawlers we bought second-hand; the cost per ton of trawlers we built; and, if I can get it (I should not like to promise this), what our Director of Naval Construction would estimate we should pay for a ship designed for the purpose and built in our own Dockyard. I am not sure that I can get that by next Tuesday, but I will do my best.

Chairman.] Yes.

Mr. Benson.] One wants to know why the work was done and why it cost so much. Is the boat as finished an £80 a ton type of boat or is it not?

Chairman.] It is still second-hand.

Mr. Benson.

4399. I am thinking of the accommodation. Various types of ships cost different amounts per ton. Cruisers cost £200 a ton. I think motor boats cost £100 a ton; a trawler costs £40 a ton?—I suspect you will have to invent a new category for it, but we have other types of depot ships that might be comparable.

Sir Robert Smith.

4400. It is said that you finally did the work on a cost and percentage basis; did you go on to that basis at the request of the Admiralty or at the request of the firm that built the trawler and did the alteration?—It was our own suggestion. I might add as a comment to that that till the work was finished the contractor had no idea that we should suggest a cost and percentage basis. He was under the impression the whole time that it would be on a tender basis and he had tendered for a part of the work.

4401. He had tendered for it?—He had tendered for our original requirements and we were investigating the fairness of that price; we had not concluded our investigations as to the fairness of his original tender; in the meantime we had added additional requirements for which he had had no opportunity of tendering, so we were faced with the position at the end of the work of accepting his tender for the part that he had tendered for and our additional requirements would have been difficult to deal with on anything except a cost plus percentage basis. We then suggested to him that we would deal with the whole thing on a cost plus percentage basis on the condition that he would cut down his original provision for profit on the bit for which he had tendered and that the reduced figure should apply to the whole, but he had no idea that we should suggest a cost and percentage basis.

4402. You say he had finished his work before he knew he would be paid on a cost and percentage basis?—Just about or very nearly.

4403. What was the tender? What was the final tender?—There never was a final tender; the tender I think was

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£15,000 for our original specification and he tendered another figure for some small additions of £19,000; that was as far as we had got.

Mr. *Mabane*.

4404. How does that accord with the Admiralty's original estimate of £7,000? Now you tell us the tender was £15,000?—The original estimate of £7,000 was before we had been to the contractor at all.

4405. Surely the Admiralty's capacity for estimating is not to be set on that basis, is it, that the Admiralty estimate the cost of work at £7,000 whereas in fact, that work is going to cost £15,000? That would imply a grave criticism of the estimating capacity of the Admiralty?—As far as I can make out the original £7,000 was on the basis of converting some other trawlers we had built for an entirely different type of work and, I think, there was frankly a blunder there. That was the figure that was mentioned to the Treasury, but I think that was the basis, somebody had got out a figure for converting another trawler, but at this stage we had not formulated our full requirements for this ship; there is no doubt about it.

4406. Here is an original estimate of the work to be done. That work is estimated by the Admiralty as stated here at £7,000?—I am not sure that at the time we went to the Treasury (Mr. Bridges pointed out that it was rather an accident that we did) the requirements had really been got out at all; we had merely decided that we must have a depot ship.

4407. I take it this is an accurate statement of fact, that the Admiralty's estimate was £7,000?—That is what was mentioned to the Treasury.

4408. That is an accurate statement of fact?—Yes, certainly.

4409. Then those plans on which that estimate was based?—I do not think there were any plans in existence at that stage.

Mr. *Mabane*.] I give it up.

Sir *Robert Smith*.

4410. Your extra requirements were 100 per cent. greater than your estimate for what you originally thought was necessary, not your £7,000, your £15,000 and it costs £31,000, so that your actual requirements for your alterations or extra bits was 100 per cent. greater than

your original estimate, and your designers or people who design things did not know to within 100 per cent. what their requirements were?—As I said, I rather think in this case they improvised as they went along.

Sir *Robert Smith*.] 100 per cent. is a very big thing.

Chairman.] We cannot carry it any further if it were 150. Shall we pass on to the next paragraph, paragraph 17.

Mr. *Mabane*.

4411. On the very point that was raised originally, the last sentence: "The Admiralty are now investigating the reasons for the large excess over the original estimate", I think Sir Archibald desires us to understand that that is not correct. The Admiralty are not now investigating the reasons?—We knew all about it beforehand. So far as I can make out Sir Gilbert's paragraph was based on a remark on a file, that it would be convenient to have collected together an analysis of the items on which the excess was arrived at, and that is what was asked for, but I have not brought it with me.

Chairman.

4412. As soon as you made that observation I asked you myself whether, in the event of Sir Gilbert not having made this observation, you would have made an investigation?—Certainly.

4413. You said "Yes"?—So far as I know the date of the note which I think this is based on was a good many months ago now.

Chairman.] Yes.

Mr. *Mabane*.

4414. This is dated 11th March?—(Sir *Gilbert Upcott*.) My report was written some time ago and at that date I understood the Admiralty were enquiring as to the causes and had not then received the statement of them. (Sir *Archibald Carter*.) The "now" does not refer to the 11th March. (Sir *Gilbert Upcott*.) I have not seen any detailed explanation of the causes of the excess expenditure.

Chairman.

4415. We are going to come back to that at the next meeting, I believe. Paragraph 17, "Misappropriation of cash by Paymaster-Commander". Sir Archibald, how did this astonishing failure

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occur?—(Sir Archibald Carter.) It is a very curious case, Mr. Chairman. This Paymaster-Commander was apparently a very efficient officer whom everybody had known for many years. He was a quiet individual and it never crossed anyone's mind that he was dishonest; I do not think to this day anybody discovered what made him go off the tracks, but he committed a series of rather clever frauds extending over about two years and he succeeded in getting away with it until he finally left. Then in the Admiralty it was discovered that there were discrepancies between two closing figures. By that time he had come home and retired and he was arrested and taken out and tried. Subsequent to his Court Martial there was a Court of Inquiry into the accounting methods on the "Tamar", the depot ship, extending over that period. It became plain, I think, from that Court of Inquiry, that the officers whose duty it was to impose the periodical checks had treated it, as far as one could make out, as rather a matter of form. It was plain that they had not delved very deeply into it. I think this is the best point at which to observe that the distinguished accountant officer who both conducted the prosecution and also sat on the Court of Inquiry afterwards, analysed about 20 different methods of fraud which the Paymaster-Commander had employed and was of the opinion that about half ought to have been discovered with any reasonable care and about half of them were really very difficult for anybody to discover who had not any suspicions aroused, but certainly in a good many cases the frauds ought to have been discovered, there is no doubt about it.

4416. That is the next question I was going to ask you. Apart altogether from the fact that the Paymaster-Commander himself, who was deemed to be eminently trustworthy, was found not to be, there were not only two commanding officers but eleven others, including four accountant officers, who had participated in this duty during the two years over which the defalcations extended. It is an astonishing thing to me that all these four accountant officers should not have discovered some of the easy ones, apart from the difficult ones. There it is. I want to ask a question on the first sub-paragraph of paragraph 18 which is dealing with the

same thing. That deals with the penalty. Was it the Admiralty's view that a pecuniary penalty was not a suitable form of punishment?—In this particular case they came to the conclusion that on the whole they would limit it to a censure.

4417. I would like to have one thing clear. You see the words there are somewhat particular: "That a pecuniary penalty is not a suitable form of punishment for officers incurring indirect responsibility for losses of this nature." Is the emphasis on the word "indirect"?—That again, I think, is an expression of opinion of Sir Gilbert's in a way, but we fully admit what I think was the cause of dispute in 1895, that officers who, by their contributory negligence, allow losses of this kind to occur, are undoubtedly liable and indeed, in theory, are liable in full. I think actually, in practice, it would have been entirely out of the question to exact the whole sum, but the Admiralty did consider very carefully whether they should in a sense be fined, that is to say, that a month's pay should be deducted or something of that kind, and they came to the conclusion that on the whole the right course was to censure the officers.

4418. Do I take it that that was the full penalty imposed by the Admiralty, that they censured them?—That is right.

4419. But that does not apply to the Paymaster-Commander?—No, the Paymaster-Commander was sentenced to two years' imprisonment.

4420. But it applies to the other officers?—Those were the executive officers, or accountant officers who were responsible for applying a periodical check. (Sir Gilbert Upcott.) I might explain that my paragraph 18 relates to the officers, who were guilty of negligence in making the checks, and not to the officer who committed the frauds.

4421. We were dealing with paragraph 18. I think the last question was what was the nature of the disciplinary action that had been taken in respect of, not the officer concerned in the defalcation, but the others who were indirectly responsible for passing the accounts. Will you repeat your answer?—(Sir Archibald Carter.) I ought to qualify it by mentioning that one other officer was removed from the Service, but his conduct was a great deal more unsatisfac-

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tory. There was some reason to think he had been mixed up with fraud, but the others received a formal censure from the Board of Admiralty.

4422. Apart from the formal censure, nothing happened?—No, but, of course, it goes into the records of the officer for all time.

Sir Irving Albery.

4423. May we know whether the other officer was an accountant officer?—The one who was removed, yes, he was.

Sir Isidore Salmon.

4424. Would you explain the difference between what you call the accountant officer in this connection and an officer who has just to look through the accounts periodically?—The Paymaster-Commander in question was the accountant officer of the "Tamar," which was a depot ship, and he was responsible for all the accounts both of the "Tamar" and a good many other ships. He was the focus; he had a good deal of money passing through his hands. As in the case of all ships, the commanding officer is required to carry out a monthly verification of the balances and, not less than once every quarter, an uncertain check; but he is empowered to depute that duty to other officers, if he cannot himself perform it, although, as a rule, he is expected to. It is realised that at a base it is very often more convenient to depute it, and I think that applies to this case. On two occasions a commanding officer carried out the check and on all other occasions he deputed it and he can depute an executive officer or an accountant officer according to who is available.

4425. These officers have not great experience of handling money?—The executive officers have not.

4426. They are put on to make a preliminary check. What form does the check take?—That is really relevant to paragraph 19. One of the troubles was that we had rather elaborated our rules, and had got into the position where the unfortunate Captain, or executive officer deputed for him, was meant not to do an audit in the sense in which Sir Gilbert would understand it, but was meant, not only to check the balance, but to say that it was a right balance.

4427. To link up the money?—Yes, to link it up. We have since come to the conclusion that it is really rather more

than can be expected, and we have agreed, as I might be allowed to describe with reference to paragraph 19, to change the system.

Chairman.] I would rather like to get that deferred, if you do not mind.

Sir Isidore Salmon.] Certainly.

Sir Irving Albery.

4428. You said that the commanding officer checked it twice, but would you agree that as a general practice, he most times deposes it?—Yes, in this instance.

4429. Is there any regulation as to the rank of the person deputed? Would the checking officer frequently be junior in rank to the officers whose accounts were being checked?—Yes, quite often.

4430. Is not that in itself undesirable?—When I say, "quite often," perhaps "occasionally" would be a better word to use but it does happen, and it is awkward.

4431. In this particular case, you told us the accounts were more often than not checked by an officer who was junior in rank to the Paymaster-Commander?—I should not like to say "more often than not," but in a certain number of cases, it would be so.

4432. If it was not the junior, who would be likely to be the senior in rank who would get that duty put upon him?—I have not a list with me of the ranks.

4433. I do not want to worry about it?—I am frankly guessing from recollection. I should guess that on about two-thirds of the occasions it was an officer of about equal or senior rank, and on about one-third of the occasions an officer of lower rank; but I am only guessing. I could easily verify that.

4434. Do you mean that on two-thirds of the occasions it would be an accountant officer of equal or senior rank?—No, not an accountant officer; I thought you were on the point of his actual rank, whether he was an accountant officer or an executive officer?

4435. That is quite right, but I wanted to get that clear?—The number of occasions on which it was an accountant officer, I think, are stated in Sir Gilbert's Report. There were two commanding officers and 11 others.

4436. Would you agree that, as a general principle, it is likely to be undesirable that a junior officer should check the accounts of a senior officer?—I agree it is difficult, but, unless the

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Captain is in a position to do it himself, as he ordinarily would on a normal ship (this is a really peculiar case) if your Chief Accountant Officer happens to be senior in rank and the Captain cannot do it himself, it might be difficult to find someone who was senior.

4437. Have you no system in the Navy of Accountant Officers?—That I will deal with now, if you like, but it arises on paragraph 19.

Chairman.] I would like to postpone consideration of the new system until later.

Mr. Mabane.

4438. Could Sir Archibald tell us what were the reasons that influenced the Admiralty to take the view that a pecuniary penalty was not a suitable form of punishment? Does that mean it was not regarded as a suitable form of punishment in this particular case, and, if so, why, or that it is not regarded as a suitable form of punishment generally?—I think the decision the Board took was with reference to this case. If I may say so, they would probably think rather a long time before finally deciding to inflict a pecuniary penalty in this class of case, although obviously it is appropriate sometimes, and there is no doubt whatever that the liability is there. One consideration that I think is present to their minds is that, if you impose any pecuniary penalty (and, as is said in the Report, if you impose any penalty, it is no good imposing some trivial amount; it must be substantial), there is not any great margin of pay for an officer in the Navy and you may conceivably be plunging him into debt or encouraging him to go into debt, and impairing his ultimate efficiency. That is not a final consideration, but it is a consideration that makes one think a long time before imposing a financial penalty. What was in the minds of the Admiralty was that there was a bad tradition which had arisen in this ship that sufficient care and thoroughness was not given to its checking; it had become a matter of routine. As far as one can make out, the Paymaster-Commander, who was responsible for the defalcations, sometimes guided the checking officers as to what they ought to do. I think it is quite plain that that is how it happened.

4439. What I was asking was why a pecuniary penalty was not here regarded as a suitable form of punishment. The

considerations seem to be general; perhaps you see what I was getting at?—Yes.

4440. If the Admiralty take the view in all cases that a pecuniary penalty is not a suitable form of punishment, it appears to me that the Regulations need altering?—They have not enunciated any general proposition. I think they would think very carefully before inflicting a pecuniary penalty, but it is a peculiar case. It is not a man who had been asked to do a job and had done it very badly; they had followed on in a bad tradition and carried on in it. We tried to find out whether the bad tradition started before the particular Paymaster-Commander came on the scene, and we found it difficult to get any evidence about that. The Board of Admiralty thought that there would be some difficulty about imposing a fine on these 11 or 12 officers. There was a further difficulty (I should not like to say it was a dominating consideration) that on some of these occasions the experts said it would have been very difficult to discover it unless you have been unusually acute, that was not true of all the cases. That would mean we should have had to investigate each case and make up our minds whether it was an instance in which it ought to have been detected. We were morally certain that on every occasion the thing had been done too hastily and as a matter of form; therefore, the Board of Admiralty thought they were all deserving of censure; if it had gone further, we should have had to have a most careful investigation as to whether on that particular occasion it could reasonably be said that the man had by his negligence contributed to the loss, and I think on some occasions the answer would have been "No; it was beyond what he ought to have discovered."

4441. The penalty was intended to be less severe than a fine?—It is difficult to say; a fine may operate very hardly on somebody who has not got a great deal of money.

4442. Was the censure imposed as an alternative to a pecuniary penalty or was it imposed as something less than a pecuniary penalty?—It is very difficult to say that it is less, but I think, as a matter of fact, you could not have imposed a pecuniary penalty without a censure as well. I think a pecuniary penalty implies a censure, and that would

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go down on his record, but whether it is less is a matter of chance. It may happen that for the man who has this record against him, particularly in the case of an accountant officer, if there are two people running equal, it may be a determining factor; on the other hand, it may have no appreciable effect on his career at all. It is very difficult to say.

Sir Robert Smith.

4443. I assume, on reading this Report, that you would only impose a pecuniary penalty on officers in a case where they had benefited pecuniarily by the fraud? Do you go as far as that?—I am afraid I have not followed that.

4444. The man who defaulted made something out of it? Some of the £5,000 went into his own pocket?—It did; all of it.

4445. But there is no suggestion that the two commanding officers and 11 others in any way pecuniarily benefited by the fraud?—Certainly not.

4446. Does not that come into the question whether a pecuniary penalty is a proper punishment or not?—I do not think so.

4447. You do sometimes apply a pecuniary liability to that class of case?—Yes, the indirect case. That was the subject of the dispute in 1895 that is mentioned in the Report, and I think it has been agreed ever since that there is a pecuniary liability.

Chairman.

4448. The question in each case is whether they have done the job for which they were paid, surely?—Yes; I think that is so.

4449. Paragraph 19: This Departmental Inquiry, I gather, has now been finished?—Yes.

4450. Could you tell us the results?—We have recommended, and the Treasury have a week or so ago agreed, and we shall be on the point of issuing fresh Regulations in a week or two. Shortly, what it comes to is that the functions of the Captain or officer deputed by him are limited to a monthly counting of the cash (using "cash" in its widest sense, including the bank balance). That is all he is expected to do, to verify the bank balance. He is not expected to try to reconcile the state of the Accounts with what it was at the last check. In addition to that, not less than every six months, there is to be a check at an uncertain time by accountant officers from

outside the ship appointed by the Commander-in-Chief. It would normally (or very often, probably) be the Fleet Accountant Officer, but it is in the discretion of the Commander-in-Chief to appoint them, my point being that it is a check by accountant officers from outside the ship itself.

4451. That is the general principle of it?—That is the general principle of it.

4452. Have the Treasury anything to say on the new scheme?—(Mr. Bridges.) We have been taken into consultation on the new scheme, and we are satisfied with it.

4453. Have you anything to say, Sir Gilbert?—(Sir Gilbert Upcott.) I have not seen the detailed arrangements, so I should not like to express any opinion on them yet. No doubt, the verification by accountant officers belonging to another ship is likely to be more thorough and effective than the preceding arrangements. I should just like to say that, as I have stated in my Report, though no doubt, as Sir Archibald has said, some of the frauds were very ingenious, one of the worst loopholes was the rather crude method of obtaining a statement of the bank balance three or four days before the count of cash, and I hope that in the new arrangements particular care will be taken of that point, because it was by gerrymandering the bank balance and the cash, by having the Account of them on different days, that the accountant officer was in a good many of these cases enabled to perpetrate his fraud.

Chairman.] Are there any questions on the new proposal?

Sir Irving Albery.

4454. I did not quite understand what the Captain or his deputy was now supposed to do; he has to count the cash?—(Sir Archibald Carter.) At the end of each month.

4455. And also ascertain the bank balance?—Yes, if there is one. It played a very important part in this case where there was a very big depot ship at Hong Kong, but most ships do not have a bank balance; where there is a bank balance, however, that too he has to verify.

4456. I was wondering whether there would be any value in merely counting what the man has unless you can relate it to something?—That comes home to the Admiralty and affords a check on

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the accounts of the ship that come in periodically.

4457. You mean he reports the result of his examination to the Admiralty?—He reports through his Commander-in-Chief.

4458. And they relate it?—They relate it to the accounts of the ship.

Sir Edmund Brocklebank.

4459. Does the six-monthly Regulation mean that he can only go once in six months, or that he could go more, if he wished to?—He could go more if he wished to, but he must go once every six months.

Mr. Benson.

4460. That is the only check by an accountant officer?—Yes.

Chairman.

4461. Will you permit me to return for a minute to Paragraph 18? I would like to ask the Treasury whether they would like to indicate their view of that case?—(Mr. Bridges.) On the question of a fine?

4462. Yes?—The Committee probably remember that there was a rather considerable dispute for some years on the question whether Departments had to inform the Treasury, not only whether some punishment had been inflicted, but also what the punishment was. It has now been agreed that Departments must inform us, when they apply for sanction to write off, what penalty has been inflicted. I think it has been agreed that generally we should leave it to Departments to settle what is the appropriate penalty to inflict in a particular case. We regard that as a matter that is best dealt with in the discretion of the Department concerned, but we do retain the right to make representations to Departments about particular cases and to ask them whether they have taken various considerations into account, and in doing so we have fairly consistently represented to Departments the desirability of taking into account the financial, as well as the disciplinary aspect of the case, and urged them not to ignore the possibility of inflicting financial penalties in appropriate cases, and I think it is fair to say that there are quite a number of cases from time to time in which financial penalties are inflicted.

4463. I observe that you do not desire to give an opinion as to whether there ought to be financial penalties in this particular case?—It is only right to say that in this particular case we were consulted semi-officially before a final decision had been reached by the Admiralty, and we were told that it was thought likely that the Admiralty would decide that in the particular circumstances of this case the matter was best dealt with by a censure rather than by inflicting a financial penalty, and we came to the conclusion that we did not dissent from that view in this case.

4464. Might I ask one other question that occurs to me? It may not be fair to compare the two, but would you say that the Army system of control is a little more watertight than this, and that this kind of thing would not be possible under the Army system, or would be less possible, shall we say?—Perhaps Mr. Brittain would prefer to answer that question, but it may be that the fact that the Army are on land in large Commands and that therefore it is possible for them to have possibly a rather fuller financial organisation attached to a unit such as a Division, which makes their problem much easier than the Admiralty problem, when you are dealing with individual ships. But, subject to that, I would not wish, I think, to say that one system is better than another. (Sir Gilbert Upcott.) I believe that the Army inspections are as a rule done by Army Paymasters or Army Auditors. (Mr. Bridges.) That is rather what I had in mind when I spoke of a financial organisation which is attached to an Army Division or a Command. (Mr. Brittain.) They are people responsible directly through their own hierarchy to the Accounting Officer of the War Office. It is a matter we had up a little while ago in connection with the responsibility of the Naval Accountant Officers.

Sir Irving Albery.

4465. It has been said frequently that conditions in the Army and Navy are so different that you cannot take similar steps in the Navy to those which are taken in the Army. I have never been able to understand that, personally. I understand that the system followed is quite different, and it may have different results. The Army is scattered all over the place; the Battalion is put here or

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there, but the ships have their own home ports. I wondered if the Treasury could tell us a little more precisely why they take the view that the exigencies of the Service provide such a difference; I cannot follow it myself?—An Army unit can go ahead and leave its financial advisers behind somewhere, but the ship has to take its accountant officers with it; they are in a different position internally. (Mr. Bridges.) I think it comes to this, that a ship is a rather more complete entity on its own than a Battalion is.

4466. The system may be different?

—The system has to pay some account to those considerations.

Chairman.] If you will be willing to leave it there, Sir Irving, I shall be very glad.

Sir Irving Albery.] Yes.

Chairman.

4467. Paragraph 20 is formal. Have you anything to say on paragraph 21?—(Sir Gilbert Upcott.) I understand the Treasury have authorised the write-off which will appear in the 1937 Account, and the Committee will have an opportunity to review the matter fully on that year's Accounts, if they so desire.

TREASURY MINUTE ON PARAGRAPH 23 OF THE SECOND REPORT OF
THE COMMITTEE OF PUBLIC ACCOUNTS, 1937.

Chairman.

4468. Shall we now turn to Treasury Minute, paragraph 23. This is the question of the estimated costs of ship-building. Could I ask what conclusion has been arrived at as a result of further consideration of this matter?—(Sir Archibald Carter.) The Board would like to abide by the position as represented in the letter that I sent you last year.

4469. Does that mean that you would have no objection to revealing the estimated total cost of a ship in relation to a contract-built ship before the order had been placed as a result of tenders? Is that the paragraph you refer to?—No; we should prefer to stand by the existing practice by which we do not publish any estimate of the total cost until the year in which the ship is being completed.

(Questions 4470 to 4477 not printed.)

4478. Is there any objection to giving the total cost of a year's Programme?—None whatever; and I am under the impression that it has generally been stated by the First Lord to Parliament at the time he produces his Estimates. I think the First Lord would readily agree that that should always be done. (Sir Gilbert Upcott.) It has not been done regularly in recent years. It was done in the statement attached to the Supplementary Estimates for 1936. The full cost of the additions to the 1936 Programme was given. (Sir Archibald Carter.) I think it has sometimes been mentioned in the course of the Debate.

4479. Have you anything further to say on the principles?—(Sir Gilbert Upcott.) On the point you have been

dealing with, as regards Estimates. It would inform Parliament what was the commitment involved if that figure, to which Sir Archibald has referred, were given in the printed Estimates. Of course, I am not concerned so much with the Estimates as with the Dockyard Accounts which the Committee are about to have before them. I should like to invite the Committee, in view of what Sir Archibald has said, to consider whether the estimate which is now given in the Dockyard Accounts on ships in detail really does supply any information which is of value to the Committee, or gives them what enables them to make any enquiry. May I ask the Committee to look at page 25, for example, of the Dockyard Accounts which are now before you? There they will see on page 25 of those Accounts the two cases which the Committee has recently been discussing, namely, the "Vulcan" and the "Caledonia." As they will see, in the case of the "Vulcan" the total estimated cost is put at £37,858, and the total expenditure to date is £27,312. In the case of the "Caledonia," there is no figure of estimated cost, and the total expenditure to 31st March, 1937, is £453,294. I think it would be quite impossible for the Committee to divine from those figures that there was anything at all unusual about either of those cases. In point of fact, the 1936 Supplementary Naval Estimates did show an estimated cost of the "Vulcan" of £27,000, which, as the Committee know, was the original estimate, and, as the Committee now

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know, the total cost of the "Vulcan" will be eventually about £51,000. The Statement attached to the Naval Supplementary Estimates of March, 1937, did contain a figure of £366,000 for the "Caledonia," and the Programme for 1937 did contain a figure of £391,000, which, as the Committee know, was the original estimate of the cost of acquisition and conversion. If these Accounts are to be of any value at all to the Committee, I think, if I may suggest so, that they should enable a comparison to be made between the estimated cost and the actual out-turn. These Accounts are prepared with very great labour and care by the Admiralty, so much so that they were only ready for my signature this year on 16th April. That labour and its considerable cost are, I think, of no value at all as regards this part of the Accounts unless they enable the Committee to make some sort of comparison of that kind. I am not speaking, of course, of the earlier part of the Production Statement, which relates to cost accounting. It has always been the view of this Committee that these Accounts ought to be self-contained, that it ought not to be necessary for the Committee to make elaborate researches into the volumes of the Estimates in order to make comparisons with the figures in the Accounts. In the case of the Works Estimates, there is a practice which has been introduced now for some years under which it is stated in the Notes when there has been any alteration in the Estimate shown in the Account. Therefore, if, as in many of these cases in these Accounts, the estimated cost which is here shown against the expenditure in 1936 is in fact an estimate which was in fact compiled in 1938, and, of course, considerably subsequent to the expenditure for the year in question, there would, if the practice followed in the Works Estimates was followed, be a note to say that the Estimate was increased or decreased from some other figure, if that had been the case. That, I think, would enable the Committee, if they so desired, to ascertain whether the actual out-turn did eventually prove to be greatly different—either more or less—from the estimated cost as first published. My observations, of course, have no relation to the question of the date on which the estimated cost is first published, but what I do rather feel about these figures is that what in many cases is called an Estimate is very little

more than a statement of the actual expenditure when it has been finally ascertained.

4480. Sir Gilbert, I take it that you have in mind, then, something that approximates a little more to the sort of Account that we have, shall we say, in the Navy Appropriation Account, page 66, taking that as an example. I am just taking this at random; I daresay better examples could be had, but there we have "Description of Works for each Establishment"; then there are the figures that bear upon the Works, and on the opposite side "Explanations." Is that the sort of idea you have?—There is a case on page 66 of the kind I had in mind: "Generating Station. New circulating water culvert—£11,000," and there is an explanation opposite to say that the total estimate has been increased to £14,650. In some of the Accounts, it is the other way round: The figure in the estimate column would be the latest figure (£14,650) and the note would say: "Total estimate increased from £11,000," but I do think, in order to make the comparison with the estimates and expenditure of any value to this Committee, it is necessary to have some kind of indication of changes of that kind in the total estimate.

4481. Of course, there are at the end of the book, from page 28 onwards, remarks on the explanation of differences between estimates and expenditure, but, as you say, we have to dig them out?—Those remarks only relate to the variations in expenditure in the year in question.

4482. I wonder if Sir Archibald would care to give an expression of opinion upon that?—(Sir Archibald Carter.) Speaking offhand (and I would like to have a chance of confirming it, if I may) I can see no difficulty at all, if the Committee would like it, in issuing the estimated cost as given on the first occasion on which it was published and the final estimated cost as given in any particular Account. I can see no difficulty in giving that, if the Committee would like it. I am not clear that it would amount to very much, frankly because, for the reasons I was explaining, the Board of Admiralty are hoping that they will not be required to produce an estimate of a total cost until a fairly late date, so it would be only occasionally and in rare circumstances that it would be of any value, but, speaking offhand, I can

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see no difficulty at all in producing the variation between the estimate and the expenditure.

4483. We would still be able to get the explanations to which I have referred on these pages?—Sometimes, certainly.

4484. I do not think it is fair to ask you to give a final answer this afternoon. Will you look at it and let us have your opinion later?—Certainly. (Sir *Gilbert Upcott*.) I am not trying to increase the labour, but it seems to me regrettable that the labour which is expended on giving these details with such admirable care should make it impossible for the Admiralty to produce these Accounts until more than a year after the end of the year of account.

Mr. *Mabane*.

4485. I quite see the point that it might be against public interest to publish the estimate, but, bearing in mind what we have been talking about earlier, might I ask whether Sir Archibald does not desire to produce the estimate until a late date because no estimate was made?—(Sir *Archibald Carter*). No.

4486. What I mean is, before any work is embarked upon, there is an estimate of the cost that could be produced?—That is so, certainly.

4487. If the public interest did not demand that it should not be produced?—That is so, certainly.

4488. And when eventually the estimate is produced, is it that original estimate that is produced?—No; it would be the latest estimate.

4489. That seems to me a matter of some importance, because it does not seem to me we can properly concern ourselves with the matter that concerns the public interest, but we can properly concern ourselves with a matter of economy, and it would seem to me, Mr. Chairman, that it would not be asking too much if we were to ask to have presented to us the original estimate of the work, as got out by the Admiralty, and the final cost of the work to which that estimate was supposed to relate, because then we should be able to have some indication of the accuracy of the Admiralty's capacity to estimate?—Again I would like to think that over, and think it over rather more carefully than the thing I agreed to provisionally just now. I am not quite clear about

its implications. I quite understand the Committee's point of view. I was wondering whether, if you got published a few months before the ship was finally completed an original estimate and a final estimate (obviously not a price difference; because it is rather late) I agree the objections are less than they were originally, but I should like, if I might, to seek leave of the Committee to take time to think it over and ask the Board if they see any difficulty. It is a rather different suggestion; we should not produce the estimate any earlier than we do now, but, when we do, we should also quote whatever was the original figure at the time Parliament sanctioned the Programme for the year.

4490. Yes.—(Sir *Gilbert Upcott*.) You are aware that in the Programme appended to the Navy Estimates there is a figure called "Original Estimate" which is distinguished from the figure which is called "Revised Estimate". In the Programme there is something that is called the "Original Estimate". (Sir *Archibald Carter*.) That original estimate is undoubtedly the original estimate when it is first produced, which is something different from what is now suggested—the estimate at the time when Parliament approved the new Programme.

4491. The original estimate is surely not a figure? You have a project for building a ship. As Sir Archibald says, neither we nor the House are acquainted with the estimated cost of that vessel—that is correct, is it not—on grounds of public interest?—(Sir *Gilbert Upcott*.) Not when it first appears in the Estimates.

4492. It is proposed to build here, for example, the "Ark Royal"?—(Sir *Archibald Carter*.) Yes.

4493. Neither we nor the House are acquainted with the estimated cost of that ship?—No.

4494. But, I take it, nevertheless, the Admiralty have made an estimate of the cost?—Certainly.

4495. That seems to me to be of value to foreign Powers if it were accurate?—Yes.

4496. It would be of the greatest service to us if it were inaccurate! Then comes the point when the "Ark Royal" is completed. It seems to me, when we are informed, as we eventually are, of the total cost and also of that

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original estimate of cost that the Admiralty made, that would not involve any sort of or give any sort of information of value to any foreign Power, but it would enable us to discover whether the Admiralty had accurately estimated the cost, and the Admiralty would be able to explain any reasons why the final cost was very much different from their original estimate?—I quite see the point. Speaking offhand, it seems to me not so difficult as the original proposition, but still open to some objection, and, if I might, I would like to seek leave to consider it further.

Chairman.

4497. I am sure Mr. Mabane will not press it, but will you look at it, Sir Archibald?—Yes, I will.

4498. Can we now dispose of this Treasury Minute? My Agenda says we should pass on to the Dockyard Accounts now, but I am a little anxious about Mr. Morrison, representing the Greenwich Accounts, and, if you do not mind, as we must have Sir Archibald again next Tuesday, we might have Mr. Morrison now so that he will not have to come back again. Do you mind, Sir Archibald?—Not the slightest.

(*Mr. Coxwell withdrew.*)

GREENWICH HOSPITAL AND TRAVERS FOUNDATION ACCOUNTS, 1936.

Mr. H. N. MORRISON called in and examined.

Chairman.

4499. Shall we turn, please, to the Comptroller and Auditor General's Report, page 11? I have no questions upon this Report at all. I think paragraph 2 was discussed fully last year?—(*Mr. Morrison.*) Yes, Sir.

4500. I have a question on page 5, Mr. Morrison. I see on the payments side for the Royal Hospital School, Holbrook, the actual cost in the year of account was £76,513. Has the expenditure on this School now been stabilised?—No; unfortunately it is tending upwards, owing to increases of wage rates and prices of commodities.

4501. Are there any questions? I see this year's estimate says £78,000?—Yes.

Sir Irving Albery.

4502. My memory has deserted me as to what class of training it is that goes on there; it is for the Navy, is it not?—Yes, we enter the boys at the age of

12½ and they stay till 15½. They are all intended for entry on the lower deck of the Royal Navy.

4503. How many boys have you got there?—860.

4504. What is the total staff?—About 240.

Chairman.

4505. What is the average cost per student?—In this year of account it was £87.

Mr. Brocklebank.

4506. That is £87, exclusive of capital expenditure?—That is £87 exclusive of capital expenditure; it is for running expenses.

4507. The total cost would be very much more?—Yes; we should have to add interest on the cost of the buildings, approximately £1,000,000.

Chairman.] Are there any further questions? May I take it this Account is approved? (*Agreed.*)

(*Mr. Morrison withdrew.*)

NAVY DOCKYARD ACCOUNTS, 1936. (DOCKYARD COST ACCOUNTS. ANALYSIS OF ONCOSTS ON PRODUCTION.)

Mr. W. J. GICK, C.B., C.B.E., and Mr. H. McM. RIGG, M.B.E.,
called in and examined.

Chairman.

4508. I think we can go through the Dockyard Accounts and perhaps adjourn?—(*Sir Archibald Carter.*) May

I bring up Mr. Rigg, the Director of Expense Accounts?

4509. Yes, please Turn to page iii of the Comptroller and Auditor General's

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Mr. W. J. GICK, C.B., C.B.E., and
Mr. H. McM. RIGG, M.B.E.

[Continued.]

Report in the Dockyard Accounts. Will you explain, Sir Archibald, what in fact has happened in regard to paragraph 4: "the large saving on issues of Maintenance Stores mentioned in paragraph 3 has in part been offset by increased issues to other heads of the Account"?—I wonder if I might seek leave for Mr. Gick, the Director of Stores, to explain this? (Mr. Gick.) The saving on the issues of Maintenance Stores was offset, to a great extent, by excesses on Programme Services. The whole of the system of estimating was temporarily disorganised, as you can imagine, by the Italo-Ethiopian business, and under each sub-head we had increased demand for stores modified by increased prices, which offset the savings on the Maintenance Stores.

4510. Could you tell us under what heads of the Account stores were issued? "Large saving on issues of Maintenance Stores mentioned in paragraph 3 has in part been offset by increased issues to other heads of the Account"; what does that mean?—It was mainly on Programme—new construction, and maintenance generally—the Dockyard side of the Vote apart from Ship Stores Maintenance. On new construction and repairs, for instance, the total was £337,000 more than had been estimated for. (Sir Gilbert Upcott.) I think, if I might put it in rather popular language, but I hope accurately, I should say that what happened was that the Admiralty saved about £1½ millions, or rather more, upon the provision for Stores for Maintenance, and used it partly for shipbuilding and partly for building up reserves. (Mr. Gick.) That is so. I can give you the distribution of that, if you like: £337,000 for new construction and repairs. You remember that item for those special metals. £160,000 went there. Our reserves are built up to a certain extent on a time basis. The expenditure in that year, although it was less than the estimate, considerably increased on the previous year. That meant an increase in our time reserves. In order to meet that, we had to spend somewhere about £430,000. Those are the main items.

4511. Are there any questions on paragraph 4? Paragraph 5 is statistical.

In paragraph 6 there are some apparent discrepancies to be explained. I do not know if I can get an explanation of those?—(Mr. Rigg.) The oncost or overhead expense to which this refers is charged up on labour, on material and on services; so much per hour for dock or crane. It is estimated at rates which are based on past knowledge. Naturally the expenditure does not quite come up to the estimate, in fact, it should not do within a particular period of any twelve months. For instance, you may repair caissons for docks to the extent of £20,000 or £30,000 in one year. You should not put up your rates for docks to compensate for that within twelve months, but should carry that forward; that is our theory of the distribution of the oncost and that being so, we expect a difference, which is not very great, on the £6,000,000 of overhead expenses, and we rather expect one year to be under when the next year is over, though not necessarily so.

4512. I understand from paragraph 7 that the Admiralty are reviewing this position; has the Admiralty review resulted in any conclusions at all?—We have not got as far as that.

4513. Is the Comptroller and Auditor General content with that?—(Sir Gilbert Upcott.) The procedure mentioned in paragraph 7 is an arbitrary method of putting the figures right when the system does not work, if I may put it rather crudely; I hope I shall be forgiven if I do so. (Mr. Rigg.) Yes. (Sir Gilbert Upcott.) It may be necessary to adopt those arbitrary methods of correcting the differences in a period in which the circumstances are undoubtedly difficult, but I should hope if the system is to be continued that steps will be taken as soon as practicable to make the system something rather more close in practice to what it is in theory, namely, a scientific system of distributing on-costs.

Chairman.] Are there any questions? I call the attention of the Committee to the fact that there has been circulated a cyclostyle paper for the information of Members. I put the Dockyard Accounts, Part I to page 15, Part II, pages 16 to the end. May I take it that the Accounts are approved? (Agreed.)

(The witnesses withdrew.)

(Adjourned till Thursday at 2.30 p.m.)

THURSDAY, 12TH MAY, 1938.

Members present:

Mr. MORGAN JONES in the Chair.

Sir. Irving Albery.
Mr. Benson.
Mr. Culverwell.
Mr. Lathan.
Mr. Peat.

Mr. Pethick-Lawrence.
Sir Assheton Pownall.
Sir Isidore Salmon.
Sir Robert Smith.

Sir GILBERT UPCOTT, K.C.B., Mr. E. E. BRIDGES, M.C. and Mr. H. BRITAIN called in and examined.

ARMY (ROYAL ORDNANCE FACTORIES) ACCOUNTS, 1936.

Sir HERBERT CREDY, G.C.B., K.C.V.O., and Sir REGINALD TOWNSEND, K.C.B., C.B.E., called in and examined.

Chairman.

4514. We take the Army (Royal Ordnance Factories) Accounts, 1936. Will you please turn to page 16? Paragraphs 1 to 3 are a record of a somewhat complicated story. I am afraid I must ask the Comptroller and Auditor General if he will be good enough to explain the point?—(Sir *Gilbert Upcott.*) The Account is unusual, and marks a change for the year under review, because it has been a number of years since a substantive Vote has been taken. For many years that has not been necessary, because the Ordnance Factories recover their costs from their customers, and what they charge includes a provision to meet the wear and tear and obsolescence of their plant and buildings. As a rule that provision has been sufficient to meet requirements, with the assistance of the reserve of £250,000 which is contained in the Supply Suspense Account. But, in the present year, owing to the great expansion of production, requirements for additional machinery have been too great to be provided for in that way, and it was necessary to provide additional funds from the Exchequer. In addition, there is, as the Committee are aware, a large programme of additional factories, which is being met in the year under review by special payments from the Service Departments, but, in the following years, is being financed from the Defence Loan. These complications have been rather intensified in the Account before the Committee, because the War Office originally started in the summer of 1936 with certain ideas of the possible expenditure

during the year, which were not entirely fulfilled, and the result was that they altered the provision downwards in the spring, so that you get an original Vote followed by two Supplementaries, which may be a little difficult to follow in the presentation; but that is, I think I may say, the gist of the complicated story.

4515. Thank you, Sir Gilbert. Would you like to add anything at all, Sir Herbert?—(Sir *Herbert Credeney.*) I think Sir Gilbert has put it in a nutshell. There has been a considerable expansion, as you know, in the Ordnance Factories sphere, as there has been in armaments generally.

4516. Are there any questions on paragraphs 1 to 3? If not, please pass on to paragraph 4: "Capital expenditure on new factories." Would you, Sir Reginald, be good enough to explain what the financial arrangements really are?—(Sir *Reginald Townsend.*) In the year under review we obtained the capital required from the Services, but in subsequent years it comes from the Defence Loan, for the new factories and the reconstructed factories. (Sir *Gilbert Upcott.*) Of course, the money is voted by Parliament in either case; Parliamentary control is secured by means of Parliamentary Votes in both cases.

4517. It is voted specifically?—It is voted as an Appropriation in Aid, where it comes from the Defence Loan.

4518. I see the estimate for these factories is shown here as £17,000,000. I presume that is not the whole story, is it?—(Sir *Reginald Townsend.*) At that stage it was £17,000,000.

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Sir REGINALD TOWNSEND, K.C.B., C.B.E.

[Continued.]

4519. At that stage, but for the future it is not a final figure by any means, is it?—At the present date it is in the order of about £26,500,000.

(Questions 4520 to 4525 not printed: the witness gave certain information regarding the nature of the factories.)

4526. On the figure of £17,000,000, I take it that the increase from £17,000,000 to the new figure which you have just mentioned is due to an increased cost of the factories, is it, or is it due to new factories?—There is some increased cost, but it is mainly due to entirely new factories.

4527. Paragraph 5 of the Comptroller and Auditor General's report is record, as regards the first sub-paragraph. On the second sub-paragraph I would like to know if you have anything to say about this: "The 'Statement Analysing Work Done' in the factories, hitherto appended to these Accounts, has this year been omitted". Perhaps you would like to say a word on that, Sir Herbert?—(Sir Herbert Creedy.) By agreement between the three Services, and with the consent of the Treasury, we thought that it would be preferable in this period of rearmament not to disclose to the world exactly what articles we were making and in what quantities, but a list of both articles and quantities has been given to the Comptroller and Auditor General and it is available: I have it here, if anybody would like to see it or ask any questions about it, if I may say so, confidentially.

4528. Sir Herbert, that paragraph refers to the letter to the Treasury on page 15. I am going to ask the Treasury whether they have anything to say further to what Sir Herbert has said. Might I also make this observation, that I do not see the Treasury letter quoted here on page 15? It is not printed?—(Mr. Bridges.) No. I have it here if you wish to see it.

4529. I wondered if there was any reason why it was not printed, seeing that we have one side of the correspondence. I do not insist upon it, but it would have been helpful perhaps?—It is quite a short letter. I do not think we had any part in its not being published; it is not a decision of ours that it should not be published. There is nothing in the letter which should not be published.

47855

4530. I was wondering if there was?—It was a formal letter. (Sir Gilbert Upcott.) The formal letter giving the outcome of the Vote Account would, as a matter of course, be appended to the Vote Account. This other letter would not be published unless the War Office or the Treasury put it in, because it is only incidentally referred to; the authority for the omission of this particular statement is recorded.

4531. Have you anything to say, Mr. Bridges, in addition to what Sir Herbert has said?—(Mr. Bridges.) We felt bound to agree that in the circumstances it was not in the public interest to publish all this information. (Sir Gilbert Upcott.) The statement is kept up and examined in my Department. (Mr. Bridges.) It is available but it is not published. It is maintained.

Chairman.] I think I have completed my questions on the Comptroller and Auditor General's report on these pages.

Sir Isidore Salmon.

4532. Sir Herbert, having regard to the capital expenditure on the new factories, when one turns to the details on pages 9 and 10, and taking the aggregate amount that you are going to spend, the progress does not seem too quick?—(Sir Herbert Creedy.) They had not long been started, and we had enormous difficulties, from the point of view of labour, in getting the factories built.

4533. I am talking of building the factories?—Yes.

4534. When do you hope that these factories will be practically complete; what sort of programme have you under that head?—There was a different programme for each factory.

4535. Without troubling to go into each individual factory, how long?—(Sir Reginald Townsend stated the approximate dates of completion.)

4536. Will you have spent by that time £17,000,000 on the factories?—Yes.

4537. Or, with the additions, it will be £26,000,000?—There may be some outstanding, but the work will have been completed by then.

4538. Have you satisfied yourselves that it is possible, having regard to the number of contractors and the number of people employed and the material,

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that you can get finished by that period?
—The Office of Works are responsible for carrying out the works, and they have assured us that it can be done, and as far as we know that is correct.

4539. Have you before you a progress chart, as to the dates when parts of the factories will be ready?—Yes.

4540. Are they up to time, up to now?—Yes, up to time.

4541. In each and all of the factories?—Yes. Some of the factories are only just starting, but, broadly, they are up to time.

4542. My point is that, in fixing the time, they had to have a lay-out, a careful programme of dates?—Yes.

4543. For having certain floors done, the first, second or third floor, as the case may be?—Yes.

4544. You are satisfied that up to the moment they are well up to time in each factory?—Yes.

4545. You take no responsibility as regards these factories until the Office of Works hand them over to you?—We take no responsibility as regards the buildings, but we take the responsibility that they shall be suitable for explosive or other manufacture.

4546. They are built according to your plans?—Yes, according to our detailed specifications.

(Questions 4547 to 4555 not printed; further information regarding one of the factories was given.)

Mr. Lathan.

4556. Am I correct in understanding that the whole of this expenditure coming within the £17,000,000 estimate is on factories owned and controlled by the Government?—Yes, all Royal Ordnance Factories.

Sir Assheton Pownall.

(Questions 4557 to 4559 not printed.)

4560. So far you are running pretty well up to schedule time, I gather?—Yes.

4561. Is there likely to be any very material alteration of plans between now and completion, as compared with the original plans?—Not in so far as the manufacture is concerned. If the type of filling is different at any time, we may have to have some reconstruction, but that liability is always with us. Apart from that, we have not altered the plans, because it is a very costly job.

4562. You are carrying out virtually the original programme?—Yes.

4563. And you intend to continue to do so?—Yes, and His Majesty's Office of Works made a very great point of that, that we should not alter the plans from time to time.

Sir Isidore Salmon.

4564. These factories require a large quantity of machinery to perform the work that you are going to do in the factories?—Yes.

4565. Is all the machinery ordered and will it be ready to instal?—Yes. It is either ordered or we are satisfied that it can be obtained by the required dates.

4566. There is no doubt about that?—Not the least.

(Questions 4567 to 4571 not printed.)

Chairman.] Pages 6 and 7 of the Appropriation Accounts; pages 8 to 11.

Mr. Lathan.

4572. On page 9, the Accounts dealing with the construction of factories do not appear to bear out the statement made, that the work is up to date, unless I am misreading the figures. I gather that at Chorley you estimated the expenditure to be, in the period under review, £254,000, but it has only been £117,000. That indicates that there was something in arrear?—The question put to me was, is it up to date or will it be up to date? It will be up to date, and they are catching up on that contract. (Sir Herbert Creedy.) This is expenditure in 1936-37; we were behind-hand in the first year, but we are catching up.

4573. That arrear is a pretty substantial one, I think you will agree?—(Sir Reginald Townsend.) We are again assured in the recent weeks that the date will be fulfilled.

Sir Isidore Salmon.

4574. On the question of your contract price, is the contract price for the building a fixed price?—On the new factories?

4575. Yes?—Yes.

4576. A fixed price?—Yes.

4577. Are you certain?—It is not a cost plus.

4578. It is a contract price for putting up a building according to plan and specification, and any alteration you pay extra for?—Yes.

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[Continued.]

Sir Assheton Pownall.

4579. On page 11 there is Chorley, construction of a factory, where I gather we have only spent £38,000; we are going to spend nearly £6,500,000 at Chorley, and that extra (well over £6,000,000) we are going effectively to spend in the time you mentioned?—(Sir Gilbert Upcott.) The estimate for Chorley in the current Estimates is £7,500,000.

(Sir Reginald Townsend withdrew.)

Chairman.

4580. I was going to ask, are these figures we have here the final figures?—(Sir Herbert Creedy.) The latest figure is £7,700,000.

(Question 4581 to 4585 not printed.)

Chairman.] Pages 12, 13 and 14. May I take it that these Accounts are approved? (Agreed.)

TREASURY MINUTE ON PARAGRAPH 24 OF THE SECOND REPORT OF THE COMMITTEE OF PUBLIC ACCOUNTS, 1937.

Chairman.

4586. I think the Treasury Minute is record only. It merely indicates that the Treasury are in agreement with the

suggestion as to the War Reserves Certificate. This will be the first year of discontinuance, I take it?—(Sir Herbert Creedy.) Yes.

ARMY APPROPRIATION ACCOUNT, 1936.

Chairman.

4587. We will pass on to the Army Appropriation Account, page iii, the Comptroller and Auditor General's report. Paragraph 1 is formal; paragraphs 2 and 3 are statistical. Paragraph 4 (the first part, anyway) is narrative. Paragraph 5 deals with expenditure in Palestine. Would you tell us something of the methods by which the extra cost is to be ascertained?—(Sir Herbert Creedy.) The extra cost is not really susceptible of exact ascertainment, and so, in the demand I put in to the Colonial Office, I had to qualify my demand by the words "partly estimated." Of course, the calculation of the extra cost would give rise to an enormous amount of work and is not very precisely ascertainable. Palestine reimbursed us, as you know, for that extra cost, although in the following years, 1938 and 1939 I think the reimbursement will come from the Middle Eastern Vote and so from the Imperial Exchequer.

4588. Lower down in paragraph 5 the Comptroller and Auditor General, I see, uses these words: "Bearing in mind the fact that the figures contain an element of assumption and estimate." Could you tell us in what way the assumption and estimate comes in?—

It is not quite easy to decide whether the presence of certain military elements in Palestine—

4589. Could you give us an illustration of it so that we might grasp the point?—Perhaps a good illustration would be that of stores. The stores would be out in Egypt and they might go to Palestine, and it would not be easy to divide up the extra cost as between Palestine and ourselves; and all this period was rather complicated by the fact that we had the Italo-Abyssinian dispute on our hands, and affairs in Egypt were a little complicated by the fact that there were two concurrent (or anyhow consecutive) operations going on. (Sir Gilbert Upcott.) You have to make an assumption as to where the troops would have been if they had not been in Palestine.

4590. That is hard to estimate. Sir Herbert, are you satisfied that the amount is a fair allocation as between the parties concerned, Palestine and ourselves?—(Sir Herbert Creedy.) I do think so. We took pains not to unload any unnecessary expenditure on the Colonial Office, and I think they have accepted it.

4591. Are there any questions on paragraphs 4 or 5, 6 or 7, "Sales of

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[Continued.]

Army mares," Vote 6? This is rather difficult to understand. I observe that the War Office has given a defence of what happened, and yet the system has, in point of fact, been changed, which would seem to indicate that the original system was a little open to criticism. Could you give us some further explanation, Sir Herbert?—Yes; I think the fact that we changed the system was perhaps to put an extra lock on the stable door after those particular horses had gone. The story is something like this: When mechanisation was increasing rather rapidly, the need for horses became correspondingly less. Units therefore, knowing that they were going to be mechanised, kept their horses rather longer than they would in the ordinary way; in other words, they would have been cast earlier. Then came the question of the disposal of the horses; there were various ways of doing it, sometimes by auction, sometimes by selling them to what is called the Hunters' Improvement and National Light Horse Breeding Society, and sometimes to other breeders. In the three years, 1936, 1937 and 1938, 1,550 horses were sold by auction, 249 went to the Hunters' Improvement Society and 25 to other breeders. The horses were cast by a proper responsible authority, but it was thought by our experts that some of them were not in a very good state to put up to public auction. We did not want to put up rather inferior horses to public auction and so lose the good name of the Army horses, with a possible result in the lowering of prices and spoiling the market generally, so when these horses were cast, the local authorities, knowing that they would go into good hands, sold them, I admit very cheaply, to this Hunters' Improvement Society. They had that guarantee in their minds, that the Hunters' Improvement Society, which is a very well-known Society (to which, incidentally we give a subsidy of £4,500 a year from Army funds) would see both that the horses were well looked after and were used for breeding purposes, whereas if they went into private hands they did not feel so sure. Whether we might perhaps have got a little more money, looking backwards, is perhaps open to question, but I think it may be that the horse, which has many noble qualities as a quadruped, does lead human beings sometimes into error; and whether, out of kindness of heart, they

let the Hunters' Improvement Society have them cheaper than they should have done, I think I must admit is open to question. Therefore when we heard of this we issued a circular saying that there is to be a definite minimum price put on these horses. If that minimum price cannot be reached, the horses had better be destroyed. I think that is really the story.

Chairman.] Are there any questions on paragraphs 6 and 7?

Sir Irving Albery.

4592. I understood from what Sir Herbert said that these horses, which were sold at £3, were all to be retained for breeding purposes?—They were to be kept for breeding purposes.

4593. And were bought on that condition?—Yes.

4594. Has it been ascertained since that they were?—We had no doubt about it in the case of the Hunters' Improvement Society, because it exists for that purpose.

4595. The whole of the 250?—249.

4596. They all went?—Yes.

4597. And you have no doubt that those were all retained for breeding?—I do not think we have any reasonable doubt in dealing with a Society of that standing.

4598. One does not use a mare for breeding purposes unless it is of some value?—They are not fit for Army work, which is quite a different thing; they might be perfectly fit to go to the stud but not be fit to do ordinary military work.

4599. I do not know much personally about the breeders' Society. Is it a Society which works for semi-benevolent purposes?—No, its great object is to promote and improve the breed of horses generally. It has a large show at the Agricultural Hall every year under the highest auspices and we give it £4,500 which it disburses in premiums to owners of stallions which tour the country.

4600. No mare would be of any use to such a Society unless it was a pretty good mare?—I do not know; it does not mean that they would not be able to breed certain horses out of them, but not necessarily chargers or anything of that sort. We thought the mare was going

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[Continued.]

to be looked after carefully and also would be used for the purpose for which we disposed of her.

4601. Were these mares, which were given to the Society, the whole lot available at that time, or the ones that could not be otherwise sold?—They had all been cast from the Service for various faults which made them unsuitable for use as horses or chargers in the Service, though, as I say, they were quite fit to go to the stud.

4602. These particular mares were part of a larger number?—Yes, the total number that were disposed of.

4603. I mean at that period?—At that period over the three years we sold 1,550 by auction and got certain prices for them. These were less good.

4604. Can you give us any idea as to how the mares which were to be sold to the Society were selected?—They were selected by our local Military Officers who cast them from the Service (using our technical term "cast") and then offered them to the Hunters' Improvement Society.

4605. They were selected as being specially suitable for the purpose?—They were fit to breed from, but not fit to continue in the Army service.

4606. It might be, on what you tell me about the Society and the fact that we make an annual subsidy, that there might be good grounds for making a gift, but it practically became a gift, did it not?—Yes, the average was about £3 5s. and it has gone up a little; the average was a little more than that.

4607. Would not an arrangement like that require some special sanction?—We had told the Treasury, some time before, that we proposed to get rid of horses to selected breeders by private treaty. Those that were fit for further work were to be sold at the best price obtainable by getting the highest bid from a series of prospective buyers. Those that were unfit for further work were to be sold at a nominal price of £1; so we had originally an authority to dispose of these cast mares; we departed a little bit, I think, from the original Treasury authority in giving, as it were, a sort of preferential treatment to the Hunters' Improvement Society. (Sir Gilbert Upcott.) As I mentioned in my paragraph these various arrangements were specifically sanctioned by the Treasury, and one of the reasons why I drew

attention to the matter was that when the procedure was changed, the Treasury were given a definite assurance that the change would not involve any loss, which scarcely seems to be the case.

Chairman.] I shall ask the Treasury in a minute for their observations. Perhaps we might have them now.

Sir Irving Albery.] It does not involve a lot of money and if I am taking up much of the Committee's time on it, I should like to apologise, but I do feel that it is one of those instances which again brings up the whole basis on which some of these transactions go through, and I personally think that it is an occasion on which we might well ask for papers giving more complete details as to the whole of these transactions with these mares.

Chairman.

4608. Mr. Bridges, have you anything to say from the Treasury point of view on this matter?—(Mr. Bridges.) It is a complicated business; there have been a number of sanctions given from time to time all with the object of finding good homes for horses which were cast from the Army. Broadly, I think, the arrangements sanctioned fall into two parts. There is, first of all, the horse which is cast from the Army but which is fit for further work, and there have been various, so to speak, minimum prices sanctioned for such horses, I think usually round about £10, but the figure has now been increased. Over and beyond that there is the disposal of a horse which is unfit for further work and for which, I take it, the only alternative to slaughter is disposal to somebody who will look after it properly.

Sir Irving Albery.

4609. When you say "unfit for further work" do you mean unfit for the time being, or cannot again be made fit?—I assume it means a horse which is unlikely ever to be fit for further work. (Sir Gilbert Upcott.) I do not think it would be true to say that these mares in question were all certified to be unfit for further work; they were unfit for further use in the Army. (Sir Herbert Creedy.) I think I made that point.

Chairman.

4610. Let us have Mr. Bridges continue his statement?—(Mr. Bridges.) For that type of case a purely nominal price has been fixed.

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[Continued.]

4611. You mean entirely unfit?—Yes. I think the point about this arrangement which seems perhaps to depart a little bit from what we had thought was going to happen, has been the very large number of horses which appear to have been sold at a very low price which, I think, certainly in spirit, seems to us to go a little bit outside anything which we thought was going to happen.

4612. Have you concluded your statement, Mr. Bridges?—Yes.

Chairman.] Sir Irving, do you want to continue?

Sir Irving Albery.] No, I do not want to continue any questions now, but I think we ought to have a further account.

Mr. Peat.

4613. In the case of a horse which was not fit for any further use in the Army, what would it be fit for? I gathered that when these units were mechanised you probably had to get rid of your horses willy-nilly whether they were fit for further use or not?—(*Sir Herbert Creedy.*) Not necessarily, because we could transfer them to other units, but I have a list of the sort of reasons for which they were cast: prematurely worn out, arthritis, spavin, roaring, disordered action of the heart, and so on; they were affections which made them unfit for further use with us.

4614. These 73 mares to which Sir Gilbert refers were purchased for £4,244 and resold for £253, after one to three years of military ownership. I suppose that was the case which so often crops up in which you buy a horse for £50 odd and as soon as you get him into your stable you find—?—He develops defects.

4615. With regard to the Hunters' Improvement Society and these mares which you sold to them, does this Society more or less give them to farmers and people like that in the agricultural districts of the country in order to improve the stamp of riding horses? Is that their ultimate destination?—That is one of their objects; as you know, the horse breeding industry is in rather a parlous state now and I think when we come to analyse it this comes down to a rather unfortunate little subsidy to the Hunters' Improvement Society. I think that is really what it comes to. There is no suggestion, if I may say so, that any gain accrued to any individual—none whatever.

4616. Is it the policy of the Army to keep up a reserve of horses which would be available, should it require them?—Yes, we do definitely encourage that.

4617. You are still working on those lines?—Yes; we shall not want so many but we shall still want a certain number, but now we have made our instructions more explicit and I am quite sure nothing of this sort could happen again.

Sir Robert Smith.

4618. With regard to those 150 mares that were sold for £3 apiece, when they were sold, were they just going to get a home, or were they going to breed horses from these mares?—I should think they would try both. The first thing was to make sure they fell into good hands and if they were capable of being bred from, that would have happened.

4619. If you knew it was worth serving these mares, surely £3 was quite a ridiculous price to sell them for, if you thought they were at all capable of being bred from. Who had to decide that point, at what price they were to be sold?—Our local military officers decided that; our local remount officers.

4620. A local remount officer himself would decide?—Yes.

4621. Surely he must have known whether he considered they were mares which were worth breeding from or not, and, if they were capable of being bred from, surely to let an animal like that go for £3 seems quite ridiculous?—I must admit that £3 is too low. Under our new instructions we have said there must be a minimum of £10.

Sir Robert Smith.] Anybody who worked with horseflesh at all, especially a remount officer, who is supposed to know something about horses, must have been perfectly aware of the fact that these mares were being sold at a ridiculously low figure if they were worth breeding from at all.

Chairman.

4622. The witness has frankly admitted it and I do not think we can carry it any further?—I think it was an error of judgment. It would have been better had we followed the practice now to be followed and insisted on a limit.

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[Continued.]

Sir Robert Smith.

4623. You keep no mares for breeding purposes at all? You do not buy at all and breed yourself?—No.

Mr. Benson.

4624. Does the witness know what the Hunters' Improvement Society sold these horses for?—No, I do not know that.

4625. When you say they are not fit for Army service, what exactly does that mean, that they are not fit for any type of service at all?—No, they might be fit for some very light duty, but they were not up to the standard which we must ask for our horses.

4626. What does "light duty" mean, a riding school?—No, not as much as that. Just to pull a cart about or something of that sort. As I read out, some of the defects for which they were cast were pretty serious.

4627. How many officers were involved in selling these mares at these prices?—There were a good many. It was done fairly well over the country. I do not know how many exactly.

4628. What is the Hunters' Improvement Society? Does it work for profit at all?—No, it is an organisation of people interested in horses and particularly in horse breeding, which promotes shows and promotes the sending round of stallions to serve mares in different parts of the country and the money we give goes in premiums.

Chairman.

4629. Would you develop that point? I thought you said to Mr. Benson that these officers were all over the country?—Yes.

4630. 159 were therefore sold all over the country at a price of £3 each?—There were different prices.

Mr. Benson.

4631. That is what I want to get at. Why is this the sale price, all over the country?—Might I refresh my memory on that? I am not quite sure in how many places they were sold. I am not sure that my notes show that. (Sir Gilbert Upcott.) I should think it would be quite a small number of places. (Sir Herbert Creedy.) Yes, I think I rather overstated it when I said "all over the country."

Chairman.

4632. Shall we say there were half a dozen places? There must have been a

fixed price understood by each one in the six places?—I do not think there was any standard price fixed for disposal all over the country. I imagine each local officer would appraise the mare at what he thought was a fair price.

4633. That is not what is said. What is said is that they were sold at £3 each?—An average, is it not?

Sir Robert Smith.] It does not say an average.

Chairman.] It says at £3 each.

Sir Robert Smith.] As if it were a contract.

Chairman.

4634. We had better have that clear?—My note is 156 at an average of £3 5s.

Mr. Benson.

4635. I want to know, first of all, why is it that all these officers agreed to sell at such a low price and how far is that average an average of largely varying figures and how far is it what one might term the normal as well as the average?—I should say it is not an average of widely varying figures; it is pretty standard, I should say.

4636. You think there are not more than half a dozen officers involved?—No, I should not think so. It looks as though there were a number of local representatives of the Hunters' Improvement Society; there are only about eight or nine officers, so it would be in a limited number of places. (Sir Gilbert Upcott.) I should perhaps observe that when I said 159 were sold at £3 each I meant that is the price for each horse, not an average price. 159 mares were sold at £3 each.

4637. Could the Comptroller and Auditor General say whether those all went through one hand?—(Sir Herbert Creedy.) That I cannot say.

4638. It almost looks as though the Hunters' Improvement Society had fixed this price. Could we have some information as to how many hands these horses did go through—how many centres of sale they went through?—Yes, very well.

4639. It seems to me that the Hunters' Improvement Society have gone to each of the remount officers and said "We are paying this price elsewhere, we want them at the same price from you." The price is too uniform to be merely accidental. Furthermore what is the normal

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[Continued.]

price that we got by auction, as I presume we did, prior to this private sale arrangement?—When we sold to other breeders (that of course is not quite the same) we got an average of about £5 from the other breeders.

Mr. Lathan.

4640. Could you enlighten us as to the period of the working life of a horse in the Army?—It is very difficult to be precise because so much depends on where it is working and what sort of work it does. If it were very comfortably in England it may go on for some time, but if it were suddenly sent off to the western desert of Egypt its life might be very much shorter.

4641. It seems to me strange that these animals which cost £60 each should have depreciated in the brief period of one to three years to such an alarming extent?—They only represent a small percentage of the number of horses borne on the books of the Army.

4642. I am taking it that there are 73 animals here which cost an average of £60 a piece which, after service ranging from one to three years, depreciated by reason of the character of their work or by some extraordinary happening, to that extent?—By various happenings. But you will remember that there are thousands of horses in the Army. That small number would be only a fractional percentage of the total number of horses.

4643. The circumstances do appear to cause questions to arise either as to the capacity of the remount officers in determining the price or some other factor in the situation?—Judgment about a horse is a very personal thing; there is no absolute standard which you can apply.

4644. Having regard to the extent to which mechanisation is now taking place, is there any special reason why we should consider the interests of the Hunters' Improvement Society to the extent here indicated?—I admit that, as the estimates show, the number of horses is falling rapidly from year to year, but we should still want a good many horses on mobilisation when the Army expanded to take the field, so it is very much to the interest of the Army to maintain both the number and the quality of (particularly) riding horses. Light draught horses are gone; there are none to be got in the country; that is one of our reasons for mechanisation.

Sir Robert Smith.

4645. Have you any correspondence on this question of the sale of horses with the Hunters' Improvement Society, paragraph 6, "Owing to administrative difficulties the War Office later decided to conduct all such sales through the Hunters' Improvement Society"?—Yes.

4646. Surely there must be some correspondence between the Hunters' Improvement Society and the War Office making some arrangement about these things?—May I look that up?

Sir Robert Smith.] It looks to me as if there must have been, from that paragraph.

Sir Irving Albery.

4647. I wanted to know whether it would be possible to ascertain how many of these horses are still with the Hunters' Improvement Society to-day and, if they are not all there still, what has happened to those that are not?—Yes, I will try to get that information.

4648. I should also like to know whether they are riding horses or draught horses?—Practically all riding horses.

4649. I would also like to know, if I may, what sanction the officer had to obtain; who was, as it were responsible for selling these horses?—Yes.

Chairman.

4650. Could you answer that now?—No; I should think he would probably have authority of his own.

4651. The Commanding Officer?—No, I should think it would be the local remount officer working, if necessary, in conjunction with the local veterinary officer; but we have tightened up the conditions now and insisted on a veterinary officer's certificate.

Sir Irving Albery.

4652. Would it be possible to know what happened to these horses, whether they all remained with the Hunters' Improvement Society?—I will try to find that out.

4653. The reason I press for this information is that I can very well understand that there might be very good and justifiable causes for helping this Society for the purposes which have been mentioned but that has been discontinued because apparently it is not considered that the policy followed was a good one?—I beg your pardon.

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[Continued.]

4654. I can understand the arguments put forward to suggest that it was a desirable policy to let these horses go to the Hunters' Improvement Society?—We still do let them.

4655. I thought that had been countermanded?—I thought I said we had issued instructions to make sure that there was a definite reserve price. This is the instruction, "A cast Army mare that is fit for sale at auction will be offered at auction. If she does not fetch the reserve price and is considered suitable for breeding she will be offered to the Hunters' Improvement Society. If the Hunters' Improvement Society does not wish to buy her she may be offered, for breeding or for suitable work, to a selected custodian. Having regard to her value for breeding purposes the mare should be offered at the best price obtainable but not, in any case, at less than £10." The procedure is to go on, but we have stabilised a minimum price at £10.

4656. The last question I want to ask is this: Does Sir Herbert consider that the system of control in force when Army stores of any kind have to be sold is adequate as to the price, etc.?—In most cases, of course, these would auction, but I think I gave the reason why it was undesirable to put horses that were past their prime and were not fit for work, up to public auction, because it might have a detrimental effect on the prices for other horses.

4657. This is a case of an officer departing from a usual custom; is there sufficient control when the ordinary custom is departed from?—In the case of stores, yes, but horses are rather different from stores; you could say whether a store is 10, 20 or 50 per cent. impaired, by general consent, but the judging of a horse I have always understood (I know nothing about them) is a much more personal affair.

4658. In your opinion is the control adequate?—I think probably it was not sufficiently clear what they should do, but now I think all is well, because we have brought in the veterinary officer to certify. (Sir Gilbert Upcott.) It was because I thought the War Office control over the local remount officers was not adequate, that was one of the reasons why I raised that question.

4659. But I do not gather that I have yet got Sir Herbert to admit that that suggestion of yours was justified?—(Sir

Herbert Creedy.) I think I have admitted with regret that I think it was justified and we have, as I said, put an extra lock on the stable door by issuing this letter fixing a minimum price and ensuring that there shall be a veterinary officer's guarantee as well.

Chairman.

4660. We have spent a good deal of time upon this and I think you must gather that the Members of the Committee are a little unhappy about it. Mr. Benson asked a series of questions; would you be good enough to send us a memorandum dealing with the questions that have been raised, so that we may have the whole picture before us?—Yes.*

4661. Paragraph 8, Warlike Stores. Could you give us some idea as to the proportion of competitive tenders to the whole?—The last note I had was a little while ago which I think I gave when I appeared before the Estimates Committee; about 90 per cent. are still placed on a competitive basis but the other 10 per cent. which are not, of course, are much greater in value. I think that is understandable because they are for large orders of shells and munitions of war.

4662. I will take paragraphs 9, 10 and 11. Paragraph 10: how is the contract price, which is the maximum, determined?—Between us and the contractor; we get an idea of what should be a maximum price and I think it really explains it here, how we work out what he is actually to be paid. He is never to get more than a certain amount.

4663. Could you tell me this: once you have given one particular order, then you proceed upon that experience to give another order? Is the later order given upon a new maximum price, or does it remain the same all the time?—It might be, as it were, an entirely new contract in the light of experience gained and, as you know, in most of these new contracts we have inserted a break clause so that in the event of our not wanting prolonged production we might escape.

4664. I was asking that because of the second sub-paragraph of paragraph 10. It says there: "In some cases the contract provides, as an incentive to economy, for a bonus by way of a share of the savings on an agreed basis, and this practice is, I understand, being extended"?—Yes.

* See Appendix 15.

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[Continued.]

4665. I was wondering whether the effect of the bonus system would be that you would acquire new information as to what price a contractor can do a particular job at, and, having got that, that becomes the new maximum, so to speak?—Yes, we might get that through our costings.

Chairman.] Are there any questions on paragraphs 8, 9 and 10?

Sir Isidore Salmon.

4666. In how many factories have you actually examined the costs of the contractors?—I am afraid I do not know that.

4667. I will put it another way. Would all the contractors' prices be examined if they are given under the schemes referred to in the paragraphs we are discussing?—We should use our costing machinery to keep in touch with their accounts.

4668. My point rather is this, that in giving orders for ammunition of different kinds you go to a number of different firms?—Yes.

4669. They may have suitable buildings and you may instal the plant for them; in other cases they may buy the plant and you repay them. In either case, or in both cases, do you, as a matter of fact, when they have completed their order, or are completing your orders, periodically examine their costings to satisfy yourselves that their costings are reasonable and that their profits are reasonable?—Yes; that is more a Director of Contracts point, but I believe that is done.

4670. With regard to the equipment you provide to a contractor, how do you ear-mark it as your property?—You mean machine tools and so on?

4671. Yes?—I imagine there would be an inventory of what we had given them, which we could check from time to time, and it is laid down generally in the contract that they will, in the event of ceasing production, maintain this machinery either in a separate shop or in a separate store for use, if we wanted it again.

4672. I am a little surprised to hear you say you are compiling an inventory. I can imagine that certain firms might have a certain amount of machine tools of their own and a certain amount on your account?—Yes.

4673. I would like to know how do you ear-mark the machine tools that really belong to the Government?—Whether there is some special mark put on them?

4674. Yes, do you know that?—No. (*Sir Gilbert Upcott.*) That is so. I have raised the question of the preparation of an inventory in the following paragraphs of my report.

Chairman.] That is what I was going to call attention to. We are now discussing paragraphs 12, 13 and 14.

Sir Isidore Salmon.

4675. One would have thought that an inventory would have been automatic?—(*Sir Herbert Creedy.*) Yes.

4676. What do you mean when you talk about "are at present compiling it"?—I thought I had said "is compiled." When we issue a set of machine tools to a contractor we should have a list.

4677. He gets debited with those tools?—Yes, we have a list of them and should be able to identify them.

Mr. Lathan.

4678. Do the costings vary from firm to firm?—Yes, they would vary from firm to firm.

4679. Is that regarded as a satisfactory arrangement? Costing, I take it, is designed to ascertain a reasonable figure for the production of an article?—The circumstances of different firms differ, if I have your question right, and there might be a different apportionment of profit according to the circumstances, might there not?

4680. Is that satisfactory? Would it not be more satisfactory to fix what you regard as a reasonable price, having regard to all the factors in production and due economy therein—a price for each article, and require those who were producing them to supply at that price?—It is not always quite as easy as that, because a lot of people to whom we have made appeals to produce for us are not very interested in producing for us; we have had to cajole and encourage them into producing for us and they have responded very well, but many of them would prefer to go on with their ordinary work. (*Sir Gilbert Upcott.*) A uniform price would have to enable the least efficient firm to produce, and the most efficient firm would get a large profit. (*Sir Herbert Creedy.*) Somebody who undertook to produce 1,000

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[Continued.]

articles might reasonably expect to get a higher price an article than somebody who undertook to produce 10,000, so I think a fixed price would be rather difficult.

4681. I should have thought that a fixed price would mean that the least efficient firm would get the least profit?—If it were small, it might operate so hardly against the small firm that it would go out of business, and we want it to help us.

Sir *Isidore Salmon*.] It might have the reverse effect. If it were based on the least efficient it would give the most efficient a much higher rate of profit than one should pay.

Mr. *Lathan*.

4682. Why assume it should be based on the least efficient? It should be based on economical production?—Having regard to all the factors, it is difficult to fix a uniform rate.

4683. In present circumstances that is so. The question was provoked by the statement that in the costing arrangements differing circumstances of different firms are taken into account?—Yes.

Mr. *Culverwell*.

4684. Is the system with regard to contracts exactly the same as prevails in the other two Departments?—(Mr. *Bridges*.) There are two main systems of non-competitive contracts: One is the system which is described here where you have a maximum price and do a cost accounting check of actual cost after the event, all subject to the maximum price. The other system is the system whereby you employ not cost accountants but technical costings people to go into the costs of production of the firm while they are manufacturing perhaps the first batch of the article, and try to agree with them what they ought to be able to make that article for if they use proper methods as agreed between the firm's technical costings people and your own technical costings people. That is a settlement before the event; the other is after.

Chairman.

4685. The second is the method you follow in the Air Ministry?—Yes. (Sir *Gilbert Upcott*.) The Air Ministry method is to begin with a batch, ascertain the actual cost of the batch, and use that as the basis for the future. (Mr. *Bridges*.) I should not quite agree with

that. I agree you take into account the experience gained from ascertaining the cost of the first batch, but I should not agree that the actual price of the first or the second batch is taken as the price to determine subsequent batches, because, when you are dealing with a large mass of articles and beginning mass production, the cost ought to come down steeply. (Sir *Gilbert Upcott*.) I did not intend to suggest that.

Mr. *Culverwell*.

4686. This system is not peculiar to the Army?—(Sir *Herbert Creedy*.) No. (Sir *Gilbert Upcott*.) The system of using the tender price as a maximum to begin with, as far as I am aware, is peculiar. (Sir *Herbert Creedy*.) It is a special feature of the Army. Whether it is followed by any other Services, I do not know.

4687. My next question to the Treasury is: Why is that system peculiar to the Army? One is either better or worse than the other. Why do not they have the same system?—(Mr. *Bridges*.) I think there is this practical or historical reason, that the War Office are for a large part dealing with stores of which they have manufacturing experience at Woolwich Arsenal, and, when they go to a firm, they can say: "We make this article with such machinery in such a way, and it cost so much"; the manufacturer may say: "I have not got this particular tool," and, after discussion of the methods of manufacture, it ought to be possible to arrive at a very fair approximation, based on the Woolwich experience, as to what that particular firm could make that article for. You have not got that experience in the case of an aeroplane firm which is manufacturing a type of aeroplane which has never flown.

Chairman.

4688. You are satisfied that the best method is applied in each particular case?—I think our view is that both methods have a great deal to commend themselves in appropriate circumstances. We should be sorry to think that the War Office system, if I may so call it, was only applied in the War Office and the Air Ministry system only applied in the Air Ministry. We think they are both right, in appropriate circumstances.

4689. Paragraph 12: Machine Tools: Could you give us some explanation of the policy that is indicated rather in

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[Continued.]

paragraph 13 than in paragraph 12?—(Sir *Herbert Creedy*.) The first thing to explain, I suppose, is the discrepancy between the estimate and the expenditure?

4690. Yes?—This was the first year of our experiment, and I think undoubtedly we were too optimistic. We hoped to get more than we did, and probably those people with whom we were in negotiation hoped to give us more than they did. It was due partly to the shortage of labour and the difficulty of getting labour in the right place (particularly skilled labour) and partly to the fact that these particular machine tools were not very easy to come by. That explains, I think, the first subparagraph. Is there any explanation required on paragraph 13?

4691. I really wanted to know how your Department is satisfied that the actual cost is a reasonable cost?—The actual cost of the plant and machinery?

4692. Yes?—We can only tell from such experience as we possess. I do not think we have any reason to think that we were not getting good bargains out of it.

4693. Suppose you buy a thing, shall we say, from an American firm; how would you determine whether that is a reasonable cost?—We should apply the knowledge of what we paid for similar plant, say, at Woolwich or in some of our other factories. We have probably got some pretty good idea of what such plant costs in the market, and, partly by technical and partly by financial examination, I think we could come to a pretty good idea of the cost.

Mr. *Lathan*.

4694. On paragraph 12, where plant is supplied or machine tools are provided by the Government, I take it there is an appropriate adjustment in the price paid to the firm producing the article?—I think that is all taken into account.

4695. What you have just said in answer to the questions put by the Chairman seem to support the contention I put forward a little while ago. I gather from your reply that, by the experience you had, you determined what you believed to be a reasonable price for an article to be produced at, and you expect the producers to produce it at that price?—This is rather different. This is whether the contractor has bought machinery at an extravagant

price or not. We could get some idea as to that. Whether he could produce a shell cheaper than some other contractor does, I think, depend on the size of his establishment, his previous experience and a number of other factors. (Sir *Gilbert Upcott*.) A contractor buys a machine tool, possibly abroad, and the War Office can check, and my Auditors can see that they check, the actual price paid for the machine tool, but the question whether the price is a reasonable price in the absence of any competition is a highly technical matter.

Mr. *Culverwell*.

4696. Are these Costings Department officers civilians?—(Sir *Herbert Creedy*.) Civilians; they do contract costing.

Chairman.

4697. On paragraph 14 we have had some discussion on these inventories. What progress is being made with these inventories?—I think we have now got satisfactory accounting arrangements to ensure that we maintain our proprietorial right in this plant, and so on.

4698. Sir Isidore Salmon has left now, but he made an observation to me in regard to this. I rather gathered, and I think he understood you to say, that you had completed your arrangements for preparing and maintaining inventories, whereas this note says that "these are in course of compilation"?—This was written some time ago.

4699. We appreciate that?—But, as far as I know, it is pretty well up-to-date. I would not like to say it is absolutely complete, but I know we have been quite active about it.

4700. Have you anything to say, Sir *Gilbert*?—(Sir *Gilbert Upcott*.) The system was only initiated towards the end of the year under review, and there were some difficulties experienced at the outset. The War Office were good enough to consult my Officers at that stage, and I think the system has now been completed, but I have not yet been in a position to examine the records, and, of course, that will be for the future. The expenditure, as you observe, in the year of account was comparatively small. This paragraph only records the beginning of the system, as far as the War Office was concerned. (Mr. *Bridges*.) I would like to make one point, and that is that, if you agree a

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[Continued.]

firm requires certain machinery to produce a shell and they are supplied with that machinery, so long as they are producing that shell, you can be pretty sure that they still have the machinery. In a sense the inventory becomes of practical value, when the production is falling off, to make sure that nothing is missed.

4701. Paragraph 15: this deals with "Works and Land for Factories other than Royal Ordnance Factories," and is, I believe, the beginning of what we call the "shadow factories" of the War Office. It is the first appearance of this in connection with the War Office scheme, therefore I think perhaps we will not delay upon this to-day. I think it would be better if we go into it in rather more detail when we come to the Air Accounts, where they have longer experience?—(Sir Herbert Creedy.) We have only three or four factories. (Sir Gilbert Upcott.) It bulks much more largely in my Report on the Air Accounts.

4702. Paragraphs 16, 17, 18 and 19, "Store Accounts." I think you will find the losses explained on page 88. Has anything been done to deal with the stock-taking at the principal Ordnance Depot in Egypt?—(Sir Herbert Creedy.) Yes. If I may just refer to the former one, that was really due to what was comparable with active operations of moving the troops rapidly across. I think we have a procedure to prevent that happening again. As regards the stock-taking, we have authority from the Treasury for another Stock-taking Officer to go out there who will, I hope, enable us to overtake arrears.

4703. Are there any questions on these paragraphs? Now paragraphs 20 and 21: Would you say something about this position? Do I understand that at the moment these small arms are not regarded as surplus stocks?—Yes; we had a considerable surplus of stocks, as you might imagine, mainly of small arms—Lewis guns, and so on—and, when we came to the Rearmament Programme, we found, such was our need, that we could really make use of these Lewis guns, which are really being issued in connection with Anti-Aircraft Defence, till we get the production of the newer and better guns.

Sir Irving Albery.

4704. There is a report that the Anti-Aircraft Territorials are being issued

with swords and spurs; is that true?—Only those units which always wore spurs are being issued with spurs.

4705. Anti-Aircraft units?—It might be so with some of the gunners that were transferred, but only for ceremonial purposes. The spur is one of the outward and visible signs of an ex-mounted officer.

4706. I rather gather that the practice is not conveying the impression which the War Office wished to convey?—They are literally to be used for ceremonial purposes, because, as you know, the principal posture of an anti-aircraft gunner is sitting on his heels.

Sir Irving Albery.] I do not think it is helping recruiting at the moment.

Chairman.

4707. Are there any more questions? Before we pass to the other part of the Accounts, I want to return to a matter which I discussed with you when you were here on a previous occasion—the question of the chargers?—Yes.

4708. Could you tell me whether there has been a review of the position?—Yes.

4709. You told me last year that there would be a review in August next?—Yes.

4710. Has there been a review, and, if so, with what result?—There has been a review, and we have made a report to the Treasury, reporting to them our proposals with regard to revised scales of the issue of chargers, and the Treasury have accepted our proposal, subject to a further review in two years' time. We have gone through all the arms of service, and the Charger Establishment has come down from 3,128 in 1936 to 2,208 in 1938, two years later.

4711. Is that the amount of the reduction?—No; the number of chargers in issue in 1936 was 3,128. The corresponding figure for this year is 2,208.

4712. Could you tell me what the amount of the saving per year would be?—When the whole system has been reorganised, it will be a total of £50,000 a year, and the Treasury have accepted that. It has led to some very curious results, because in some units we have only been able to give, as you have probably seen, one charger for two officers, and that has led even to a Christmas card in which the officer says: "My turn, I think?" (Same was handed in.)

Chairman.] That is the end of the Comptroller and Auditor General's Report.

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[Continued.]

VOTE 1.

PAY, ETC., OF THE ARMY.

(On this Account no questions were asked.)

VOTE 2.

TERRITORIAL ARMY AND RESERVE FORCES.

Chairman.

4713. We pass now to page 10, Vote 2: "Territorial Army and Reserve Forces." I shall take it there are no questions unless Honourable Members indicate that there are any they would like to put. On page 11, note B, would you give us a little extra explanation of that note: "Due mainly to the formation of a special section of the Supplementary Reserve for the Infantry of the Line"?—(Sir *Herbert Creedy*.) As you are doubtless aware, Mr. Chairman, we had a Supplementary Reserve for

other Arms, partly of skilled men whom we might want in time of war and partly of people who were already engaged on avocations whom we might also want—for example, motor car drivers—but we thought we might tap a new source of recruits if we invited infantrymen to join a new Supplementary to come up for a period of training, and then have a retaining fee. A good many of them, as a matter of fact, do come in, get a taste for soldiering, and come into the Regular Army. We have found this experiment rather a success.

VOTE 3.

MEDICAL SERVICES.

Chairman.] Page 12, Vote 3: "Medical Services": Are there any questions?

Mr. Benson.

4714. I should like to ask Sir Herbert if the R.A.M.C. are doing any research work into war neuroses, such as shell-shock?—(Sir *Herbert Creedy*.) I should not think a great deal as such, because most of that work is done by the Ministry of Pensions. We are closely in touch with them; we have certain specialists who are interested in them, but it is not a primary feature of our work.

4715. You are not doing medical research on that specific matter?—I should be sure there are one or two of our Doctors who are specialists in that; it depends on exactly what you mean by "research." Research is a rather difficult term. We have experts and specialists in it, but whether we have a special clinic I should rather doubt and I should imagine that is largely done clinically.

4716. I was wondering if any research was being done?—I will ask the Director-General.

Mr. Benson.] I should like to know.

VOTE 4.

EDUCATIONAL ESTABLISHMENTS.

Chairman.] Page 13, Vote 4: "Educational Establishments." Are there any questions?

Mr. Culverwell.

4717. Under Sub-head G: "Army Technical School (Boys)," could you tell me what the cost of the pupils is; what is the average cost per year of those boys? First of all, what are they taught there?—(Sir *Herbert Creedy*.) As we cannot get fully trained tradesmen, we are training boys to be tradesmen in the Army sense, Artificers, Blacksmiths, Carpenters, Joiners, Electricians and

Fitters. The principal School is at a place called Beachley, near Chepstow. You will find it mentioned on page 110 of the current Army Estimates. The cost is £126 a year for an average of 943 boys.

4718. What is the staff of that School?—The staff you will find on the opposite page—a Commandant, Quarter-Master, Education Officer, and so forth.

4719. Is that the whole total—17?—Of course, they have military subordinates, subordinate teachers, and so forth; that is the officer staff.

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[Continued.]

4720. I meant the teachers?—The teachers would be included in the 180: the Sergeant Instructors, and so forth, would be included in that.

4721. I am afraid I do not see it, on page 111.—On page 111, you will see Chepstow Staff; and some little way down you will see one Chief Instructor and so many Instructors. Then you will find Military Subordinates: some of those will also be Junior Instructors, N.C.O.'s and Other Ranks.

4722. I still do not see it.—Have you got the 1938 Estimates?

Mr. *Culverwell.*] 1936.

Chairman.

4723. It is still page 111.—In 1936 the cost was £134; this year it is £126 because we have rather more boys.

Mr. *Culverwell.*

4724. I wanted the total staff?—It is not given in this, but we have amplified it. The total staff in 1938 is 287 all over, Sir.

Chairman.

4725. For how many pupils?—For 943 boys, but this includes all the household staff as well; it is not only the instructional staff.

4726. I think I understand what Mr. Culverwell has in mind, and we would rather like to know if we can get that precisely?—Yes, with pleasure.

4727. What is the total number of Instructors?—Yes.

Mr. *Culverwell.*

4728. I would like both?—(Sir *Gilbert Upcott.*) To make it comparable with the case that Mr. Culverwell has in mind, it would be necessary to give the total staff of all kinds, and to distinguish the various purposes.

Mr. *Culverwell.*] That is true.

Mr. *Benson.*] May we have that?

Chairman.

4729. I think Sir Herbert says he will give it, does not he?—(Sir *Herbert Creedy.*) Yes, with pleasure. This is a little out of date, but I have a complete list of the Instructional Staff there, if I might show it.

4730. Could you give it to us all?—Shall I put it in or read it out?

4731. Could you give us the figure?—Yes, of the Instructional Staff; those are the people you are particularly interested

in: 1 Chief Instructor, 4 Instructor Captains, 1 Education Officer, 2 Instructor Warrant Officers (Class I), 1 Military Mechanist, 6 Instructor Warrant Officers (Class II), and a Quarter-Master Sergeant Clerk, who is really a Clerk. There are also a Sergeant Engineer Draftsman, 10 Staff Sergeant Instructors and 18 Sergeant Instructors. These are the figures for a year or two ago.

4732. How many would those total up to?—(Mr. *Bridges.*) 45.

4733. For 943 boys?—(Sir *Herbert Creedy.*) I have not quite finished. That is down to the Sergeants. If you take the whole lot of Instructional Staff, it comes to 92. That includes Draftsmen, Instructional Clerks, Corporal Instructors, and so on.

4734. That 92 includes every possible person who is an Instructor in any way?—Yes.

Mr. *Benson.*

4735. Could we have copies of that book?—If I might, I would give you a later figure; this is a year or two old.

4736. I think that might be useful?—Certainly; but, if I might, I will send the Clerk a later edition of this because the numbers will have altered from this owing to the expansion of the School, and you would like figures relative to the present time.

Chairman.

4737. The Committee is rather interested in this particular point just now and is making certain comparisons; we would be very glad to have it?—I will send you that. This covers all the various Schools, if it would be of any value.

4738. I think it would be desirable if we could have a return from you on a memorandum?—Yes.

Mr. *Benson.*

4739. I should like to have a copy of that. The full details will be very valuable?—I will send you a copy. (Sir *Gilbert Upcott.*) The figures quoted on Tuesday included every kind of staff, not only the instructional. (Sir *Herbert Creedy.*) I read out the instructional.

Mr. *Culverwell.*

4740. You gave a total as well?—Yes.

Sir *Robert Smith.*

4741. Do let us have the total as well on the paper that is put in?—Yes.

12 May, 1938.]

Sir HERBERT CREEDY, G.C.B., K.C.V.O.

[Continued.]

Chairman.

4742. Are we asking Sir Herbert now for the comparable figure to the one which we had on Tuesday where we can make a fair comparison? That is so,

is it? Are you of that opinion, Sir Gilbert?—(Sir Gilbert Upcott.) Provided Sir Herbert gives the total staff, distinguishing between its various categories. (Sir Herbert Creedy.) Yes.

VOTE 5.

QUARTERING AND MOVEMENTS.

Chairman.

4743. On Votes 2, 3 and 5, Sir Herbert, I should like to revert to a point which I raised with you last year, as to whether it would not be possible for us to get details of receipts just as you give details of receipts, say, in Vote 4?—(Sir Herbert Creedy.) Yes.

4744. You said, I think, that you hoped to be able to do it?—We are looking at Vote 5. I think we have split that up a good deal. Sub-head H, for example, is: "Conveyance by Sea." That is split up a good deal in the Estimates for 1938. There are now five items as against three. Take Vote 5, sub-head L, the Appropriation in Aid: There are now three items as against one in the Estimate under review, so I think we went through the book with that idea. (Sir Gilbert Upcott.) I think what the Chairman has in mind is the exhibition of the details in the Appropriation Account in the same way for Votes 3 and 5, as is now done for Vote 4,

and not merely in Estimate. (Sir Herbert Creedy.) There would be no difficulty about that.

4745. The Appropriation Account is what we are discussing, is it not?—Yes.

4746. If you look at page 13, you give there details of sub-head L, Receipts. I raised it with you last year, and you very kindly undertook to see if you could do something?—Yes.

4747. I do not think it has been done because, if you look at sub-head M on page 10, there it is just one figure; on page 12, sub-head G, it is just the one figure, and so on. Could you look at it once more and see if you can carry that a little further for us?—Yes. (Sir Gilbert Upcott.) If the Appropriation Account in future follows what has been done in the Estimates for 1937, I think that would probably meet your point as regards Vote 5. (Sir Herbert Creedy.) Yes.

Chairman.] May we take it that Votes 2, 3, 4 and 5 are approved? (Agreed.)

VOTE 6.

SUPPLIES, ROAD TRANSPORT AND REMOUNTS.

Chairman.] Page 16, Vote 6: "Supplies, Road Transport and Remounts"; are there any questions?

Mr. Culverwell.

4748. What is "Hired Road Transport" under sub-head G?—(Sir Herbert Creedy.) That is when we have not had sufficient mechanical transport of our own, and we have had to hire supplementarily. It is only a small sum.

4749. £40,000; I thought you had reserves of mechanical transport; do you

mean in a particular spot?—It might be in different places. We may want locally to cart stores for which we have not got sufficient mechanical transport at that particular station, and sometimes, when we lend our regular Army Service vehicles to the Territorial Army so that they can have them for training, we have to hire vehicles locally to take the place of the regular vehicles that we have lent to the Territorials.

Chairman.] May we take it that this Account is approved? (Agreed.)

VOTE 7.

CLOTHING.

VOTE 8.

GENERAL STORES.

(On these Accounts no questions were asked.)

(The witnesses withdrew.)

(Adjourned till Tuesday next at 2.30 p.m.)

TUESDAY, 17TH MAY, 1938.

Members present:

MR. MORGAN JONES in the Chair.

Sir Irving Albery.
Mr. Benson.
Sir Edmund Brocklebank.
Mr. Culverwell.
Mr. Mabane.

Mr. Peat.
Mr. Pethick-Lawrence.
Mr. Wilfrid Roberts.
Sir Isidore Salmon.
Sir Robert Smith.

Sir GILBERT UPCOTT, K.C.B., Mr. E. E. BRIDGES, M.C. and Mr. H. BRITAIN,
called in and examined.

NAVY APPROPRIATION ACCOUNT, 1936.

Sir ARCHIBALD CARTER, K.C.B., K.C.I.E., Mr. C. B. COXWELL, O.B.E. and
Mr. A. L. ANDERSON, C.B., M.I.C.E., called in and examined.

Chairman.

4750. Navy Appropriation Account, 1936. Turn to page vii, paragraphs 15 and 16 of the Comptroller and Auditor General's report, to be continued. We return to paragraphs 15 and 16. In relation to those paragraphs we now have before us certain new papers which have been circulated, containing the correspondence between the Treasury and the Admiralty regarding the purchase and conversion of the S.S. "Majestic." The Committee will remember they asked for this correspondence to be circulated?—(Sir Archibald Carter.) Yes.*

(Questions 4751 and 4752 not printed.)

4753. Will you please look at the letter of the Audit Department of 29th December, on the fourth page. Will you also, in respect of that, turn to the next sheet but one which contains the answer of the Admiralty to the Exchequer and Audit Department's letter. You will find, on the first sheet to which I referred, a reference in the last sentence of the first sub-paragraph: "Further, the contract for the conversion of the ship, which was placed mainly on a cost plus percentage basis, emphasised the need for keeping all repair and renovation work strictly to the minimum" (these are the important words) "on the distinct understanding that the services of the ship were required for a limited number of years only." If you will turn to the next page but one, sub-section (c),

* See Appendix 16.

you will find the reply of the Admiralty uses the words "to bring the vessel up to the required standard." Are those two phrases, so to speak, consistent with each other in this sense: was the required standard of the Admiralty, whatsoever that may be, in any way modified, in view of that fact that this renovation work, etc. was to be of a temporary character?—No. I think all the alterations that were done on the conversion of the ship were done at that stage with the impression that we should probably only use her for two or three years while permanent buildings were going up. She had been completed, or just about completed, before we came to the decision that the permanent buildings must wait, but I think it is fairly clear that, if you have a ship and you have to get it in sufficiently good order to last for two or three years, the chances are that it will last very much longer. I will not say it will not require repainting or something like that, but actually, having made it good for two or three years, we came to the conclusion that it would probably be good for ten.

4754. When you say it would probably be good for ten, in point of fact, there was no intention in your minds at all of retaining this ship for this purpose for ten years at this juncture?—Not originally.

4755. The decision was only taken later, was it not?—Yes.

4756. Having regard to the fact that you were simply overhauling this ship

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Mr. C. B. COXWELL, O.B.E., and Mr. A. L. ANDERSON, C.B., M.I.C.E.

as a temporary measure, so to speak, it strikes me (I must not ask how it strikes you) that the Admiralty insist upon putting into this temporary ship quite a number of things which seem to be indicative of raising the standard a little high?—Had you something particular in mind?

4757. Let me give you an illustration of what I mean. I do not at all object to having two chapels, for instance, but would it not have been possible for you, having regard to the fact that this ship was only required temporarily, to have made a shift, using some of the rooms already available for chapel purposes?—Two chapels sounds rather grandiose but I do not think it is more than a space set off in the ship, you know, for that purpose. Your suggestion is that the one space might have been used alternately?

4758. Certainly?—I am afraid I should not like to give an opinion on that off-hand.

4759. Let me return to the general question anyway. Was the required standard of the Admiralty a stiff standard (an immovable thing, so to speak) or was it something that could be adjusted to meet the circumstances, the circumstances being that this ship was only there for temporary purposes?—That certainly was in everybody's mind, but "temporarily" as I explained, was two or three years, and you cannot put a population of something like 2,000 people into something that is not fairly decent accommodation. If it is a matter of a few weeks anybody can do with a make-shift but it is not so easy when it is running on for some years.

4760. No, but, after all, the "Majestic" was a ship that had only recently been on the sea?—Yes.

4761. How long had she been on the sea?—She had been out of commission about six months when we bought her.

4762. She had accommodation for a fair population then?—Undoubtedly.

4763. I should think a much bigger population than this?—I should think undoubtedly she had.

4764. Would it not seem fairly reasonable to assume that a ship of that size catering normally for a very large population would have had sufficiently ample accommodation for a more limited population, granting, if you will, that they

would have to make shift for a time?—Quite frankly, Mr. Chairman, I think when we started on this job we did rather approach it from that point of view, that probably she would not need an awful lot doing to her to make her suitable for boys, but when they actually got down to it she was much less suitable, when they had worked out where all the space was to go, than we thought when it started; I think that is true. That is one of the reasons we thought it would be a much cheaper proposition; we thought we had something that would not want much re-planning, but when we got down to it we found that it did.

4765. I have no knowledge on this point; you will correct me if I am wrong. A ship like the "Majestic" going to sea must necessarily be examined or overhauled by Board of Trade officials, must she not?—I should think it must be so, but I could not give you any answer that would be of any value.

4766. She has to be surveyed, I think. Did you inquire of the Board of Trade officers or inspectors as to what the condition of this ship was before she was bought?—No.

4767. Have you enquired of them since as to whether they think that all this change was necessary?—I am not very clear, Mr. Chairman, how they could express an opinion on that.

Chairman.] On the question of the pipes, boilers and all the rest of it. Surely they must be examined by the Board of Trade Inspectors.

Mr. Mabane.] And the life of the ship.

Chairman.

4768. Yes; and yet all this work was done within six months of her having gone across the Atlantic?—I should not like to express an opinion off-hand whether, if we had gone to the Board of Trade first, which we certainly did not do, they would have been able to throw any light on that.

Sir Irving Albery.

4769. Did the Admiralty survey the ship in any way before they purchased her?—She was certainly looked at and examined, but she was not opened up in the sense of discovering how much work would have to be done on her; she was certainly looked over.

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4770. Is there a report on that survey?—I am not sure off-hand what information is in existence about it.

Sir *Robert Smith*.] May I ask when she passed her last survey?

Sir *Irving Albery*.] I understand she was looked at. I said "Is there any report on the survey". Have they got a report; if so it might be interesting.

Sir *Robert Smith*.] Lloyd's Register of Shipping down in the Library will give her last survey. We can at least know when that took place.

Chairman.

4771. It might be worth looking at?—I could not say exactly what formal report there was after inspection.

Chairman.] I will pass rapidly over this because we must not stay unduly long upon it.

Mr. *Mabane*.] If there was a report by the Admiralty, could we know what it was?

Chairman.] We can certainly ask for it and, if Sir Archibald cannot get it, we can ask for it ourselves, I dare say.

Mr. *Mabane*.

4772. The Admiralty went down to Southampton to look at it?—Yes.

4773. Sir Irving was asking if there was a report in consequence of that visit. If there is a report, could we have it?—I should think there would be a report; off-hand I cannot say exactly what it was.

Chairman.

4774. If we could have a copy we should be very glad?—Certainly.

4775. I suppose it was within the knowledge of the Admiralty that at some time this ship would be going up north to Rosyth?—Yes.

4776. Therefore under the Forth Bridge?—Yes.

4777. Did they know whether the funnels would have to be shortened or not?—I assume so, yes.

4778. How much does it cost to shorten a funnel?—Speaking from memory (the figure is given here) I think it is about £2,000.

Chairman.] £2,500.

Mr. *Culverwell*.] £2,454.

Chairman.

4779. I asked a minute ago whether there were not some extra jobs done that might very well have been put off. Take the swimming bath; there was a swimming bath already in the "Majestic" I understand?—Yes, a very small one and it was used for some time but the doctors came to the conclusion that on the whole it was rather unhealthy and anyhow it was not nearly big enough.

4780. May I ask a general question again. When these alterations were in progress, Sir Archibald, did anyone ask these technical officers, as representing you there (you could not have been there, obviously) when they were asking for these alterations: "Must you have these things done? Can you have them done cheaper?" was there someone there on your behalf to ask questions of that sort?—Certainly; the overseers were there on the spot with instructions, not only to finish the job as quickly as possible but to do it as economically as possible.

Sir *Isidore Salmon*.

4781. Did not you say that the work was to be done in a way to bring the vessel up to the required Admiralty standard?—I am afraid I do not quite follow the question.

4782. First of all, in dealing with the problem of the ship, you said that when you took over the ship (this has reference to a letter of 29th December) you said that the ship was required for a limited number of years only, then you go on to say "Renovation, painting, etc., to bring the vessel up to the required standard," the required standard of the Admiralty. My point is that the required standard of the Admiralty is a high standard necessarily. Was there nothing between a short period usage of the ship or, alternatively, if you had the ship for a number of years, obviously you would want to bring it up to a high standard of efficiency?—Clearly it would not have been the same standard for a warship, quite obviously.

4783. No, not for a warship but for a converted ship?—Yes.

4784. In other words it would have been very difficult to have done this to a higher standard than you have done it?—I should not like to say that.

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4785. Would you like to say it could have been? I can appreciate, Sir Archibald, that you are in a very difficult position, because first of all, the officer who was responsible for giving these orders for dealing with it is not present, that is, the expert of the Admiralty; therefore, obviously you must take the line that the Admiralty did all they reasonably could do in the circumstances, but that does not take us very far, does it?—May I make this observation, that the dominant consideration all the way through was the time factor; that affected the main decision but it also affected the work that was done at Southampton. The one thing we were pressing for was to get the ship to Rosyth as early as possible; in fact, she was a few weeks later than we had hoped. You do not, under those circumstances, do a whole lot of work that is unnecessary. It is open to question what the right standard is, but in those circumstances you do not waste time in doing a lot of things which are superfluous, if I may make that observation.

4786. Should not the officers have been somewhat nearer their rough estimate than what the thing has cost, in fact?—Certainly on the machinery side we were, frankly, staggered at what we had to do.

4787. I suppose it is essential for training these lads to have some guns erected?—You must have some guns.

4788. I am speaking in great ignorance, but would it be possible to have guns of smaller calibre?—I am only guessing but I think they probably put on board whatever guns they could easily spare. I suspect that was the dominating factor, but I am not sure of that.

Sir *Isidore Salmon*.] The mere fact of erecting guns on that ship has cost a lot of money for strengthening purposes and the officer responsible for giving that rough estimate should have had in mind what it was going to cost for making the alteration. If I may say so it does strike me that the original survey, even the superficial survey, which I think is a fair way of putting it, was done in a very loose way.

Chairman.

4789. We will not make comments at the moment?—Perhaps I might make a final observation on that?

4790. Will you reserve your final observation until later?—On that kind of point, that is, if we were to have the "Caledonia" we had to make up our minds very quickly because they were on the point of starting to break her up, so we had not very long to think about it.

Sir Irving Albery.

4791. On that last point, had they in any way started to break her up?—I believe a little had been removed.

4792. You told us that there was an officer who was in charge of the conversion. He was acting for the Admiralty?—Yes, the overseer.

4793. What were his responsibilities? Had he got a free hand in this conversion?—No, as a matter of fact, he was the man on the spot with the responsibility of watching the work, seeing that they did not do things which were not necessary and that it was done in an economical sort of way; but the technical officers from the Admiralty went down, to the best of my recollection, a good many times to visit her, he was not left alone on the spot single handed. He was visited during the progress of the work by a good many people from the Admiralty. I am afraid I do not know off hand on how many occasions.

4794. A lot more had to be done than was expected?—Yes.

4795. No doubt the technical officers went down to advise as to whether this was not good enough and if not, what was to be done?—Yes.

4796. As regards the officer on the spot, subject to the advice of these technical officers, was it his responsibility to decide exactly what should be done?—No, I think probably any big development or changes would have been approved by the technical officers.

4797. Then it would be between the officer who was supervising it on the spot and the technical officers who went down?—It would depend, I think, on the degree of the thing. The local officer would have a certain degree of responsibility of his own but if there was any big thing he would have reported to the technical people.

4798. That would be a different technical officer for each different kind of thing?—Yes, it would. In some cases it

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would be the Director of the Naval Construction's Department and in another case the Engineer-in-Chief's Department.

4799. I do not want to interpret it wrongly, but does not it come to this, that there was, I was going to say, no control, but I do not want to say that; but I mean to say there was no financial control over what was being done?—Certainly the financial control was not as close as it would have been if it had been done in a Dockyard because there we get a fresh estimate at every stage, which is hardly possible to do when it is being done by a contractor. I should agree; that is one of the reasons why we like to do a conversion job in a Dockyard if we possibly can; we have not the same close financial control as we have in our own Yards.

4800. There was not any specific time when the Admiralty suddenly came to the conclusion that this ship, which they hoped could be converted at an economical price, practically had to be, not remade, but very much altered? That did not come up at a specific moment?—No, I do not think at any stage it was raised that the bill was so heavy that one ought to consider another plan, and, indeed, at that stage it is quite plain it would not be economical to go to another plan.

Sir *Irving Albery*.] Is it desirable at present to go into the question of staff?

Chairman.] I think we had better dispose of all that pertains to the "Majestic."

Mr. Mabane.

4801. The estimate of £150,000 I would like to refer to. There was some discussion last time. It appears from the letter of the 14th April, 1938, that the estimate of the cost of conversion was £150,000?—If I may say so, with respect, I hardly think it is fair to describe that as an estimate. At the time we went to the Treasury we said in black and white that we could not give an estimate and they asked us really "Cannot you give us some idea of the kind of scale of the thing?" and, obviously rather incautiously, we did say £150,000, but it is not really an estimate because we said we could not give an estimate.

4802. My Lords then understood this cost (not estimate) might be in the region of £150,000. That was without the cost of buying the ship?—That was without the cost of buying the ship.

4803. The cost of alternative accommodation was "estimated" (this time) as £150,000 in the letter of the 29th December?—As earlier stated, that was the hutment accommodation for the boys, without accommodation for the staff and without allowance for heating and lighting; it was an incomplete estimate, but still it was given.

4804. At any rate the Treasury appeared to have been under the impression that the cost of the construction of alternative accommodation would have been £150,000?—That is right.

4805. If you turn to the last paragraph of all in the last letter of all there seems to have been some inconsistency here because the Admiralty in this letter of the 3rd May, 1938, say that then, on the 3rd May, 1938, "the alternative of providing hut accommodation ashore, which incidentally would, it is believed, have cost only little less (with all the necessary facilities) than the conversion of the ship," that is to say, £475,000?—Yes.

4806. What was bothering me was why the figure should have gone up from £150,000 to £475,000?—As I think I gave the Committee before, the present estimate (for what it is worth; and it was made after the event) for hutments that would last as long as ten years, was £400,000. The figure we believe, if we had done a proper estimate at the time, for only the two or three years that we then contemplated, would have been £340,000.

4807. We must disregard the first figure of £150,000 entirely?—It was an extremely incomplete estimate, I am afraid.

4808. The other point I wanted to ask a question about is this: I understand the approval was given in October, 1936; that is zero hour?—That is the formal letter or the confirming letter. Actually it was the 22nd August; that was the effective date of the Treasury approval.

4809. The first boys began to arrive in May, 1937?—That is right.

4810. How many boys arrived in May, 1937?—The first batch was 35. On the 12th June it had gone up to 163, 10th July up to 309, 7th August up to 388, on the 4th September, 619, and on the 2nd October, 833, and so on, running up to the present figure of 1,600.

4811. The time factor was bothering me, because I have been throughout

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unable to understand why temporary hutment accommodation could not have been provided in nine months to accommodate 35 boys; in ten months to accommodate 163 boys; in eleven months, 309 boys; in twelve months, 388; because it would seem to me that temporary hutment accommodation could be provided much more rapidly than that?—I do not think I should like to express an opinion about it. I have not any view in front of me as to in what period bits of it could have been done. I am afraid I have only the rough estimate for the completion, and that is an estimate of twelve months for the hutments plus six months for the heating, which I think could have been cut down a bit; but I could not tell you, if the thing had been done in blocks, by what time we could have got blocks ready.

4812. Am I right in thinking that by hutments you mean something like the huts we had in the War?—Mr. Anderson, the Civil Engineer-in-Chief, will be able to answer that better than I can. (Mr. Anderson.) What I do not think the Committee quite appreciate is that this was a scheme for 2,000 boys. You could put up sleeping huts, but the boys would not eat in their sleeping huts; we should have wanted a central administration, the central cooking place, the lecture rooms and the hospital accommodation. We should have wanted all central administration. You could have put up two or three huts and let the boys improvise cooking in those huts, but I do not think the medical authorities for these young boys would have approved.

4813. Do I understand the nature of the hutments aright, the sort of thing that were put up during the War?—Yes.

4814. We seemed to put them up a little more rapidly during the War?—Yes, but not a big scheme for 2,000 boys with all these central things.

4815. At the Ripon Camp we put up a good many huts in four months?—These young boys have to be more carefully provided for.

Mr. Peat.

4816. A statement was made that they wanted the "Caledonia" for a comparatively short number of years. How long do you anticipate you will be

using the "Caledonia"?—(Sir Archibald Carter.) The present idea is about ten years.

Mr. Pethick-Lawrence.

4817. I think you said that had the work been done in a Dockyard you would have had more estimates as the thing went along?—Yes.

4818. On what principle do you decide whether a piece of work shall be done in a Dockyard or as it was done here, and what were the guiding causes in your making your decision in this particular case?—We had no room for the "Caledonia" in the Dockyard. A conversion or repair job we invariably do in a Dockyard if we can, but we could not handle her at that time.

4819. You would have done it there if you could?—Yes, and would much have preferred it.

4820. It is more suitable in a case of this kind?—Much.

Mr. Benson.

4821. The cost of delivery to Rosyth was £6,000 odd. There were in addition to that, the shortening of the funnels, £2,450, and in addition to that, the overhaul of machinery. Apparently the cost of taking the ship to Rosyth, under her own steam, cannot have been much less than £9,000. What was the alternative cost of towing and was it gone into?—I could not say whether it was gone into at the time, but I did enquire from the Engineer-in-Chief's Department as to how much of the work on the machinery which is lumped together at £180,000 was for getting the engines into a state to take her into Rosyth and he said without now analysing the work all over again he could not say, but it was a negligible proportion and probably less than about 5 per cent.; 5 per cent. would be your figure of £9,000, it might have been anything up to that.

4822. 5 per cent. on what figure?—The total bill for machinery was £180,000.

4823. In that case the cost of delivering her to Rosyth was £18,000 or thereabouts. There is £6,000 delivery costs, £2,400 funnel and now an additional £9,000 for putting the machinery right, that is £18,000 to get this ship from Southampton to Rosyth, because she goes under her own steam. I think we ought to know what the alternative cost

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of towing the ship round would have been, because then there would have been no question of shortening the funnels, they could simply have been removed. We have £18,000 there for a journey half way round England?—I am afraid I should have to get you an estimate.

Mr. Benson.] I think we ought to have that.

Chairman.

4824. Will you make some inquiries?—Certainly.

Mr. Benson.] It seems a fantastic sum and if the rest of the alterations have been carried out on what seems to be a similar scale there is scope for plenty of enquiry.

Mr. Wilfrid Roberts.

4825. Mr. Chairman, I should like to refer again to this cost of the alternative suggestion for a camp, or something more permanent than a camp. £400,000 would appear to work out at about £200 per head; it seems to me an astonishing figure. Is there any comparable figure for other permanent or semi-permanent camps which can be given?—There is the staff as well as the boys.

Mr. Wilfrid Roberts.] A few hundred staff perhaps.

Sir Isidore Salmon.

4826. Eight hundred?—The figure which I gave you was a recent estimate of the hutments either on the temporary basis, which came to £340,000, or on the ten year basis, to £400,000 and was, I believe, framed after some informal consultation with the Air Ministry who have probably, at the present time anyhow, more experience of putting up huts quicker than anybody else.

Mr. Mabane: That conforms with my suggestion of one house per two boys.

Mr. Culverwell.

4827. You say you do not know when the "Majestic" was last surveyed?—No, I do not.

4828. I wonder if you could find that out for us?—Certainly.

4829. You say the Board of Trade were not consulted at all about this purchase?—No.

4830. Is that not rather surprising when they are responsible for the Mercantile Marine or have knowledge of

merchant ships?—I do not know if they could have given us any useful opinion as to the state of the ship. I do not suppose they were particularly interested whether she was scrapped or taken by us for a boys' training establishment. It is conceivable, I admit, but I do not know, that they might have been able to give us some information as to her state. She was looked at and it was only on opening up the engines that she was found to be in such a very bad state, but I confess I do not know.

4831. What made me ask was that a survey could not in fact have been carried out to Admiralty standards at a less cost than £50,000. That I can understand. You do not want a survey to Admiralty standards for a ship that was going to be an old hulk lying there as a training establishment, but I should have thought you could have had a survey by Board of Trade surveyors or even by Lloyd's surveyors which would have given you a better idea than could be obtained from the cursory glances or examination that your own people gave it?—I am afraid I am not in a position to give an opinion about that. I will have some enquiries made about it.

Mr. Culverwell.] You say the Board of Trade would not be interested whether she was broken up or went into the Navy. The Board of Trade is a Government Department. I think it the duty of the Admiralty not to work in a water-tight compartment. If they were going to buy a merchant vessel for conversion to Admiralty purposes, the first thing they should have done would be to ask the Board of Trade about her. We are dealing later with the "Vulcan". I should like to ask the same question when we come to that.

Chairman.

4832. We shall be coming to that later certainly. I want to ask the Treasury now if they have any observations to make?—(Mr. Bridges.) I wanted to say one thing on the last point, and that is that the Sea Transport Department of the Board of Trade were consulted, at the time when the Admiralty were considering buying the "Majestic", on the point whether there were any other ships which would be more suitable for this purpose and could be obtained at a lower cost, so they were certainly aware of the transaction and were consulted by the

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Admiralty about it on that particular aspect, namely, whether there was a more suitable ship. Whether the enquiries went further I do not know.

4833. They were not asked about the condition of the ship?—I do not know. (Sir Archibald Carter.) I feel fairly sure they were not. (Mr. Bridges.) I wanted to bring out the point that the Board of Trade were consulted about the proposition generally.

4834. Whether the "Majestic" or some other ship should be bought?—Yes.

Sir Robert Smith.

4835. What was the reply of the Board of Trade?—That there was no other ship.

4836. The Board of Trade must have had some knowledge of what the Admiralty's requirements were before they gave that reply?—(Sir Archibald Carter.) My recollection, which I confess is not too clear a one, is that we simply took steps to find out what other ships were likely to be in the market.

Chairman.

4837. Would you be good enough to tell us something about the views of the Treasury, if it has any, about this transaction; have you anything further to say upon this, Mr. Bridges?—(Mr. Bridges.) I am not really sure that we have very much to add. I think really the main points with which we are concerned in this transaction have been brought out in the correspondence and in the proceedings before this Committee. I do not know whether you wish me to sum up our views on the matter when the matter is being considered by the Committee?

4838. I do not quite know whether you should or should not; if you would like to summarise them, I think I would rather like to hear, in summarised form, what you have to say on the matter, because it is really a matter which is agitating the minds of the Committee very much?—We certainly think that the Admiralty ought to have informed us when it appeared that the cost of conversion was going to be anything like the figure it ultimately reached; in fact, when it appeared that the estimate which had been given to us was going to be exceeded, the matter ought to have been formally brought to our notice. It is true that we were aware, from the

provision made in the supplementary estimate, that the estimate of £150,000 for conversion had been exceeded, but we ought to have been told more directly than that and at a substantially earlier date. I think we also feel some anxiety as to the procedure involved, which resulted in the total cost of the conversion not being brought to our notice at an earlier date.

4839. Have you done?—I think those are the two main points.

4840. Would you care to give an answer to this question, Mr. Bridges? Do the Treasury feel satisfied that there has been sufficient financial control of this business exercised?—I think it is true to say that a time and line contract is probably the type of transaction in which it is hardest to exercise any proper control over the total expenditure, and I think it is only fair to put that point. Notwithstanding that, I am bound to say, I think, that we regard this transaction with some anxiety.

Sir Isidore Salmon.

4841. Sir Archibald, the question I am going to ask you may not be within your recollection or knowledge, but would it be possible to tell the Committee how much of the ship had been dismantled when they took it over?—(Sir Archibald Carter.) No.

4842. Instead of saying "dismantled" I will say how much had been exposed?—I do not think much had been exposed; I think some of the top stuff may have been removed, but I should have to verify that. I have a recollection and I should like to give it only as recollection, that they had to put back some of the stuff which had been taken away, which was of the value of something like £2,000, but I am only speaking from recollection as to that.

Mr. Benson.] I would like to have a list of any proposals which were turned down or modified on account of cost; was there a single proposal which was modified or turned down on account of cost, or has everything which was suggested merely been paid for.

Chairman.

4843. I am not sure you can give us an answer to that?—I should have to consult our technical people further, but I will certainly enquire.

4844. Will you turn to the return of the details of staff. I would like to ask

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one general question upon this return: to what degree, if any, are these establishments subject to Treasury control?—As regards the Naval Establishments only in the general way, that when Vote A for the year is fixed, subject to the approval of Parliament, that, of course, like other things in the Navy Estimates, goes to the Chancellor of the Exchequer, but the Vote A for the year having been settled the way in which the personnel are used is entirely at the discretion of the Admiralty. As regards the civil personnel, the salaried civil staff, I think I am right in saying that every post separately and individually has to have Treasury approval. The Treasury will correct me if I am wrong. As regards the subordinate civil staff, that is not, I think, sanctioned one by one, but it is subject to fairly close Treasury control, the total civil staff. (Sir Gilbert Upcott.) I do not think it would be correct to say that the unestablished staff is subject to Treasury control, but the established staff is. (Mr. Bridges.) In regard to the Naval personnel I have nothing to add. Broadly speaking our only control is over the total number which is agreed once a year and we have no control as regards their distribution between ships and Naval Establishments. For civil personnel the Treasury sanction is obtained where the maximum salary of the post exceeds £300 a year or where permanent appointments are proposed in excess of an authorised establishment laid down by the Treasury. In effect, that only affects a relative small number of posts in the "Caledonia".

4845. Looking at the details of those returns I confess, speaking for myself that I am a little handicapped because I do not know what these particular people would be doing and what their particular function may be, but shall we look at remark (e). There is a number of people. What are they doing? There are, as a matter of fact, 113 in the engineering branch on the administration side. Administration and maintenance, 113. Look at (e). In that subsection (e) 72 people are provided for. I believe there are altogether in this return about 79 sweepers; 103 in the accountant branch; 39 in the medical branch; 113 in the engineering branch, 72 of whom are accounted for and of those 16 are for boiler watchkeeping, whatever boiler watchkeeping may be, and 12 for boiler cleaning, and I under-

stand the number of boiler cleaners is eight now, is it not?—(Sir Archibald Carter.) I think that is right.

4846. You account for 72 people in (e); where are the rest, that is 41 left, what are they?—I am afraid I could not tell you what the balance would be employed upon.

Chairman.] I do not know (it is for the Members of the Committee to determine), but it seems to me so technical a thing and you would require a somewhat intimate knowledge of what these functions are and it seems to me to be scarcely a job for this Committee to go into, but I will say this, speaking for myself, that it does seem to me to be a matter which would justify an enquiry by somebody. However, I will leave it at that point and leave it to other Members to ask questions.

Sir Isidore Salmon.

4847. Take the total staff, without going into a lot of detail. Perhaps one ought to preface ones remarks by asking this question: is it a fair comparison to take the "Caledonia" and the "Ganges"?—The numbers are comparable so that you would expect the overheads to be comparable, but, on the other hand the "Ganges" is a shore establishment and has been in existence for many years. On the other hand the "Caledonia" is starting new.

4848. There happen to be more persons on board the "Ganges" than on the "Caledonia" and the number of staff per trainee seems to be considerably less on the "Ganges" than that on the "Caledonia"?—It is, undoubtedly.

4849. One was a little puzzled to account for it?—Undoubtedly, I think, the shore establishment is more economical in personnel, and also, as I say, the "Ganges" has been going for a good many years and it is easier to get down to the most economical basis than when you are starting afresh.

4850. Is the "St. Vincent" a land establishment?—Yes.

4851. So we have no real basis of comparison with the "Caledonia"?—No, I am afraid we have not.

4852. It is a little misleading to put these figures for the purpose of comparison?—You would have to go back quite a long way to get figures and they probably would not be comparable with

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hulks used; I do not think there would be anything comparable to the "Caledonia" because, as far as I am aware, we have never used any ship as large as that for a boys' training establishment.

4853. What is the largest number they would have had on board a ship for training purposes?—I should not like to say, but I should think something very much less.

Sir *Irving Albery*.

4854. There are something like 79 sweepers on the "Caledonia". Is that what on shore would be a housemaid?—I think they are mostly engaged in cleaning.

4855. At the time this transaction was going through would it be right to suppose that there was exceptional pressure of work at that time at the Admiralty?—It just followed the Government decision to accelerate the whole re-armament programme.

4856. Were you very overwhelmed with work at that time?—There was certainly a good deal of pressure.

4857. Exceptional pressure?—The time factor was dominating us. We had to get something ready as quickly as we possibly could.

Mr. *Mabane*.

4858. Perhaps Sir Gilbert could tell us this: why is a ship's cook classed as an accountant?—I am afraid you would have to go further back into the history of the Navy than I could speak for. In the accountant branch, the superior staff do look after the supply side as well as the accounting side; but I did not realise the actual cook was classed as an accountant.

4859. Amongst the accountants on the "Caledonia" are 48 officers and ships' cooks? It seems to me to be a rather peculiar classification. Perhaps it is a little out of date?—(Sir *Gilbert Upcott*.) It is not the practice in my Department.

4860. There are 116 in the executive branch, note (b) accounts for 70 of them; perhaps we could be told what the other 46 do?—(Sir *Archibald Carter*.) If the Committee would like it I can certainly get supplied a still more elaborate statement of the duties of these people; I think these notes at the side were meant to indicate the people

whom you would not naturally have expected perhaps to come under that particular title, that is what they were put there for.

Chairman.

4861. That is helpful?—It is condensed from a very long return.

Mr. *Mabane*.

4862. The difference between the messmen and the stewards I do not understand, because just as the sweepers are spread about amongst various items so we have in note (b) 15 messmen and in note (h) 20 stewards. I wondered what was the difference between a messman and a steward?—I am afraid I could not tell you that.

4863. One final question: the amount of staff in the engineer branch on the "Caledonia" is much heavier than in other establishments. Do I understand that that is because this is a ship and therefore has more duties to be performed which require the services of people in the engineer branch?—That is partly the explanation.

4864. 113 on the "Caledonia", 16 on the "Ganges", 18 on the "St. Vincent", 13 in the Mechanical Training Establishment?—Yes.

4865. Is that number so much higher because this is a ship?—I think partly.

4866. Have the Admiralty taken that into account in estimating the cost of having a ship as opposed to hutments?—I should not like to say that it had been fully worked out at the time the decision was made; it was in people's minds, but I certainly could not say that anything like an estimate would have been made of what the extra cost would be.

Mr. *Peat*.

4867. Arising out of a previous answer that Sir Archibald made, I gather it is cheaper to train these boys in a shore establishment than it would be on board a ship like the "Caledonia"?—I think undoubtedly you could get the staff down a bit on shore.

4868. I was going to ask if there was any advantage in that case in training them afloat; whether you would get more boys, a more rapid turnover?—If we could have waved a magic wand and had permanent buildings on shore overnight, we should have preferred that.

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4869. You do not get a bigger turnover if you have them on board ship than if you have them in hutments?—No.

Mr. Benson.] You said, Mr. Chairman, that this was a technical matter into which we cannot make any useful enquiry. Would it not possibly be desirable to have an independent inquiry into the whole of the staffing arrangements in these training establishments?

Chairman.] Obviously I cannot answer that; it is a matter to which we shall have to apply our minds when we come to our Report.

Mr. Culverwell.

4870. Why are there four chaplains?—They would be of different religious denominations. I do not know off-hand; probably an Anglican, a Roman Catholic and certainly one Nonconformist; I am not sure who the fourth would be. I can find out, but that is the main reason.

4871. I see there is only one for the same number of boys at the Mechanical Training Establishment?—That is at Chatham.

4872. They would not be on your staff; you would get them elsewhere?—Yes, it would probably be easier to get them at a Naval Base.

Chairman.

4873. Let us turn to H.M.S. "Vulcan."* On this question, one general question, first of all, Sir Archibald. Why have you compared the "Vulcan" with the "Mastiff" and the "Basset"? They are found on page 25 of the Dockyard Accounts?—Yes.

4874. They are the contract built vessels?—Yes.

4875. Why did you not compare them, say, with the trawlers on the previous page?—There is a big batch of trawlers there. Those are most of them for mine sweeping and I think one or two for anti-submarine work.

4876. And they are not comparable?—They are less easily comparable; it is a less elaborate job.

4877. The next question is this: on this statement it looks as if there is a tremendous variation in the cost per ton anyway as between these various ships to which you have referred. When purchased her displacement was 490 tons and the price was about £39 per ton. After conversion the cost worked out at

about £74 10s. per ton, which was a tremendous rise. How much time did that conversion take?—I think it was about eight months, I believe I mentioned it last time, I have it here, I think: July to April it was.

4878. The "Mastiff" was exactly the same tonnage, was she not, as the "Vulcan," 490 tons?—Yes.

4879. She worked out at about £90 a ton. Taking the "Basset", she was 480 tons, which is roughly the same and her price was, exclusive of armament, £57 10s. I do not understand how it is that these enormous changes appear. Now we come to the last paragraph and we are told there "The Admiralty Professional Officers estimate that had a Depot ship been ordered of special design, built to Admiralty requirements and embodying 'Vulcan's' main features, she would have had to have been of at least 725 tons displacement and would have cost about £80,000 (say £110 a ton)". Is the argument there this, Sir Archibald, that the increased cost of materials would have accounted for that difference?—No. I think you can say that she would have been probably a better ship, though we could not have got her so quickly. The conversion of the trawler, in spite of the fact that we made an extremely bad estimate to start with, was a more economical, though perhaps not so entirely satisfactory way of providing the ship.

4880. You have not quite so good a ship?—No, not quite so good a ship.

4881. Will you turn to the details: it is on the last page but one, you will find "Modifications and additions required during progress of conversion and not included in the firm's original tender" and then there follows a long list of modifications. Could you tell me why it was that some of these were never thought of at first? Surely they would have known that there was a battery room and charging arrangements required. Surely they would have known about distilling plant, wardroom store, copper-smiths' shop and so on; they surely would have known all that at the beginning?—I am afraid I cannot really answer, but I know they did, as the work went on, do a good deal of replanning. As I think I told the Committee last time this was the first ship of its kind and I think I used the phrase which is probably true, that they did some of their thinking as they went along.

* See Appendix 17.

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Chairman.] I was going to say something, Sir Archibald, but I will not.

Sir Isidore Salmon.

4882. You referred to their doing some thinking. It does strike one as a little strange that although the original estimate provides that there should be provision made for oil fuel in lieu of coal, yet you see "alterations to the galleys (oil fired)". One would have thought that that would have been anticipated originally and that it would not have been necessary to have a modification and addition?—Yes.

4883. One would have thought that a new mast and rigging could have been foreseen by looking at the ship?—Yes, I agree.

4884. And that it was not necessary to have had that as an addition. It seems that there was quite a lack of thinking at the time—I think you are right?—I think as I explained to the Committee this again was a rush job; they were wanting to get the thing out in a hurry. It was not a case in which we had plenty of time to draw out complete plans of what we wanted.

Sir Irving Albery.

4885. I am rather puzzled over these tonnage comparisons. Are those all displacement tonnage?—I believe these are all standard displacements; they are given to me as such.

4886. Again I am asking questions on a subject of which I am very ignorant but I was wondering how a ship of 490 tons is brought up to 670 tons displacement unless the hull is altered. I may be displaying appalling ignorance. I understand something about yacht tonnage; you can get a different tonnage without altering the hull but can you with displacement?—She did not have a bit put on to her or anything of that kind.

4887. Possibly the first displacement tonnage was when all that trawler gear had been taken out of her?—Yes, I should think that is possible.

4888. That would not be a proper figure to take for comparison, I should think?—That is possible; I am afraid I do not know.

4889. I only mention it because the whole of that comparison between tonnages at so much a ton without further information does not help the

layman much?—No. I think it was the Committee who asked for figures of cost per ton.

Mr. Mabane.

4890. The last paragraph on the page "The Admiralty Professional Officer's estimate" and so on "that the cost of the special vessel would be £80,000." May I ask what kind of an estimate that was?—I do not imagine it was a very careful estimate because it has been done within the week since I was here last time. I undertook to try and find out what they thought it would be.

4891. It was not an estimate made by them before the project for converting the "Vulcan" was undertaken?—No, it was not.

4892. We have referred to different kinds of estimates; you will not misunderstand me, this £80,000 figure is really not an estimate in any strict sense?—No, it is not.

4893. It is a guess?—It is a guess certainly, I undertook to do my best a week ago to try to get a figure and this is the figure they have been able to give me, but, frankly, as it is done within a week, I do not suppose they would like to tie themselves to it.

Sir Robert Smith.

4894. With regard to the "Mastiff", you say she was tendered for in October, 1936, and her cost was £44,000. You tell us in regard to the "Vulcan" that the "Vulcan's" price went up because of the increase in the cost of alteration. Was there no difference in the actual final price of the "Mastiff"?—No, that was a fixed tender job and the tender was accepted and there it is. That was not a conversion job at all.

4895. The reason I asked is because the wording is rather strange: "She was tendered for in October, 1936, and her cost (exclusive of armament) is working out at approximately £44,000". It looks to me as if the original tender price was less than that?—Exactly the same question occurred to me when I looked at this note. I thought as you did; I asked about it. The wording is no doubt unfortunate, but it is actually a firm price that was accepted and has been stood by. The same thing occurred to me.

4896. I do not know, but it seems to me that on this list which we are given

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and the analysis attached of the work done, it would be an advantage if the Admiralty, in an analysis, could give us something with more plan in it. My difficulty is to read down this thing and find what it all means. There are such extraordinary differences. "Mess spaces for crew"—what does that mean?—It is where they have their meals.

Sir Robert Smith.] Yes, I know. "Further alterations to mess spaces and crew's accommodation". It seems to me we ought to know something about what the structural alterations to the vessel were. She must have been made a larger ship. Another thing I cannot understand is why you suddenly buy a ship knowing that she is coal-fuelled and immediately start and turn her into oil-fuelled and afterwards put in internal combustion engines as well, because we have petrol-driven generators. Then we have steam-driven dynamos. It seems to me extraordinary. It seems rather difficult to understand how the whole thing is done. There seems to be no reason. The last thing I want to know is at the very end we find "Additional requirements in connection with the oil fuel-filling arrangements" which may be almost anything.

Mr. Culverwell.

4897. With reference to my question to you about the surveying of the "Majestic", was this ship bought on Board of Trade advice?—I should not think so, but I would not like to answer for certain off hand.

4898. The repairs to machinery were an additional requirement. The new main mast and rigging: I assume the new main mast was because the former one perhaps did not suit Admiralty requirements?—I should think so because she was only three years old when we got her, so I think it must have been that.

4899. The repairs to machinery rather puzzle me because that is a matter on which I should have thought the Board of Trade could have advised you, seeing that they survey these ships?—I think it is quite plain that this case differs almost entirely in that respect from the "Majestic", where the whole ship was in a very different condition from what we expected. I have heard no suggestion that this trawler, which was only three years old, was in a bad condition. It was entirely a question of converting her and fitting her and turning her into a different kind of ship.

4900. She has proved satisfactory?—I think so. She is in the Mediterranean now.

4901. The other thing I do not understand, "Fitting of gallows over after-end of ship to lift motor torpedo boats"—that was the purpose for which you purchased her, was it not?—I do not think so.

4902. I thought she was to act as a tender?—She was to act as a tender but I think the main purpose is to carry spare torpedoes and spare engines. I do not know at what time they decided that they must have something to be able to lift the stern of a torpedo boat.

Chairman.

4903. I feel I must say one thing to you. We have submitted you to a pretty searching examination about these matters but we must keep in our minds, as we do, I am sure, that you have been very forthcoming to the Committee and we know you have only been Accounting Officer since late in 1936. We appreciate that and whatever we have to say in the matter we know that you have helped us as much as you possibly can?—Thank you very much.

Chairman.] Shall we turn to the Accounts proper?

VOTE 1.

WAGES, ETC., OF OFFICERS, ETC.

VOTE 2.

VICTUALLING AND CLOTHING FOR THE NAVY, ETC.

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VOTE 3.

MEDICAL SERVICES, ETC.

VOTE 4.

FLEET AIR ARM.

VOTE 5.

EDUCATIONAL SERVICES.

VOTE 6.

SCIENTIFIC SERVICES.

VOTE 7.

ROYAL NAVAL RESERVE, ETC.

VOTE 8.

SECTION I. PERSONNEL FOR SHIPBUILDING, ETC.

(On these Accounts no questions were asked.)

Chairman.] There will be some convenient this afternoon to take the appendices to take with these Votes, appendices when we come to them. but I think it would be more con-

VOTE 8.

SECTION II. MATÉRIEL FOR SHIPBUILDING, ETC.

SECTION III. CONTRACT WORK.

Chairman.

4904. Pages 25 to 31. On page 31, the last item, Sir Archibald, would you give us a little explanation of these miscellaneous receipts, estimated £1,880; realised, £12,342 is.; surplus, £10,462, that is a very welcome item?—(Sir Archibald Carter.) The one that has the note against it "Due mainly to un-anticipated receipts from the Air Ministry"?

4905. Yes?—It must have been, I think, that we did more repayment work for them of some kind than we had originally anticipated, but I doubt if I can tell you exactly what the work was. (Sir Gilbert Upcott.) A special target, I think. (Sir Archibald Carter.) I am afraid I have not a note about it. (Sir Gilbert Upcott.) I think it was a special kind of target which both the Admiralty and the Air Ministry take shots at and as the Air Ministry are concerned in it they pay part of the cost.

Mr. Culverwell.

4906. On that point, I was going to ask a question rather bearing on the same point on page 52, where it says: "Brass magazine cases to the value of £22,669 were issued to the War Office in April 1936 without financial charge"; I raise it now because it is rather connected with that point Sir Gilbert mentioned. I want to know why you charge the War Office for a target and not for cartridge cases?—This is something which has to be manufactured and has to be paid for, this item on page 31.

4907. I thought you said it was for use as a target?—It is, I understand, a kind of target in which both Departments are interested.

4908. I was only wondering why the Admiralty charged for one and not for the other?—It is made now and has to be paid for, and, as both Departments are concerned in it, they have to pay for it. It is not like the issue of something already in stock.

17 May, 1938.] Sir ARCHIBALD CARTER, K.C.B., K.C.I.E., [Continued.
Mr. C. B. COXWELL, O.B.E., and Mr. A. L. ANDERSON, C.B., M.I.C.E.

4909. Issued without charge?—(Sir Archibald Carter.) It is not very infrequent that, when we have old stores for which we have no particular use, we hand them over.

Mr. Culverwell.] Please do not think I was criticising your handing them over; I was wondering why there was not a book entry of the £22,000.

Chairman.] Will you raise that point when we come to Appendix I?

Mr. Culverwell.] Yes.

Chairman.] Are there any further questions on page 31? May I take it that this Account is approved? (Agreed.)

VOTE 9.

NAVAL ARMAMENTS.

(On this Account no questions were asked.)

VOTE 10.

WORKS, BUILDINGS, AND REPAIRS AT HOME AND ABROAD, ETC.

Chairman.

4910. Pages 35 and 36, Vote 10: "Works, Buildings, etc." Would you be good enough to explain a little further item G on page 36: "Purchases of Lands and Buildings: Original, £25,000; Supplementary, £38,000"?—(Sir Archibald Carter.) I think, if it is agreeable to the Committee, Mr. Anderson, the Civil Engineer-in-Chief, is here, and he could probably give you better information than I could. (Mr. Anderson.) It was the delay in negotiat-

ing purchases of sites, principally for the Central Magazine Depot. The details are on page 38.

4911. The details say the same thing, but why was there a delay; was it avoidable or unavoidable?—Yes; until the contracts had been completed with the tenants it was very difficult to estimate which year they would exactly come in, so it is adjusted like that.

Chairman.] Pages 37, 38 and 39: the item Mr. Anderson referred to is Item No. 5 on page 38. May I take it that this Account is approved. (Agreed.)

VOTE 11.

VARIOUS MISCELLANEOUS EFFECTIVE SERVICES.

Chairman.

4912. Pages 40 and 41, Vote 11: I would like to know what that footnote N means: "Larger requirements for the removal of ashes owing to the abnormal conditions which prevailed in the early part of the year." What does that mean?—(Sir Archibald Carter.) It is rather mysterious. "Ashes" is intended to cover the disposal of all

refuse, and this is really an excess for ships in the Mediterranean. Apparently at certain ports in Palestine and Egypt they had to go to contractors, and it was more than what the normal cost would have been at a naval base.

Chairman.] Page 42: Are there any questions? May I take it that this Account is approved? (Agreed.)

VOTE 12.

ADMIRALTY OFFICE.

VOTE 13.

NON-EFFECTIVE SERVICES (NAVAL AND MARINE)—OFFICERS.

VOTE 14.

NON-EFFECTIVE SERVICES (NAVAL AND MARINE)—MEN.

47855

Q 3

17 May, 1938.] Sir ARCHIBALD CARTER, K.C.B., K.C.I.E., [Continued.
Mr. C. B. COXWELL, O.B.E., and Mr. A. L. ANDERSON, C.B., M.I.C.E.

VOTE 15.

CIVIL SUPERANNUATION, ALLOWANCES AND GRATUITIES.

(On these Accounts no questions were asked.)

Chairman.] Now we come to the Appendices: page 52, Appendix No. I and Appendix No. II.

Mr. Culverwell.

4913. With regard to the first item: "Brass magazine cases to the value of £22,669 were issued to the War Office in April, 1936, without financial charge," I only wanted to know why there was not a book-keeping entry?—(Sir *Archibald Carter.*) There certainly would have been a book-keeping entry, but we did not require cash from the War Office.

4914. Is it a charge on the War Office in their Accounts?—I suppose their Store Ledgers would show it. (Sir *Gilbert Upcott.*) It is a store accounting item. There is no necessity for cash to pass.

4915. Would it appear in the Army Estimates or the Army Appropriation Accounts?—It would appear in Army Store Accounts. There is a store accounting entry, but not a cash entry. (Mr. *Bridges.*) These are surplus to requirements.

Chairman.] Are you satisfied.

Mr. Culverwell.] Yes.

Chairman.

4916. Page 53, Appendix No. III: There is a decrease of £364,040 in respect of Item No. 3, and the note is: "Reduction in rate book prices (£1,104,000) modified by additions to stock"?—(Sir *Archibald Carter.*) There was a revaluation at what was supposed to be the current price. Even a fairly small price variation on our large stocks makes a very big figure.

Mr. Peat.

4917. Is that a principle, that you re-value your stocks according to market prices?—It is certainly for fuel oil. I do not think it is a universal practice, but it certainly is for fuel oil.

Chairman.

4918. Page 54, Appendix No. IV; page 55, Appendix No. V; Appendix No. VI, pages 56 to 61; Appendix No. VII, pages 62 to 83: under "Rosyth District", there is Item 85A: "Improved facilities"; then the explanation is "work accelerated". Could you tell us precisely what that means?—I think again Mr. Anderson could probably give you better particulars than I could. (Mr. *Anderson.*) That was the conversion of the Argyll Motor Works, which we bought, into the Torpedo Works at Alexandria. We had an estimate of £100,000 for the conversion, improving the facilities for the manufacture of torpedoes.

4919. Pages 84 and 85: This Item No. 91 has nothing at all to do with the "Majestic" at Rosyth has it? It is an additional provision for boys? Will one supplement the other?—(Sir *Archibald Carter.*) This is the Shotley Establishment, which has been going for many years.

4920. You will still want it?—Yes, indeed.

Chairman.] Pages 86 and 87; Appendix No. VIII, pages 88 to 92; Appendix No. IX, page 92; Appendix No. X, pages 93 to 98: Are there any questions? May I take it that the Appendices are approved? (*Agreed.*)

CIVIL APPROPRIATION ACCOUNTS, 1936.

CLASS VII.

VOTE 14.

PETERHEAD HARBOUR.

(On this Account no questions were asked.)

(Sir *Archibald Carter*, Mr. *Coxwell* and Mr. *Anderson* withdrew.)

17 May, 1938.]

[Continued.]

Sir HERBERT CREEDY, G.C.B., K.C.V.O., called in and examined.

ARMY APPROPRIATION ACCOUNT, 1936.

VOTE 9.

WARLIKE STORES.

(On this Account no questions were asked.)

VOTE 10.

WORKS, BUILDINGS AND LANDS.

Chairman.

4921. Vote 10, pages 24 and 25: "Works, Buildings and Lands": Would you just add a little further explanation to the Note to sub-head H, if you can, Sir Herbert?—(Sir Herbert Creedy.) The factory in question was Scotswood, near Newcastle-on-Tyne. The agreement to purchase was not reached in time. It is the Admiralty who are mainly responsible for the purchase and organisation of this factory.

4922. Turn to page 26: "Details of Expenditure under sub-head C." Item 5 has a note opposite it: "Delays owing to general review of Ordnance Workshop requirements," and the same note applies to Items 20, 46 and 79?—Yes.

4923. Could you just add some general explanation of that?—That is really due, Mr. Chairman, to the great and progressive advance in mechanisation. Mechanisation progressed so rapidly that we had to take fresh stock of our requirements in Ordnance Workshops.

4924. Pages 28 and 29: Item 15j: "Minley Manor"; I see from the correspondence that the Army Council seems to have incurred the displeasure of the Treasury? Could you tell us whether this matter has now been settled?—(Sir Gilbert Upcott.) That correspondence relates to Pinehurst. (Sir Herbert Creedy.) That is Item 15k. Minley Manor is going to be our new Senior Staff College.

4925. Is everything settled in regard to that?—Yes.

4926. Pages 30 to 57: On page 57, there is reference to the Minley Manor item; that is the one I by mistake referred to a few moments ago. Could you say a word about that?—We shall want the land round Minley Manor, which is not very far from Aldershot, for an extension of our training facilities in Aldershot, and Minley Manor itself we now propose to use to accommodate the Senior Class of the Staff College Students. You may have noticed the Secretary of State spoke last Friday of a proposal to divide the Staff College training into two periods—a Junior Staff College and a Senior Staff College. The Junior Staff College people will go into the present Staff College buildings at Camberley; that will be for the younger officers, and the Senior Staff College will be at the new place, Minley Manor, but it will not come into operation for a year or two as we have to respect vested rights and to see that those who have sent in their names for these examinations shall get their opportunity. We are reducing pretty considerably the age of entrants into the Staff College.

Sir Irving Albery.

4927. What is the acreage of the land?—Minley Manor is 2,585 acres.

Chairman.] Page 58: Are there any further questions? May I take it that this Account is approved? (*Agreed.*)

VOTE 11.

MISCELLANEOUS EFFECTIVE SERVICES.

Chairman.

4928. Vote 11, pages 59 and 60: The note to sub-head H is on page 60. You say there it is "mainly due to an exceptionally large claim for compensation"; would you tell us how much the amount for compensation was?—

(Sir Herbert Creedy.) £9,000. It was in respect of fatal injuries sustained by a French diplomat in Egypt who was killed by a War Department ambulance in Alexandria.

4929. The large Supplementary is not mainly due to that then, is it?—The

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[Continued.]

original estimate was £168,000, and we have to explain why we wanted so large a Supplementary, and so forth. (Sir Gilbert Upcott.) Excuse me: the note explains why they overspent the sub-head, not why they had a Supplementary. (Mr. Bridges.) I think another large item raised on that sub-head is the Anti-Aircraft Artillery range at Weybourne, which I think is in Norfolk, where it became necessary to give com-

pensation to the local fishermen owing to loss arising out of disturbance to their fishing.

4930. How much was that?—(Sir Herbert Creedy.) I am afraid I do not know that. I have got a note about this curious case of the French diplomat.

Chairman.] We will go on while you are looking it up. May I take it that this Account is approved? (Agreed.)

VOTE 12.

WAR OFFICE.

VOTE 13.

HALF-PAY, RETIRED PAY, AND OTHER NON-EFFECTIVE CHARGES FOR OFFICERS.

VOTE 14.

PENSIONS AND OTHER NON-EFFECTIVE CHARGES FOR WARRANT OFFICERS, NON-COMMISSIONED OFFICERS, MEN, AND OTHERS.

VOTE 15.

CIVIL SUPERANNUATION, COMPENSATION AND GRATUITIES.

(On these Accounts no questions were asked.)

Chairman.

4931. Page 67: "Balances Irrecoverable and Claims Abandoned". Now we take the Appendices: Page 68, Appendix I; page 69, Appendix II; pages 70 and 71, Appendix III; pages 72 to 79, Appendix IV; page 80, Appendix V: There seems to have been an alteration in the form of this statement under Appendix V, Sir Herbert?—(Sir Herbert Creedy.) Yes; we used to show in rather greater detail the make-up of those three main headings. We may, if we follow the lead of the Air Ministry, ask that this Appendix be eliminated altogether. I believe the Air Ministry have it under consideration whether even these figures do not disclose too much to interested parties.

4932. You are not asking for that now?—No, not now.

Chairman.] Page 81, Appendix VI.

Mr. Benson.

4933. On the "Process for making microphones" allowance, that on the surface seems to be rather a commercial invention than a military invention; was it specifically for military use?—Yes; we do use microphones to a considerable extent.

4934. Does it apply to any microphone or to military microphones?—No; I think this was particularly military, in connection with military signalling.

Chairman.

4935. Page 82, Appendix VII; page 83, Appendix VIII and Appendix IX; Page 84, Appendix X: "Losses Statement". I would like you to look at Items 1 and 6. Would you give us just an explanation as to the difference between the two cases, because I see in one case three officers were not disciplined, but they did in point of fact make a voluntary contribution?—Yes.

4936. In the other case, there was disciplinary action taken. Could you tell us why there is that difference?—In the first case, the fraud was made possible by entering disbursements at the time of payment in a record other than the Pay List which went to the Regimental Paymaster. In the other case, I think we had then to try the Company Accountant by Court-Martial, and we thought there was a greater degree of lack of supervision in the second case than in the first, and we thought justice would be met in the first case by accept-

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[Continued.]

ing this voluntary payment, but we had definitely to reprimand (which, after all, is more serious in a way than accepting a voluntary payment) the officers in the second case.

4937. Yes, but it looks as if these three officers in the first case anyway recognised that they had been personally open to criticism, for they voluntarily made a contribution?—Certainly, but we thought that there was a greater degree of lack of sense of responsibility in the second case than in the first, so we gave the others an official reprimand, which, of course, stands in their records.

4938. It will be there permanently?—It will be there permanently.

4939. What was the official job of the officers in the case of Item No. 1?—The officers in the first case would be, I imagine, the Commanding Officer, the Imprest Holder and an Inspector of Royal Engineer machinery, who, though not authorised to perform cash duties, actually made most of the payments. They were not quite in the same direct line of responsibility as the officers in the second case.

4940. They were not actually responsible for Accounts; is that the point?—Yes; I think that is the point.

4941. And the others were?—Yes.

4942. Pages 85 to 88: Would you explain Item No. 14 concerning Malta, Sir Herbert. There is a substantial loss there?—This consignment was supplied by a firm partly owing to the urgency of requirements. It was rejected by a Board of Officers on its arrival at Malta owing to its bad condition due to thawing and re-freezing at some previous time, a defect which had taken place prior to shipment. We consulted the Treasury Solicitor, who advised that a claim against the contractors would not

be justified, so the Army Council, after consulting with the Board of Trade, were satisfied that it was not open to them to take legal action against the P. and O. Line, who were the shipping company concerned, and considered that, in view of Counsel's opinion, action against the contractors would be unwise. We tried to effect a settlement, without success, so we had to apply to the Treasury to write off the amount in question.

Mr. Benson.

4943. You have not had any action for supplying meat unfit for human consumption in this country?—No; I have not heard of one.

4944. You sell it apparently as meat fit for human consumption because nothing else would give you that price; if you sold it for other purposes than human consumption, you would get a fraction of that price?—I have heard of no ill consequences.

Chairman.

4945. We come now to Appendix XI, page 89, Correspondence, Vote 10. Could you tell us what was the reason why you undertook that expenditure without the prior approval of the Treasury?—Which particular one?

4946. Item 15k; it is referred to in that letter on page 89?—That, I think, was due to a misunderstanding between the Command and ourselves. It was a definite misunderstanding by the Command of the authority that they thought was given us.

4947. They did not appreciate that they had to apply for Treasury permission?—No; they did not. They went ahead rather too quickly, I am afraid.

Chairman.] That is the end of the Accounts. May I take it that these Accounts are approved? (*Agreed.*)

ROYAL HOSPITAL, CHELSEA, ACCOUNT, 1936.

Chairman.

4948. Now we turn, please, to the White Paper: "Royal Hospital, Chelsea, Account," page 5, where you have the Comptroller and Auditor General's Report. I have one question to ask upon this White Paper, Sir Herbert. Would you be good enough to tell us what is to be done with the balance of this Jessel Legacy? There is a balance of £572; what do you do with it?—(Sir Herbert Creedy): I speak with some diffidence, not knowing very much about the Chelsea Accounts, but what

they usually do is they overhaul their investments from time to time, and put any excess of current cash in hand into further investments.

4949. You think that £572 will be further invested somewhere else?—I imagine that is what they will do, but I would like to ask before I answer quite definitely.

4950. The Comptroller and Auditor General says it was paid in two portions: there was one sum which was invested, and a balance; I wonder what would happen to that balance?—(Sir

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Gilbert Upcott): The point of my paragraph is that only £1,500 has been invested; the other £500 odd has not been invested. (*Sir Herbert Creedy*): May I find out and let you know?

4951. Yes, will you do so, please?—
Yes.*

Chairman.] The other paragraph is the Brookwood Memorial. Are there any questions? May I take it that the Accounts are approved? (*Agreed.*) Sir Herbert has fulfilled his promise to send to us a copy of this document dealing with the Establishments.

(*The witnesses withdrew.*)

(*Adjourned till Thursday at 2.30 p.m.*)

* *Note by Witness*:—The £572 of the Jessel Legacy was credited to the current account and expended on the Brookwood Memorial.

THURSDAY, 19TH MAY, 1938.

Members present:

MR. MORGAN JONES in the Chair.

Sir Irving Albery.

Mr. Culverwell.

Mr. Peat.

Mr. Pethick-Lawrence.

Sir Assheton Pownall.

Sir Isidore Salmon.

Sir Robert Smith.

Sir GILBERT UPCOTT, K.C.B., Mr. E. E. BRIDGES, M.C., and Mr. H. BRITAIN called in and examined.

TREASURY MINUTE ON PARAGRAPH 25 OF THE SECOND REPORT OF THE COMMITTEE OF PUBLIC ACCOUNTS, 1937.

Colonel Sir DONALD BANKS, K.C.B., D.S.O., M.C., Mr. L. V. MEADOWCROFT, and Mr. H. W. CLOTHIER, called in and examined.

Chairman.

4952. Shall we turn to the Treasury Minute dated 8th November, 1937, on the Second Report of the Public Accounts Committee, 1937. Paragraph 25 deals with Ministerial Authority for Contracts. Might I ask you, Sir Donald if the normal procedure is now operating

in respect of the letting of these contracts?—(*Sir Donald Banks*): Yes, Sir.

4953. Might I ask one further question, as to whether the Air Ministry accept the view that the Treasury in future should be consulted before any alteration of procedure takes place?—Yes, Sir.

TREASURY MINUTE ON PARAGRAPHS 26 TO 31 OF THE SECOND REPORT OF THE COMMITTEE OF PUBLIC ACCOUNTS, 1937.

AIR SERVICES APPROPRIATION ACCOUNT, 1936.

Chairman.

4954. Paragraphs 26 to 31, Control of Aircraft Prices and Steel Prices. I think it will be convenient if we take, in conjunction with these paragraphs 26 to 31, paragraphs 4 and 5 of the Comptroller and Auditor General's report on the Air Services Appropriation Account. I think I should perhaps do best if I asked questions on paragraphs 4 and 5. I understand from paragraph 4 that the agreement between the Ministry and the aircraft manufacturers or constructors

has been recast. Could you tell us the general outlines of the new agreement, Sir Donald?—(*Sir Donald Banks.*) It followed very largely the terms of the agreement which you were aware of last year. I think you can hardly call this a new agreement, or to any considerable extent a revised agreement. It was a re-worded agreement. As a result of the observations made by this Committee last year the agreement was reviewed then with a view to getting it accepted and properly incorporated with

19 May, 1938.] Colonel Sir DONALD BANKS, K.C.B., D.S.O., M.C., [Continued.
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the contract procedure. In the course of that, the Treasury Solicitor was consulted and he felt that it would be advisable to re-word the agreement and, of course, in so doing, we had to consult the other parties to the agreement. That raised certain points which took some time to clear up with them. Whenever one re-opens an agreement there is always an opportunity for the other side to ask for something more; the usual happened. If I may excuse my attitude on the last occasion, it was largely dictated by an anticipation of that kind, which anticipation was duly realised. But, in point of fact, after a long and a difficult time we succeeded in obtaining substantially the same agreement in broad outline as we had negotiated before. Of course, it is too long to give you in detail, but, if you would like me very broadly to outline the major sections of the agreement, that might be desirable.

4955. I think it would be agreeable to the Committee to hear the main outlines?—The first section is the price section.

4956. We do not want it in great detail, but the main outlines?—Perhaps the Committee might like to question me on any detail in the sections. I will just give the broad outline of the composition of the agreement. The first section devotes itself to determining the procedure to be followed in arriving at price settlements. The second part largely deals with the items which are to be allowed or not allowed in the computation of overheads. There is a good deal of detail in that. A number of things that had been previously a matter of dispute and disagreement at times in arriving at overheads were settled by agreement. The third is the break clause, that is the clause under which, at a particular moment, through general or specific causes the Secretary of State has power to terminate a contract. That break clause is an integral part of our procedure now, in the fond and fervent hope that a better time may arrive. The last section is the capital clause, which is the clause under which contractors are secured against the danger of being left with a large amount of fresh building on their hands at the end of the period of the expansion programme.

4957. You have anticipated one question I was going to ask you. I was

going to ask you whether it applied to the break clause and the capital assets, and apparently, you say, it does?—Yes, all those are in the agreement.

4958. Could you tell me whether the Hardman Lever Committee is now accepted as the final arbitral authority?—Yes, it is.

4959. I think you said, did you not, that that agreement covers also the question of price fixing?—All the price fixing, yes.

4960. I was going to ask a question about price fixing on paragraph 5. Have you any observations to make on the point of the price fixing, Mr. Comptroller and Auditor General?—(Sir Gilbert Upcott.) My position is that, at the present moment, my officers have only seen, I think, two cases in which reports have been made and the costing of the batches, as they are called, have been completed. We have made a request for further information which the Accounting Officer has under his consideration, and, in those circumstances, I am not in a position to express any opinion at the present stage. The matter, so far as I am concerned, is still in the preliminary stage, but the work of costing, according to my information, is proceeding.

4961. Just proceeding? That is still the position, is it, Sir Donald?—(Sir Donald Banks.) Yes. I think we have fixed prices in a large number of cases but not on the accounts under consideration.

4962. No, of course not. The Comptroller and Auditor General's report was dated 11th April, 1938?—(Sir Gilbert Upcott.) It relates to the 1936 Account. (Sir Donald Banks.) Yes, but, of course, we have fixed a large number of prices by now.

Chairman.] I have no further questions to ask.

Sir Isidore Salmon.

4963. When you speak of price settlement, Sir Donald, is the price settlement on the same basis as you have explained to us in the past?—Yes, there has been no variation from that.

4964. The agreement you have entered into simply implements in writing what in practice you are carrying out?—Yes. The agreement is working.

4965. But presumably the object of the agreement you have entered into was to settle a basis with the firms

19 May, 1938.] Colonel Sir DONALD BANKS, K.C.B., D.S.O., M.C., [Continued.
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generally that are supplying you with aero-engines and aero-frames?—Yes, aero-frames.

4966. And now you have on record the method under which you are to arrive at prices and whether you are to allow, or not to allow, overheads, as the case may be?—Yes.

4967. Are you still working on the basis of the target price with a bonus to the purveyor?—That is within the framework of the procedure. In fact, the fixed price method is being generally adopted.

4968. What do you mean by the "fixed price method"?—I find it difficult to explain unless it is clear that this is not an agreement which says that things should be done in a certain way. That is not so. This indicates the various procedures by which a price settlement may be arrived at and, under this agreement, there are successive alternatives available to the negotiating parties as a means of arriving at a settlement. The first procedure suggested under this arrangement is that the parties should try to arrive at a fixed price settlement, and a fixed price is no more than the ordinary haggling of the market. One man says he thinks he wants £10,000 for the aeroplane and the buyer says he thinks it is only worth £8,000 and you come out at a price probably in between. That is the fixed price. But, of course, over an article of this kind, of which nobody has a great deal of experience of the actual cost, or up to the present has not had much experience—for obvious reasons; there is great development that has taken place; vast technical development and so on—there was a fear on the part of the contractors that they would be unable to arrive at a price through the ordinary machinery of bargaining. In those circumstances they were very unwilling to take an order and to commit themselves to it in the fear that they might not get a reasonable settlement. So the agreement provided that, failing an early arrival at a fixed price (the ordinary type of agreement upon price), a second method would be available which, Sir Isidore, is the method you referred to, the basic cost method. That is the target price. A target price is agreed between the parties and, if the contractor succeeds in making the article for less than the target price, he shares the savings with

the Ministry. If it costs him more he merely gets his costs plus a fixed profit.

Sir Assheton Pownall.

4969. A fixed percentage or a fixed profit?—No, a fixed profit, not a fixed percentage. A percentage, if I may say so, is a sliding profit and the essence of this is that it is a fixed profit.

Sir Isidore Salmon.

4970. Then I understand that the main object that the Department had is to try and settle a fixed price where possible?—Yes. Just to complete it, lest there should be any misunderstanding, it is conceivable that even that target price could not be agreed, in which case the third alternative is a recourse to arbitration. I hope I have succeeded in making it clear. It is a succession of alternatives finally resting on arbitration, but the desire of the Department, and I think the desire of the contractors, is to arrive at a fixed price. The others are *pis aller*. (Sir Gilbert Upcott.) In case there should be any misunderstanding of what I said, when I said my officers had only seen reports on one or two cases, I was not referring to cases in which a price has been agreed by negotiation initially. As Sir Donald has said, prices have been so fixed in a number of cases. I was aware of that. What I was referring to was one of the alternative methods which are mentioned in my report, and to which Sir Donald has made reference, namely, where the procedure is to make initially a cost examination of the actual cost of the earlier batches and to follow up that by negotiation.

4971. The point I would like to understand is this: if your principle is to settle what you consider to be a reasonable price for the article that you are purchasing, how are you able to satisfy yourselves what is a reasonable price, having regard to the size of the order? That is the first point. The second point is: how do you satisfy yourself, as regards the sub-contract (which presumably plays a fairly large part in the original order, because of a large amount of stuff having to be sub-contracted for) as to the reasonableness of the price charged by the sub-contractors to the main contractor?—(Sir Donald Banks): I do not know whether it would be in order to say that yesterday I received a

19 May, 1938.] Colonel Sir DONALD BANKS, K.C.B., D.S.O., M.C., [Continued.
Mr. L. V. MEADOWCROFT, and Mr. H. W. CLOTHIER.

communication to say that I was to be examined on this question by another Committee.

Sir *Isidore Salmon*.] I will not press it; I quite agree.

Chairman.

4972. It is relevant to this Committee too; do not preserve the best for the other Committee?—Perhaps I might be exonerated in the second Committee if I answer satisfactorily in this one?

Sir *Assheton Pownall*.

4973. We are the senior here?—The question of sub-contracts is undoubtedly a very difficult one. You have asked so many questions in your question that I find it difficult to make a brief reply. As regards the price in general, the basis is the batch costs of the first part of the order. This agreement provides that, failing an agreement without any type of costing at all (which I should have said is the first thing of all, but that almost burked the question, because we do not fall back on the McLintock Agreement if it is a simple question of what we know to be an ordinary price) the fixed price is arrived at, not simply out of the blue, but by a process of costing initial batches. It is provided that two batches can be taken out, and that gives an initial guide to the cost of the whole contract. It is not a very conclusive way; obviously the earlier costs will always be higher than the later ones, therefore they are only an index. You cannot take that as an exact measure of costs, but, with the experience that my officers have, I think it is fair to say that it is a valuable index and sufficient to give one an idea of the way that the general costs should come out. In addition to that, there is a considerable body of knowledge (and it is a growing body of knowledge) of the performance of that particular firm on costs before. They have made aeroplanes for us before. We have their prices; in many cases we have got their costs. We can compare their performance on a machine—shall we say a machine like the "Gauntlet"—and then the successor to the "Gauntlet" is a derivative. It has a few changes, but, in general, it preserves many of the characteristics, so that you have a second internal check within the firm. You have a third type of check, which is the com-

parison with comparable types from other contractors. That, alas, is too widespread at present; with a standardisation of types, we might not have that; but, as a matter of fact, for very good reasons of which you are aware, there are a number of different types, and you can get a comparison between what one contractor is charging and what you know to be the costs of another type, and in that way you get a rough check against the contractor you are costing. Perhaps I am straying too widely? You put a very wide question.

4974. Will you go on?—The last one is a "Price Bible" that we are constantly compiling of world prices. We have got a considerable amount of information, and we are increasing that information all the time. For instance, our mission in America, I think, will prove extremely valuable in testing our prices against the American practice.

Sir *Isidore Salmon*.

4975. I do not want to press the point unduly, but, as I understand it, what it comes to is this, that with the information obtained by experience over some years, you feel that, if you get a fixed price for a number of machines, you are in a position to say: "That is not an unreasonable price"; you come to terms with them, and that is finished, and you have no more to do in reference to that particular contract. Is that the position?—That is the position.

Sir *Irving Albery*.

4976. My question has relation to the question Sir *Isidore* has just asked. He has the answer to my first point. Proceeding from that, I do not quite understand when the next procedure comes in. Supposing you do not agree on a first price: does that mean that the work is given out just the same, without a price having been agreed on, and then it is subsequently agreed on by one of the methods you have described?—On the type of thing we are doing already work was given out two years ago.

4977. Without a price?—Without a price on; what is called an "I.T.P."—an instruction to proceed.

4978. The work is given out without any price?—Yes—or only a provisional price.

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4979. And, after it is given out, you arrive at a price, if you can, by the simple method which has been described by Sir Isidore, and, if you cannot arrive at a price by that method, then one of the other methods is adopted?—Yes, that is it.

4980. In most cases, at any rate, in the past you have not been able to agree a price before placing a contract?—In very few of these cases can we agree a price before making a contract. It would take too long, and, besides, it might be a sheer impossibility. You cannot tell till the work is started.

4981. There is one other question I wanted to ask, if you can answer it. In a general way, are contractors inclined to negotiate with you as if they were rendering a public service for some profit, or do they really try to haggle? Do you find them difficult to deal with in that sense? Do they try to get as much profit as they can?—Contractors are only human.

4982. They vary?—I think it is almost impossible to generalise on that.

4983. May I put it another way: Are there not firms who are sufficiently public-spirited for you to feel that you could rely on pretty fair negotiations with them, and check other firms from that?—I think it is only fair to say that this is an industry that for years has been in a difficult financial position. It is almost impossible to begin to talk about a man being public-spirited or not in that situation. He has his shareholders to consider. What is public spirit?

Chairman.] I think we will stop at that point.

Sir Irving Albery.

4984. I think Sir Donald has given quite as detailed a reply as I could possibly expect, but I rather gather from it that the nature of your contracting up to the present has more or less been along the lines of everybody trying to get his pound of flesh?—No, I think not. I think there is a very genuine intention on the part of the great majority, if not all the main contractors we are negotiating with, to serve their country, and, if they do not serve their country, we are in a very bad state. The first thing we depend upon them for is to produce aeroplanes for us. When it comes to the

estimate of what the reward in pounds, shillings and pence for that service should be, I really do feel I am being pressed unduly to pass what virtually might be a condemnation on them as to their public spirit because perhaps they are asking for a certain reward that other people might think was relatively high.

4985. Do not think that?—I would like it to be on record, if these questions are recorded, that I find an evidence of public spirit in the industry, and I say that with every sincerity, but, when you translate it into cash, I find it so difficult to reply that I would rather be excused.

Chairman.] Certainly.

Sir Irving Albery.] Mr. Chairman, I would like upon what Sir Donald has just said to pursue it a little further. On the other hand, I do not think it would be right if it has all got to go down on the record.

Chairman.

4986. It is always very difficult, I find, to determine how much of this should come out later. Sir Donald naturally, in being quite frank and open with the Committee, may feel that he could not be quite as frank if it all had to remain on the record, but I think we must keep in mind that we simply cannot go cutting out huge chunks of the evidence later, so it depends upon the questioner, as upon the answerer, to keep that clearly in mind. That is all I can say?—I am obliged. I would like to say that I never feel I have any right to touch a question. Therefore, the questioner here obviously, when he puts a question, puts me in a very embarrassing position. You have allowed me to excise portions of my answers.

4987. Subject to this: That must not be too broadly interpreted. I merely mean it in this sense that any answer you think might be contrary to public interest if it were published should be excised?—That is how I have always interpreted it, but, as you perceive, the question is one over which I can have no control. I could not excise that.

Sir Irving Albery.] I was not really getting at the point on the agreement as to how much profit a contractor should make. That is a matter of opinion and one on which you could probably agree. You would be able to come to an agreement with a contractor as to what sort

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of percentage of profit he should make. I think in evidence last year you quoted a figure. What I was getting at was, from the point of view of economy, once you have agreed more or less what is a fair profit, then it seemed to me that it must be very difficult for you to make such a certain satisfactory contract unless you do get what I might call willing co-operation from the contractors—unless that kind of spirit exists.

Chairman.] Can you carry this discussion any further, really? I think Sir Irving has put his point; you have put yours.

Mr. Peat.

4988. I was going to ask Sir Donald, on the question of the overhead allowances, really rather arising out of what Sir Irving has been talking about. You have a new industry here which, in order to live, must be extremely competitive and must carry out a tremendous lot of research, and must also be prepared to scrap a considerable amount of valuable machinery. I was going to ask: What, if any, is the arrangement for purposes of obsolescence and wear and tear and depreciation in the industry—that side of it? I ask that question because it seems to me it will be of very vital importance, not only from the point of view of the industry, but from the point of view of getting the right type of machines when the country needs them?—We allow depreciation at the rate allowed by the Inland Revenue for income tax purposes.

4989. Is that part of the overheads?—Yes.

4990. You allow nothing else; no obsolescence, no further wear and tear, besides that allowed by the Inland Revenue?—(Mr. *Meadowcroft.*) We make the Inland Revenue allowance; they get the usual allowance on replacement of machinery.

4991. If it is replaced, but if it is not replaced they get nothing?—(Sir *Gilbert Upcott.*) There is an allowance for development expenditure under the agreement which perhaps relates to the point you are raising. (Mr. *Bridges.*) Perhaps it is relevant to say that the jigs and tools made for a particular type of aeroplane are allowed to be written off wholly in executing that particular order.

4992. I raised that question because it must have some relation to the percentage of profit allowed. If your allowances on that head are not adequate in the eyes of the particular producer, he may very well ask you for a larger percentage of profit. My next question is: have you any control as to whether that profit which you allow per machine or per unit is distributed or put back into the business?—(Sir *Donald Banks.*) None whatever.

4993. On the other point, special redundancy allowance on capital expenditure which is of no further use when your particular programme is exhausted, how is that worked?—The arrangement there is that contractors report to the Air Ministry (who report to the Treasury) such extensions as they undertake in connection with the programme as they want to have ranked for consideration under this capital clause. We examine those. We consider whether they have been undertaken definitely in connection with the orders placed, and we allow or disallow, in broad outline, the items for that purpose. At the end of the period, whenever it may be, of the expansion programme, the contractors will be entitled to present a claim to the Secretary of State for Air in respect of such undepreciated value of the asset as remains, allowing for depreciation in the course of that time and allowing for any residual value that may exist.

4994. That refers to machinery, but would it refer to a building?—Yes.

4995. There is no wear and tear allowed for a building?—Is there not?

4996. Not unless it is just a shell under which you have machinery?—I thought buildings were subject to depreciation.

4997. Not according to the Inland Revenue?—My information is that we do allow it.

Mr. Pethick-Lawrence.

4998. I must apologise that I was not here at the beginning and therefore did not hear a statement that was no doubt made about policy in the discussion. Therefore, if I am asking something which is not in accordance with what was said, perhaps you will correct me. I wanted to ask this: I understand that

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one of the methods you have of ascertaining a suitable cost for a considerable contract is to take a sample production and cost that and then make a target of that with a view to future contracts. Of course, it is quite evident that an employer who wished to make the target as large as possible will have many opportunities of doing so. What I want to ask you is what steps you take to prevent that target price being fixed too high. One method of increasing that target price, the cost of the sample machines, is to fail to co-ordinate the labour, to allow some of it to remain idle. What steps do you take to secure that in the costing of the original sample such a kind of thing does not take place, or takes place to the least possible extent?—We should allow for that in our estimate. We should not take the actual costs in that case; indeed, in any of these cases we should probably not only take the actual cost; we should take the costs of the processes as estimated by the technical cost officers. I am sure you will realise that there are two types of costing here. One is the accountant's costing, which is simply a record, as I understand it, of fact. The other is the technical costing, which is an estimate of the cost which should be incurred in producing things that involve certain processes. It is the latter upon which we depend for our price.

4999. But who is estimating; is he one of your people or one of their people?—He is one of ours.

5000. He is in a position to estimate what a particular piece of work done by a particular technical engineer should cost?—Yes.

5001. So that it is not the cost which the manufacturer actually professes to incur?—No.

5002. But a notional cost that you have formed already?—Yes, based on our technical cost estimates.

5003. Do you not get a conflict of opinion as to whether that is a sound notion or not?—Yes, we do very definitely.

5004. Who decides that?—In that case, as I was explaining before you entered the room, there is a recourse to arbitration; that recourse illustrates, I think, admirably, what I was trying to explain just now, that you go from one thing to another. Failing agreement on

one you have recourse to another; failing agreement on that, you fall back on the arbitration; but at no point do you take as a basis, actual facts, for the very reason you have pointed out, that it is so evident that that would be a way of inflating costs.

5005. The other point I wanted to know was with regard to overhead charges; of course it is perfectly clear that the overhead charges applicable to one sample would be an entirely different proportion when you come to produce a considerable number of machines at one and the same time. What steps do you take for allocating overhead charges as between producing one or two samples and producing a considerable order?—There you are dependent on the application of a percentage.

5006. I would like to have that a little clearer, because, of course, this is not the only job that the particular manufacturer is doing; he is doing all kinds of different things, some similar and some entirely dissimilar. I would be glad if you would explain a little more what you mean about the percentage?—On these contracts that we are discussing, that is, broadly, for airframes, the manufacturer is, at the present time, mainly, if not entirely, engaged on Air Ministry work. That does somewhat simplify the problem. The overheads may, of course, be spread over two or three jobs; but in general the cost accountant is not faced with quite such a difficult problem as the ordinary type of overhead problem, which I know from experience is an exceedingly difficult one. I am afraid I may not have answered your question fully, Mr. Pethick-Lawrence.

5007. I think you have, to a certain extent. I think I understand your point. I gather that you would add to that, that if a man is producing x machines and at another time he is producing y machines, it is not impossible, at any rate, to discuss what should be the allowance per machine when he is producing y as against the allowance when he is producing x . That is really your point, is it not?—Yes, I think that is so. You have the costs of his establishment available to you. You enter into a price negotiation with him. In most of these cases you actually know you have filled him up completely for 18 months or something of that kind. That has been the

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state of affairs with a great many of these manufacturers, in fact, the vast majority of them. You then apply, in estimate, of course, what you think it should cost him during that period of time for 18 months ahead, in the way of overheads. You add that to the labour and material, on estimate too, on the technical cost basis, and you say "We think a reasonable price for this job should be so and so." He almost inevitably says it should be more, and then you go through the processes that I described before you came in, I think, except in the case, of course, where you have a sort of *post mortem* application, which would be under a basic cost method. As Sir Isidore indicated just now, you finally come down to a matter of judgment, but it is judgment based upon a vast mass of material.

Sir Robert Smith.

5008. With regard to Sir Irvine's question about public spirit, I do not know what is being taken out and what is being left in, and that is why I am putting my question: this question of public spirit seems to be cropping up not only in this Committee but in others of the same nature that I am on. There are others raising it. What I wanted to put to Sir Donald was this point. When one talks about public spirit, it is such a difficult thing to arrive at, because, say, a certain firm is making 5 per cent. profit and others are making 10 per cent. The one that is making 10 per cent. may really actually be more public spirited, owing to the size of the firm itself, than the one that is making 5 per cent.; is that not so?—Are you speaking of profit on turnover or profit on an article?

5009. You allow a profit of a certain percentage on an article?—You are speaking of a profit on turnover?

5010. Yes?—If I may say so, that is very important indeed. With great respect, it is the whole essence of this problem. People will confuse profit on turnover with profit on capital. We are dealing here with profit on turnover. How far that is translatable into profit on capital is the whole art of business.

5011. It is such a difficult thing to arrive at; that is what I feel?—Yes, I think that illustrates my difficulty in answering Sir Irving.

Sir Robert Smith.] That is why I put it; it seemed to me that was the sort

of reply Sir Irving wanted. It seemed to me we ought to have it on record because this question is cropping up, I notice, and it seems to me such a dangerous question from the point of view of the public; that is why I asked.

Chairman.] One of my colleagues points out that this is a Public Accounts Committee, not a Public Spirit Committee.

Mr. Culverwell.] I wanted to ask with regard to the allowance for capital development: at the end of this expansion, if there is ever an end to the expansion, supposing the firms have spent £1,000,000, for example, directly upon air service work, you will replace the cost of the buildings, the machinery, and so on, less the depreciation? Is that what I understand?

Mr. Peat.

5012. May I interpose here, because I think I might clear it up. I asked a question with regard to the wear and tear of buildings, you remember, and Sir Donald said he was under the impression that there was wear and tear on buildings. Although I have some knowledge of these things, I did not wish to contradict him, but I have asked Mr. Bridges and this is the actual position; I want to have it put on record. Mr. Bridges says: "I gather that the ordinary wear and tear allowance does not apply to buildings; in the case of mills, factories or other similar premises, however, a special allowance may be made in respect of the depreciation of such premises due to the vibration caused by the power machinery which they contain"; and that one is aware of. This is the important thing, which answers the question I put to you. "Under the capital clause agreements, the Air Ministry will require the value of the permanent buildings covered thereby to be written down each year by the amount of the Schedule A assessment, this having already been allowed in overheads." That is what I wanted to know; that clears the position?—We were both right.

Mr. Culverwell.

5013. The position would be that a firm which has definitely undertaken capital expenditure purely for air service work will really not be the losers by

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it?—I think that is so. The whole intention of the clause is to protect them in embarking on considerable capital expenditure in relation to a short term programme or a short term order. I think it would defeat itself if it failed to do so.

5014. The only question I was going to ask, arising out of that, was: do not they become then in the nature of "shadow" factories? If you are going to replace the value of, or compensate them for the expenditure upon buildings and machinery which are necessary for your work, is it not practically the same as constructing a "shadow" factory?—Yes, I think I would agree.

5015. Then what is the difference between a "shadow" factory and the expansion of an existing company?—These are all "shadows" in the sense that they represent potential capacity for production. That is to say, from the point of view of the defence programme, all this has a "shadow" significance. I think that is one answer. But, from the point of view of the management arrangement and so on, there is, of course, a very considerable difference. In the one case, which I have no doubt we shall reach later, Mr. Chairman, a different type of management is set up and different types of payment and so on are entered into. In the other case it is the contractor himself who undertakes the greater part of the risk.

5016. That was my point?—(Sir Gilbert Upcott.) The ownership at the end of the period is different, of course.

5017. That is why I ask the question?—(Mr. Bridges.) The "shadow" factories are all independent entities which, so to speak, operate on their own, and they are on separate pieces of land which belong to the Government, and the Government owns the whole thing. What we are dealing with here under the capital clause is something quite different; it consists of extensions and additions to a contractor's own works on his own land and, broadly speaking, I should say the extensions which are done under the capital clause are all jumbled up with the owner's own works, so that Government ownership of something separate from the contractor's own works is a physical impossibility.

Sir Robert Smith.

5018. May I put a question on what Mr. Bridges said: he said they were separate entities and could work by themselves. Is it not the fact that the power is supplied in many cases by the parent factories? They are not entirely separate entities?—That I do not know. (Sir Donald Banks.) That was also dealt with on another Committee not long ago.

Chairman.] We have no official cognisance of that.

Sir Robert Smith.] That is why I asked it.

Chairman.

5019. We are not all privileged to sit on that Committee, so we do not know?—The power is not, very broadly speaking, entirely independent of the other supplies.

Sir Assheton Pownall.

5020. You mentioned, in reply to Sir Isidore Salmon's first question, appreciable difficulty with regard to the question of sub-contractors. I do not think you developed that at all. How do you cope with the question of a check upon sub-contractor's prices?—The endeavour is to check, broadly speaking, that, in the make-up of the contractor's price, so far as it includes sub-contract articles those items are of a reasonable price. If they do not appear to be reasonable, then our officers would ask for permission to inspect the books of the sub-contractor. In many cases we have succeeded in securing a reduction on those prices by a reduction as between the sub-contractor and main contractor, which is passed on to the Ministry, of course.

5021. Would you have any power, if you thought the sub-contractor was charging unreasonably, to get the main contractor to arrange for other sub-contractors? What happens in cases of that sort?—A power to require him to take another article?

5022. Yes?—You would have to know in advance. We do not exercise a meticulous control in that way. It would enter to some extent into the specification, but I think, as a broad generalisation, we should regard that primarily as a matter for the main contractor himself.

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Chairman.

5023. You say you would ask leave to examine the books of the sub-contractor. Have you had any difficulty

at all in regard to that matter?—Very little; surprisingly little.

5024. Where you have had difficulty, you have no power, I suppose?—We have no power.

TREASURY MINUTE ON PARAGRAPH 32 OF THE SECOND REPORT
OF THE COMMITTEE OF PUBLIC ACCOUNTS, 1937.

Chairman.

5025. We come now to paragraph 32 of the Treasury Minute. That is in regard to "Steel prices: statistics supplied to Import Duties Advisory Committee." Have you anything further to say on that?—(Sir Donald Banks.) I would rather the Treasury representative answered. (Mr. Bridges.) An accountant has been appointed who is to carry out this recommendation.

5026. I noticed that. Could you tell me whether it has borne any fruit in respect of prices?—The position is that

the price of pig iron is stabilised until June, 1938, and the price of steel products generally is stabilised until December, 1938, so that there has not been any season within which fruit could be borne at the moment or for fruit to show itself.

5027. The fruit may appear at the beginning of next year?—Yes; it is not the usual season for fruit. The arrangement is working quite well.

5028. The Treasury has agreed with our recommendation from the point of view of accounting?—Yes.

AIR SERVICES APPROPRIATION ACCOUNT, 1936.

Chairman.

5029. Turn now please to the Air Services Appropriation Account, page iii. Paragraph 1 is formal. Paragraph 2 indicates that the delay in delivery of technical and warlike stores has been made up by more rapid progress on the works services and establishment of new factories. The gross expenditure was within about 1 per cent. of the estimate, I think, was it not?—(Sir Donald Banks.) Yes.

Chairman.] That looks rather satisfactory. Paragraph 3 refers to receipts. Then we go to paragraph 6.

Sir Isidore Salmon.

5030. On paragraph 6, are they actually at work at the "shadow" factories?—Yes.

Chairman.

5031. On paragraph 7 could you give us some particulars? At the top of page v we have some discussion in the Comptroller and Auditor General's report on the remuneration of the agents. Could you give us some particulars of the sums indicated under (a)

there?—Yes; the agents (taking the airframe contractors first) as you know, are Messrs. Austin and Messrs. Rootes, the two factories. They get, for the fixed amount in respect of the construction period, a payment of £50,000 each, after which, as you see, they are remunerated by the number of airframes.

5032. Could you indicate to us how that sum of £50,000 was arrived at?—By a process of negotiation, I think. Mr. Meadowcroft might be able to inform you rather better than I can.

5033. Can you, Mr. Meadowcroft?—(Mr. Meadowcroft.) It was estimated at the time to be roughly (x) per cent. of the capital cost. Actually, the capital cost having gone up beyond the original estimates which were then being considered, I think it probably is a little less.

5034. On (b), could you develop this a little further, as to the sum of £200 or £225 per airframe and £75 per engine produced? What does it cover precisely?—(Sir Donald Banks.) That is simply and solely the remuneration to the manufacturer for undertaking this

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work. Everything is paid for him. The essence of these agreements is that we pay labour, material, overheads, capital costs and everything; he has not to pay a penny, with the exception of the time of certain Directors and the general over-riding management. We pay the works management, but not the over-riding management, and this is the reward, remuneration or payment for undertaking the work for us.

Chairman.] Thank you. I think I understand.

Sir Isidore Salmon.

5035. Really the payment that you are making is for expert supervision?—I should go further than that.

5036. Expert supervision and management?—It is for undertaking the work for us.

5037. Quite; they become responsible; they have a great responsibility?—It is one of these things that you cannot—

5038. It is difficult to define?—Yes, it is difficult to define; some people could do it and some people could not; these people happen to be able to do it.

5039. Therefore I think it is fair to say that you are simply paying for expert supervision and management of a very technical piece of work, and, by their experience, you are able to get a larger production when you want it?—Yes, I feel that that is the essence of the thing: that if you went to just anybody (Mr. X) and paid him £200 per airframe produced, you would not get any airframes; he would not get any payment; nothing would happen; but if you go to Mr. Y, who can make things, and something happens, he gets a reward.

5040. I am not quarrelling with it. I think it is a good idea?—I feel that there is a danger of someone saying "You are paying for supervision twice here," because it is the fact, and one must recognise that, that within the factory we are paying the supervisors, the works managers.

5041. In running a big business, one does observe and know that it is necessary to have higher supervision as well as the local supervision?—It was that point I rather wanted to bring out.

Sir Irving Albery.

5042. I assume it refers, I will not say to mass production, but to large quantity production?—Yes.

5043. Can you give me any idea what the relationship of the £200 for an airframe is to the value of the airframe? It will not always be the same, but approximately?—(*The witness gave percentages.*)

Chairman.

5044. Paragraphs 8 and 9. They are machinery, I think. Could you tell us whether these agreements which are referred to in paragraph 9 are all settled?—No, they are not. The agreements for the engine factories are settled. As to the airframe agreements, we are agreed on all the essential matters. We are still in the final legal throes.

5045. On paragraph 10, could you tell us, Sir Donald, whether there was reasonable competition in the placing of these contracts?—In the placing of the contracts for the capital expenditure?

5046. Yes, the buildings and so on?—There was a certain amount of single tender work. It was largely left to the contractor to advise us as to whether the single tender would be justifiable in the circumstances or whether the matter should go to competitive tender.

5047. It was left to whom?—To the manufacturer who undertook the work for us.

5048. I think I did not quite catch that; will you put that again?—There is a good deal of single tender. A good deal of the capital work involved here was put out to single tender. That was done largely on the advice of the individual agent, and we accepted or demurred (in most cases I think we accepted it) on the advice of our agent.

5049. Was there competition in respect of the supply of plant and machine tools?—I am afraid I could not say, on a specific item.

5050. It plays a very big part, does it not?—My information is that there was competition in a good deal of it, but a great many of these machine tools are proprietary and, in those cases, I am told there was single tender and direct purchase.

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5051. In those cases, I suppose, you had to take them at whatever price you could?—I should say so, most probably.

5052. And, whether you regarded the price as reasonable or not, you were pretty well helpless, I take it?—(Mr. *Bridges*.) I think for most of those articles there was a standard or catalogue price; I think that applies to a certain range.

5053. If they are proprietary articles, whatever the catalogue price was, if they asked you more, you would have to pay?—Not if they asked us more than the regular catalogue price which other people were paying; certainly not.

5054. I suppose you would have to get some of these from abroad, would you not?—(Sir *Donald Banks*.) Yes, there was quite a deal of foreign purchase. (Sir *Gilbert Upcott*.) So far as I am concerned, I shall expect to receive the certificate of the Director of Aeronautical Production that the prices are fair and reasonable in his opinion.

Sir *Isidore Salmon*.

5055. The money we are referring to in paragraph 10 has regard to the "shadow" factories?—(Sir *Donald Banks*.) Yes.

5056. I suppose the thing the Government agents had in mind was the necessity of getting the buildings efficiently and quickly built?—We are very well satisfied with the way it was handled by the agents in general. They undoubtedly did save a great deal of time by the way they placed their contracts.

5057. As a matter of interest, have you compared it to see how these factories vary in regard to the figures per cubic foot for building costs?—I have a recollection of having seen something of that kind; I would not like to quote, though, from my recollection. (Mr. *Bridges*.) Might I add something on that point: the estimates of the cost of these factories all came up to the Treasury Inter-Service Committee, and the type of criticism which we applied there would certainly include the point which Sir *Isidore* mentioned; I mean, comparing the cost per foot cube and the total cost of the different factories, and asking for reasons why one wa-

more than another. In a general kind of way that certainly was done.

Sir *Irving Albery*.

5058. I understood Sir *Donald* to say that the agents' remuneration during the period of construction was (x) per cent.?—(Sir *Donald Banks*): No.

5059. I misunderstood you?—I think I said the over-all remuneration could be taken at that. (Mr. *Meadowcroft*): I said that. (Sir *Donald Banks*): Yes, my Director of Contracts made that observation. You asked me what the percentage of £200 to the cost of an airframe was.

5060. I am not on that. I am only on the construction period. I was puzzled a bit by these figures; capital expenditure was so much and jigs so much, and then there is part of remuneration for the construction period?—(Sir *Gilbert Upcott*): Those figures are merely expenditure charged to the account of 1936. They are no guide as to the total. They are merely figures of the expenditure charged to the account in 1936.

5061. They are not particularly related to one another?—No.

Mr. *Peat*.

5062. I was going to refer to that item: "Part remuneration for the construction period." That is a payment made to the agent or agents, is it?—(Sir *Donald Banks*): That is paid to the agent.

5063. I was going to ask what this item is, item (c) in paragraph 10; the figure is given, £168,000?—(Mr. *Meadowcroft*): Yes.

5064. What is it in respect of?—It is in respect of supervising the construction, but not only that, planning the layout. (Sir *Donald Banks*): It is the advances on those amounts we referred to just now, the £50,000 for the airframe people. The engine people got £24,000 each, and this is how it builds up just during this period. It happened to fall into a broken period; I think that is right. (Sir *Gilbert Upcott*): Yes. It comes to about two-thirds of what the total will be.

5065. I thought it referred to the construction of the "shadow" factories?—(Sir *Donald Banks*): This is simply the remuneration for the construction period which fell within the period of this account.

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5066. It had nothing to do with the airframes or the engines?—No, because they were not being produced at that time.

5067. It merely refers to the buildings and the equipment of the factory?—Yes. During the time in question all that was happening was that the ground was being cleared and the factory was being put up and the plant installed.

5068. What is the approximate rate or the basis for this remuneration?—It is a negotiated rate; I thought I explained that.

[Sir Irving Albery.] I am in the same difficulty; I follow it less now than when I asked the question.

Mr. Peat.

5069. Might I ask this, which shows how little I know about it. Who is the agent, in the first place; what type of man?—Are you asking about individuals?

5070. Mr. Rootes; is he an agent?—Mr. William Rootes?

5071. I was not in any sense criticising them?—(Sir Gilbert Upcott): The firm I think is the agent; is that not right? (Sir Donald Banks): They are motor car manufacturers.

Chairman.

5072. The Member of the Committee is merely asking for some information as to the type of person who acts as your agent. He is not implying any reflection upon the agent at all?—Of course, I did not imagine he was; I am sorry; the term "agent" is simply a way of describing a motor manufacturing firm that has undertaken this work on behalf of the Air Ministry.

Mr. Peat

5073. I understand that he gets a percentage or some remuneration for the output of frames and engines which you have described and referred to, and, in addition to that, he gets remuneration for the laying out and the building of the "shadow" factory in which he is going to produce these various parts, and so on?—Yes.

5074. I can understand clearly that an agent who is going to produce aeroplanes, being a technical man, should be rewarded for the work he does in producing these technical things, but I

could not quite follow why he should be given any remuneration for the lay-out of a factory, which is something entirely different. That is the purport of my question?—(Mr. Bridges.) May I say that—

Chairman.

5075. Mr. Bridges, you are now going to answer this question, are you?—(Mr. Bridges.) I hoped I might be able to.

5076. I think it is primarily the function of the witness?—I apologise for having interposed. (Sir Gilbert Upcott.) This is a general question; it is not confined to the Air Ministry.

5077. I think mainly we must have these answers from the witness?—The "shadow" factories scheme is not confined to the Air Ministry.

5078. Go on, Mr. Bridges?—(Mr. Bridges.) The point I wanted to make clear is that you take a particular firm, Standard, Daimler, Rover or Austins, who come into this scheme and undertake to make airframes or aero-engine parts, and the resources and brains of that firm are devoted, not merely during the period of manufacture, but also during the construction period, to arranging the lay-out and planning the factory, and also, which is very important in this time, to devoting their energies to getting the thing done quickly and expeditiously. I think I could fairly say that the Departments of State had got quite as much on their hands as they could well tackle, and this really rather skilled job of arranging and planning a factory and getting it quickly built so that it can be properly laid out for the job was entrusted to the firms who were going to act as agents in managing the factories later on.

Mr. Peat.

5079. My final question is this (perhaps I have missed the answer): Has Sir Donald informed the Committee as to the basis of remuneration for these agents in terms of percentage on the capital expenditure of the "shadow" factories?—(Mr. Meadowcroft.) Yes. (Sir Donald Banks.) If I have understood the question aright, the answer is that it works out at (x) per cent. overall. (Sir Gilbert Upcott.) On an earlier estimated figure: less than the actual figure. (Sir Donald Banks.) Yes, the cost is rather more.

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Chairman.

5080. Mr. Meadowcroft, you answered that earlier in the proceedings?—(Mr. Meadowcroft.) Yes, I did.

Sir Irving Albery.

5081. I still cannot understand this: taking these figures, the capital expenditure was £1,114,000 to date, plus £135,000 for jigs and tools, and the part remuneration (that is what I cannot understand) for the construction period was £168,000, which would be over 10 per cent. I have probably misunderstood it?—(Sir Donald Banks.) The full amount of the expenditure does not appear here at all.

5082. It was in a previous Account?—It will not begin to work out to its proper proportions until you see the full expenditure, which will come increasingly next year. It is quite impossible to relate any of these figures to this (x) per cent. (Sir Gilbert Upcott.) Perhaps I can explain why the difference arises. The remuneration has been paid in fixed monthly amounts. The constructional expenditure does not come uniformly by any means. The heavier part of the constructional expenditure will come towards the latter part of the constructional period.

5083. Are they paid what one might call the commission in advance?—The remuneration to the agents for their services in the constructional work is payable monthly.

5084. You mean the other is outstanding; it has been done but not paid for?—The constructional work does not run uniformly.

5085. If the work has been done but has not been paid for, I understand it, but if the work has not been done I do not understand why such a large amount has been paid in advance?—(Mr. Bridges.) Is it not fair to put it this way: Supposing you have to plan and lay out a factory and get the whole job done in a year, actually the job will be heavier in the earlier months than in the later months, and, in this case, it was agreed that during the construction period the payment should be divided up into equal monthly payments. If the payment had been expressed as a percentage on the amount expended, then, I quite agree, the amount expended on capital expenditure in the year would have borne a direct relation to the remuneration paid to the

agents, but that was not the bargain at all. The bargain was that he should get a fixed fee for doing the job, and that that fixed fee should be paid by equal monthly instalments.

Sir Isidore Salmon.

5086. With regard to the architects' fees and quantity surveyors' fees, who pays for them?—(Sir Donald Banks.) We pay for them.

5087. They are not in this Account before us? That will be in the total bill when the job is finished?—It will be in the total bill. I cannot say whether it fell in this year.

Sir Irving Albery.

5088. I cannot understand yet, unless I am to understand that presently the agents will be receiving no remuneration whilst the remainder of the work is finished?—(Mr. Bridges.) Their remuneration for the construction period was so much per month for a year, and after that we get to the production period, when a different basis applies.

Sir Irving Albery.] I am only asking about construction. If it is clear to the rest of the Committee I will leave it, but I must confess I cannot follow it.

Sir Robert Smith.

5089. I can understand Mr. Bridges' statement that they were paid part remuneration for the construction period, but my great difficulty is the next sentence: "The expenditure under (a) is charged to a special sub-head Vote 4.H, and that under (b) and (c)" (and (c) is the one we are talking of) "to Vote 3.A (Aeroplanes)." On page 11, when I look at Vote 3.A, I find "Payments for airframes, engines and spares matured earlier than expected." If it is merely for the constructional period, and nothing to do with the payment for aeroplanes, why are we referred to page 11?—(Sir Gilbert Upcott.) Sub-head A of Vote 3 relates to a much wider range of Air Ministry contracts than is referred to in this paragraph.

5090. Why did they not put in that it also referred to part remuneration for the construction period? You refer us on page v specially to Vote 3.A and you say "The expenditure under (a) is charged to a special sub-head Vote 4.H, and that under (b) and (c) to Vote 3.A (Aeroplanes)." I look at Vote 3 and I

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see nothing about construction under note A?—(Sir Donald Banks.) That could be put in.

5091. It does not state in note A that part is for remuneration for the construction period, apart from aeroplanes, for the construction of factories. If it said "Payments for construction of factories, airframes, engines and spares," I could follow it, but it does not say that it has anything to do with factories; that is what I cannot understand?—I think we could add that note another year, if that were desired. It is, of course, a rather different type of expenditure from the rest of the £18,000,000. You notice we are talking about a bagatelle. This is a matter of £300,000 out of a total expenditure of £18,000,000. I quite agree, if it is within my competence to do so, with the Honourable Member in pointing out, as I think he indicates, that it is rather a different type of expenditure from the ordinary purchase of airframes, engines and spares. (Sir Gilbert Upcott.) I think, Sir Robert, you will find further details contained in the Estimates, and that, if I may venture so to suggest, is the place where they should be put. I should very much deprecate any enlargement of the references in the Appropriation Accounts.

5092. You in your note indicate that if we want information we are to look at Vote 3.A, and we look at Vote 3.A and we do not find that information at all there?—Are you not putting words into my mouth?

Sir Irving Albery.

5093. If I can be given the information, can I be told what the capital expenditure, if it is completed, came to under sub-head A?—(Sir Donald Banks.) The total commitment is in the neighbourhood of £7,000,000 at the present time but is chargeable under sub-head H. Of that sum, £6,000,000 is in respect of aero-engine and airframe shadow factories.

Chairman.

5094. Shall we pass on to paragraph 11? If you look at page vi, the second sub-paragraph, the Comptroller and Auditor General says "I noted however with some concern that matters arising from the audit reports on the 1936 expenditure were only now being taken up." Would you tell us something of the reason for the delay in pursuing

the audit reports?—Very broadly, I think one can say that, in instituting an audit procedure with a number of commercial firms like this, there was almost inevitably a period of working into the system. I will not say that we are altogether content ourselves with the time it took to do so, but there was a process of education on both sides; I am not suggesting that we needed to educate them any more than they needed to educate us, but this is not a normal commercial audit, and, in the course of setting up the machinery, certain questions arose which I am afraid—

5095. Required adjustment?—Inevitably took some time to settle. I think we can say the thing is very much more satisfactory now, and I hope Sir Gilbert will be able to be satisfied later.

5096. You are making progress now?—Yes, very definitely.

5097. Are you satisfied, Mr. Comptroller and Auditor General, with the present situation?—(Sir Gilbert Upcott.) Yes, I think I may say so. Of course, this expenditure, as the Committee appreciate, is being incurred by the agent firms on the construction of these factories and on the provision of plant out of public funds, not out of their own funds, and it is necessary for the Air Ministry and, through the Air Ministry, my Department, to satisfy themselves that the expenditure is correct, and it is necessary for me so to certify to Parliament. The agent firms, I have no doubt, on reflection, have appreciated that the necessity may involve sometimes some change in the arrangements to which they have been hitherto accustomed. I told the Committee last year, and it is still my hope, that it will not be necessary for me to exercise the power reserved to me of auditing the expenditure on the spot. I hope that it will be possible for me to give Parliament the necessary certificate after examination of the reports of the Air Ministry, which, I understand, are now being made and will be available to my officers in the course of the ensuing year.

Chairman.] Are there any questions on paragraph 11?

Sir Isidore Salmon.

5098. On paragraph 11, did not the Air Ministry themselves lay down a

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basis as to how the accounts should be kept in connection with this expenditure of £7,000,000 odd, or did you allow each firm to do it as they thought was best in the circumstances?—Perhaps I might answer that. The agreements require the companies to keep in separate books such full and accurate cost and other accounts and records as are necessary to supply the information required by the Secretary of State.

5099. They may have kept their books only in such a way as they thought was commercially necessary to do, but they may be a little more pedantic in the Air Ministry?—(Mr. Meadowcroft.) We had consultations from the outset between our own accountants and the firms' accountants, to assure ourselves that their procedure would satisfy Parliamentary requirements.

5100. And now you are working in harmony?—Yes; it was a question of ensuring that the commercial system of accounting and the Government system dovetailed. (Sir Gilbert Upcott.) The Committee will appreciate that the Air Ministry have auditors resident on the spot.

Chairman.

5101. Paragraph 12: "New works services." Is this sum of £50,000,000 the latest figure of commitments, Sir Donald?—(Sir Donald Banks.) By no means. I could not give you an up-to-date figure. It changes hourly, almost, at the present time.

5102. How far is the increase referred to attributable to increased expansion or to the rise in building costs?—The rise in building costs has now, I think, been steadied, but they have increased very considerably since the original period of the estimate. Of course, as you will understand, items have been added at various periods under the various expansion schemes, so that it would be difficult to attribute a single percentage increase over the whole period. It is almost impossible, I think, to assign a figure to them.

Sir Isidore Salmon.

5103. Is a large amount of this expense due to alterations and additions by the Ministry itself?—Yes.

5104. Arising, if you like, from the expansion programme?—Yes, I am afraid

it is—the type of additions, for instance, that comes from adding another squadron to a station.

5105. Also, the Ministry might alter their minds as to how they want the lay-out to be?—I hope there is very little of that in it, but I would not like to say that nobody ever changes his mind in the Air Ministry.

Chairman.

5106. Could you give an assurance that the change in plan has not involved any undue waste of money?—I do not think it has. I think these are almost inevitable changes in a period of intense growth. I hope I have not conveyed the impression that they have involved wasteful expenditure.

5107. On paragraph 13, the Valuation of Stocks, I want to turn for a minute to page 40 of the Appropriation Account. I believe that this Appendix IV, giving the values of certain categories of stocks, is a much abbreviated one as compared with previous ones. There are two headings on this, whereas there were six previously. Have you anything to say on that?—The purpose of doing that was that we have a feeling that we are rather over-generous in the presentation of facts to the world in general, and we had hoped that it would be acceptable to this Committee and to the House that a little bulking of this kind, while still preserving the general control necessary, would be adequate for the purpose. To give the items as they were previously shown definitely conveyed certain information to the knowledgeable.

5108. Might I take it, Sir Donald, that it is a sort of suspension for the time being?—Certainly if you wish to say so, I would not demur to that, though it is impossible to say how long that period will be.

5109. Quite?—(Sir Gilbert Upcott.) The figures are compiled under the original headings and are examined by my Department. I could see if there were any change.

5110. That is so, is it?—(Sir Donald Banks.) Yes.

5111. I think the Committee would think it best that it should be regarded as a suspension rather than as a complete abolition of that?—I would accept that.

5112. Paragraphs 14 and 15. In paragraph 15 there is a reference to the suspension during the emergency of the

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normal store accounts for certain classes of equipment owing to the service conditions of units posted to the Western Desert of Egypt and to the Sudan. Could you give us a little further information about that?—This, of course, I can only learn of historically, but the circumstances will be within the recollection of the Committee. There were Air Force units stationed in the desert in a great many cases. They had to be placed there with some expedition and it was proved to be quite impracticable to maintain the normal store accounting method. On the other hand, of course, the Royal Air Force has its arrangements for a greater emergency than that, but those were not adopted. This was merely a modification of the normal methods, and not complete adoption of war-time accounting.

Sir Isidore Salmon.

5113. Would it not have been a very good opportunity to put into practice what you consider is a suitable accounting system in war-time, rather than to ignore the whole position?—My Director of Accounts says they require no practice in dropping accounting. I think, if I may be allowed to say so, that is a sage remark. I think perhaps it is just as well not to encourage them in that direction.

Chairman.

5114. Have you anything to say on behalf of the Treasury about this?—(Mr. Bridges.) The Air Ministry reported the facts to us and I think we were

satisfied with the way in which the situation had been dealt with.

5115. Paragraph 16; is there anything further to say upon this paragraph, Sir Donald?—(Sir Donald Banks.) We could give you pretty complete information about it. It really occurred, as I understand, from the fact that some of these units were located just at the junction, just south of Wadi Halfa, where the railway branches off to Port Sudan. The result was that, when the evacuation came about, it was felt that the best thing was to take the stores down to the port. In the course of doing that, the stores undoubtedly got very much mixed up through various accidents of the service. The equipment officers were down with sickness—I think almost all of them. The packing cases had been used for various purposes. There were various obvious incidents that are inevitable to active service conditions, and I am afraid that unfortunately there was a jumble at the port. It reached me in my early days at the Air Ministry that this had occurred, and I took the decision personally that is indicated here, to send men out from here to take them on charge just as they were and to start *de novo*. I felt that was the only way to handle the situation. What had happened before seemed to me to be regrettable, but an almost inevitable incident on active service. (Sir Gilbert Upcott.) My paragraph was not written with any critical intention, but merely as a necessary qualification to the certificate as regards the store accounts for the year.

Chairman.] That concludes the introductory paragraphs.

VOTE 1.

PAY, &c., OF THE ROYAL AIR FORCE.

VOTE 2.

QUARTERING, STORES, &c.

(On these Accounts no questions were asked.)

VOTE 3.

TECHNICAL AND WARLIKE STORES.

Sir Irving Albery.

5116. On page 11, under F, there was £222,000 surplus due to late deliveries of

wireless equipment and electrical equipment. Would that be only late deliveries, or was it partly late payments?

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—(Sir Donald Banks.) I think that was an actual case where we were disappointed in the standardised equipment that we were expecting.

5117. The reason I asked was that there have been a good many complaints lately of late payment from firms that had not got paid, but if it does not arise I do not wish to pursue it?—May I ask that any complaints that reach you should be forwarded? We ought not to be late in our payments.

Mr. Culverwell.

5118. On the inspectorate, note C, the inspection of Civil Aviation which comes under you, who carries that out now; it used to be done by Lloyd's surveyors?—That is now done by the Air Registration Board.

5119. Is that under you or paid for by you?—It has been split off.

5120. Is it on your Vote; is it paid for by you?—Yes, the expenses are met in part.

5121. I saw the note on it?—(Sir Gilbert Upcott.) Civil aviation is on Vote 8.

5122. I was looking up a note in the Estimates on page 43, Vote 3.C, in which it says "The Aeronautical Inspection Directorate undertakes the inspection," (and so on) "It also has certain duties in connection with civil aviation"?—(Sir Donald Banks.) That is rather a different thing. The Aeronautical Inspection Directorate's duties in connection with civil aviation would be the inspection for safety purposes of civil aircraft in process of manufacture. The certificate of airworthiness (whether the creature will fly satisfactorily when it has come out of the factory) is the duty of the Air Registration Board, except in the case of air transport machines for 10 passengers and upwards, which we still have the responsibility of approving.

Mr. Culverwell.] I was rather confused as to which did which of those duties.

Chairman.

5123. Pages 12 and 13. On page 13, Sir Donald, will you give us a little further explanation on note N.N. "£2,000 for technical assistance rendered by an aircraft company," an

ex-gratia payment; another ex-gratia payment of £750 "as an addition to agreed payments under a royalty agreement"?—The £750 for the royalty agreement was made to a gentleman for the user of the Addison Laund course and wind indicator. We had originally agreed to pay royalties at the rate of 15 per cent. for all indicators ordered up to a maximum payment of £1,000, based on a purchase of 300 indicators. The actual number ordered, however, was well in excess of that—about 1,800. In view of that, Mr. Addison asked for further royalties to be paid. We thought that that was only reasonable, and Treasury approval was obtained for an ex-gratia payment of £750. The £2,000 was made to Messrs. Hawker, Limited, for assistance rendered to ourselves in connection with the construction of one of their aircraft by another contractor. Do you want further details on that?

5124. I think we can gather that much already from the note?—An agreement was concluded with the Company in 1932 which allowed for the payment of royalties in respect of a contract placed with Vickers. The Company pointed out that the manufacture of aircraft and the number of firms engaged in their manufacture had developed since 1934 to an extent not visualised at the time when the contract was signed, and asked for additional remuneration. Treasury authority was obtained for payments totalling £4,000 to be paid. This £2,000 was paid in 1936 in respect of contracts placed with two of the companies. The balance was paid in respect of contracts placed with two other companies.

5125. Would you give us some indication as to what the final note on page 13 means: "A further payment of £5,558 16s. 7d. was made in satisfaction of claims outstanding in respect of an experimental aeroplane"?—That was an experiment with a mail carrier. That was a civil machine that was placed with a firm—I do not know whether you want to know the name of the firm?

5126. No?—It did not work very well, but we had accepted a liability in the case of any trouble. That is not necessarily a normal procedure, but there were certain features about this which involved a good deal of risk that it would not fly. It was very much of an

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experimental article. Actually what did happen was that the thing would not fly, or, when it did fly, it crashed. They put in a claim for the cost of the modification. We tried again. We had it re-built and tried again, and the same thing happened. So we paid them not only, of course, the actual cost of the machine, but we paid them for their services in connection with the repairs and the loss that they had incurred.

5127. What was the total amount that was paid?—The total amount was £7,870 originally, plus £5,410, and then the final sum that is recorded here, so that you get a total of some £18,000.

Sir Robert Smith.

5128. I was wondering why this extraordinary third note from the bottom of page 13 comes in: "Petrol and oil valued at £30 13s. 10d. were issued to aircraft of a foreign government", and then the note goes on to state that an

equivalent quantity was received back. Why was that done?—(Sir Gilbert Upcott.) Not equivalent, reciprocal. (Sir Donald Banks.) When we go and use their oil they do the same for us; that is all; but we naturally do not set one off against the other, which would be bad accounting procedure.

Sir Robert Smith.] I thought you might have said a certain amount had been received and a certain amount had been given.

Mr. Culverwell.

5129. On page 12 under sub-head K: "Mechanical and other Transport", what make of lorry do you use in the Air Force?—Crossleys and Leylands.

5130. Crossley cars?—(Mr. Clothier.) These are Crossley lorries; you asked for lorries, did you not?

5131. I asked for both?—We have Morris and Hillmans, mainly Hillmans.

Chairman.] May I take it that this Account is approved? (*Agreed.*)

VOTE 4.

WORKS, BUILDINGS AND LANDS.

Chairman.

5132. Pages 14, 15 and 16, Vote 4: "Works, Buildings and Lands". I think note H on page 15 might be explained?—(Sir Donald Banks.) I think "Difficulties were experienced in selecting suitable sites for certain factories" refers to the fact that we had trouble over a place called White Waltham, which it was afterwards decided to site at Speke. That would refer to the surplus that occurs. I think that is the purpose of that note. (Sir Gilbert Upcott.) That is the object of noting it. (Sir Donald Banks.) The payment of £681 was because we originally intended to have six motor firms in this group of "shadow" engine factories. Negotiation with one of those firms was abandoned. They had incurred expenditure, and they put forward a claim which I think was perfectly just (the Treasury, of course, approved it) and we paid it.

5133. Are there any questions?—(Sir Gilbert Upcott.) The Works Appendices are attached to this Vote. They are Appendix V and Appendix VI.

Chairman.] Pages 42 and 43, Appendix V.

Sir Isidore Salmon.

5134. On the question of acquiring aerodromes, does it happen, Sir Donald, that at times you have taken a spot for an aerodrome, or have in fact an aerodrome in use, and later on you have taken one not far distant from it, and have changed the site?—(Sir Donald Banks): I do not recollect any case within my personal knowledge. I can check that over.

5135. The point has been raised more than once, and I wanted to know if there was any justification for such a statement?—May I enquire about that?*

Sir Isidore Salmon.] Yes.

Chairman.] Pages 44 to 49. Are there any questions?

Sir Isidore Salmon.

5136. Before you pass on, may I ask this. I notice a very large number of these estimates on pages 46 and 47 (an

* *Note by Witness.*—Enquiries have been made, and there has not been such a case.

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estimate increased from a figure of £20,000 to £200,000, and figures of that sort) where there has been a very large increase. The original estimate then is merely a Token Vote?—No; I think that is the same type of thing that I spoke of just now. A station is selected to accommodate one or two squadrons. Of course, these vary enormously. It is very difficult to generalise, but, as an illustration, a station is selected to accommodate one or two squadrons. An expansion scheme occurs. To avoid having to build an entirely new station, you put in a third squadron. You bank up on the existing aerodromes, thereby saving a certain amount in common accommodation. The result is that an estimate that was originally for a limited amount is shown against the same item for a considerable amount. (Sir Gilbert Upcott): These were the cases to which I referred in paragraph 12 of my Report, when I said that the accommodation requirements have had to be revised as the expansion scheme developed; that was the point you discussed just now.

5137. Are the buildings that you are putting up in all cases buildings to last a long time or buildings to last only within a reasonable limit of time?—(Sir Donald Banks): The policy I found in operation was one of building permanently. I believe this has been discussed very thoroughly on many occasions in the past and felt that generally it was held to be more economical to build permanently, within a certain limit. We have now reached a stage, though, where we consulted the Treasury about that policy, in regard to further measures of expansion, and I think I can say that our policy now is generally to build semi-permanently for anything beyond the Scheme F level. We have moved on from Scheme F to a bigger expansion programme, as announced by the Minister in the House of Commons last week. The extra extensions there in general, although I would not like to say in every case, we think should be constructed on a semi-permanent basis.

5138. That is to say, that your foundations might be put in on a permanent basis and your superstructure of a lighter character; is that what you mean?—I believe semi-permanent means wooden hutting on brick foundations.

Chairman.

5139. Pages 50 and 51: Item 97: Is the construction of this station finished now in Iraq?—I believe it is pretty well complete.

5140. Could you tell us what the total cost is?—(Mr. Bridges): £1¼ millions in 1938.

5141. Pages 52 and 53: This Hong Kong accommodation, seems to have been held up, does it not? How does it now stand?—(Sir Donald Banks.) I think we are going ahead with it now.

5142. Pages 54 to 61. We pass over the next few pages and come to page 65. Could you briefly explain in respect of the fourth item from the bottom—Hemswell—how it is that the cost in that case, which was estimated to be £16,000, finally emerged at £25,525?—Heavy compensation for crops had to be paid owing to the necessity for early possession of the site.

5143. What time of the year was it; could you say?—(Mr. Clothier.) I have not got particulars of that.

5144. What is the area?—443 acres. (Sir Gilbert Upcott.) The time was the summer of 1935. (Mr. Clothier.) The cost is £37 per acre, excluding compensation.

5145. You mean this total of £25,000 excludes compensation?—No; that includes compensation; but the £37 per acre I gave you excludes the compensation. The rest is compensation.

Mr. Culverwell.

5146. On pages 65 to 67, what do the asterisks mean under the column headed: "Estimated Cost of Acquisition"?—That is because we are in negotiation.

5147. What are the other figures?—(Sir Gilbert Upcott.) That is the regular practice in all the Service Departments, that they never publish the estimated cost of acquisition until the acquisition is completed, for the reason that it would give the owner of properties not yet acquired information as to what the Government think they should give.

5148. Are these estimates?—The figure on the lefthand side is an estimated figure.

5149. What is the figure of the purchase money?—The figure of the pur-

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chase money is that amount of the purchase money which has been expended.

5150. You would not start paying a man until you had agreed a price?—Sometimes these estates are purchased in instalments. (Sir Donald Banks.) Bit by bit, very often. If you want an aerodrome site of 500 acres, or something like that, you cannot get it all from one vendor.

5151. I see what you mean: a few fields at a time?—I think probably these are the bits we have negotiated.

Sir Isidore Salmon.

5152. Who advises you on all the land you purchase?—We have our own valuers, but we go to the Inland Revenue District Valuer for confirmation.

5153. In all cases?—In all cases.

Chairman.

5154. Page 68: I see in respect of B there are two sales, one of a property at Filton—four houses—which originally

cost £4,800 and were sold for £2,650. Could not any use have been made of these?—We tried very hard, but they were a bad bargain.

Sir Isidore Salmon.

5155. Who bought the property in that case?—It was purchased in 1925.

5156. I would not suggest you would buy a bad bargain. What I was rather trying to arrive at was: Was it officials of the Air Ministry who were responsible for purchasing this?—Yes, the Air Ministry was responsible. Those were purchased as Officers' married quarters, when it was contemplated that some squadrons would be stationed at Filton, but in fact only a smaller number were stationed there than was originally intended. I think there is no doubt about it that the anticipation was premature, and it would have been better if they had not been bought.

Chairman.] Are there any further questions on Vote 4? May I take it that this Account is approved? (Agreed.)

VOTE 5.

MEDICAL SERVICES.

(On this Account no questions were asked.)

(The witnesses withdrew.)

(Adjourned till Tuesday next at 2.30 p.m.)

TUESDAY, 24TH MAY, 1938.

Members present:

MR. MORGAN JONES in the Chair.

Sir Irving Albery.
Mr. Culverwell.
Mr. Mabane.
Mr. Pethick-Lawrence.

Sir Assheton Pownall.
Sir Eugene Ramsden.
Mr. Wilfrid Roberts.
Sir Robert Smith.

Sir GILBERT UPCOTT, K.C.B., Mr. E. E. BRIDGES, M.C., and Mr. H. BRITAIN, called in and examined.

AIR SERVICES APPROPRIATION ACCOUNT, 1936.

Colonel Sir DONALD BANKS, K.C.B., D.S.O., M.C. and Mr. H. W. CLOTHIER, called in and examined.

VOTE 6.

TECHNICAL TRAINING AND EDUCATIONAL SERVICES.

Chairman.

5157. We take the Air Services Appropriation Account. Turn please to page 18, Vote 6, Technical Training and Educational Services. Sir Donald, there is an item D on page 18: "School of technical training, Halton (apprentices)". Could you give us any information as to the staffing at Halton and, if you have it conveniently, at Cranwell as well?—(Sir Donald Banks.) The total number of instructors is as follows: Royal Air Force instructors 107, of which 20 are officers and 87 airmen; and of civilians 354.

5158. This is at Halton, is it?—This is at Halton. The number of trainees on an average is about 4,000.

Mr. Culverwell.] In the Estimates it says 2,800.

Chairman.

5159. Sir Donald, those figures you have just given are for Halton alone, are they?—For Halton alone.

5160. Could you also give us the figures in regard to Cranwell?—(Sir Gilbert Upcott.) I think the comparison you have in mind with the case the Committee considered the other day would, to be effective, require a statement of the numbers of the complete staff, both civilian and otherwise.

5161. Do you happen to have a return there? Would the paper you have be helpful to the Committee, if you could

circulate it?—(Sir Donald Banks.) I think it would, if you could indicate what are the particular points upon which the Committee wishes information.

Chairman.] We did, in point of fact, address questions to your opposite numbers in the Army and Navy, when the witnesses for those Departments appeared. I was not myself the one who put the questions. I think Sir Irving put some questions on that point. Would you indicate to Sir Donald what you want, Sir Irving?

Sir Irving Albery.

5162. I think what we mainly want is the total number of persons employed in that training school in any capacity to look after the trainees, whether they be sweepers, as they call them in the Navy or whether they be orderlies or instructors, either administrative or executive: the total number of persons employed in the school?—(Sir Gilbert Upcott.) In relation to the number of persons trained.

Sir Irving Albery.] Yes.

Mr. Culverwell.

5163. I think Sir Donald said 4,000 pupils. In the Estimates it says 2,865?—(Sir Donald Banks.) For 1936-7.

5164. You are talking about the present time?—Yes, if you want to talk about the past I can give the figures.

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[Continued.]

5165. It has gone up?—Yes.

Chairman.

5166. Sir Gilbert, do you remember whether the figures we had given for the other Departments were for this present year or for the year of account?—(Sir Gilbert Upcott.) The Navy figures were for the current year and I think that Sir Herbert Creedy also gave the figures for the current year.

5167. I think for the purpose of comparison we should like to have them for the current year—the latest date you can give them for?—(Sir Donald Banks.) They will be round figures, because Halton is in a rapid state of expansion, or rather it is still growing. It is not a static establishment.

5168. Halton would be expanding, would it?—Yes.

5169. And Cranwell?—Cranwell not so much, I think.

5170. We shall have to keep that in mind, I think, when we look at the return?—Yes.

5171. Could you take, say, the 31st March this year as the appropriate day?—Yes, we will give you a return dated to then.

5172. That is not too late a date, is it?—No, I think that would be a good representative date.

5173. Perhaps you will circulate those to us, will you?—Yes.

Chairman.] Are there any further questions on pages 18 and 19?

Mr. Culverwell.

5174. In the estimates the cost per pupil is £140. Is that to cover the overheads? That is at Halton. It is page 104 in the Estimates: estimated total cost £140 a year each for an average of 2,865 apprentices?—That includes overheads, not capital expenditure; it includes depreciation.

Sir Irving Albery.

5175. I wanted to ask Sir Donald if he could tell us at Halton, when they started there, did they start with hutments before the more permanent buildings were put up?—I could not say; this was a war time measure. I should think the odds are, yes.

5176. When we have the other information could we know, if possible,

whether Halton was started with hutments and, if so, what those hutments cost, and the accommodation?—I should think it is doubtful whether exact information exists. It was a war time measure.

5177. We cannot have it if it does not exist?—What we have got is figures that might serve the purpose of the Honourable Member, that is, that we can give a comprehensive capital sum for the whole of Halton as it stands at present. I think it is roughly £1,250,000 capital cost, but as to whether certain temporary hutments have entered into that and have disappeared or not, I do not know.

5178. For how many persons does that £1,250,000 provide accommodation?—Between 4,000 and 5,000.

Mr. Mabane.

5179. That is the total capital cost of the permanent buildings?—I think there are hutments for 700, at present.

5180. It has been growing continuously?—Yes, a series of extensions.

5181. Have you been doing much building recently?—Yes; between 1935 and 1938 permanent expenditure of £368,000 with £40,000 on hutments.

5182. What additional accommodation does that £368,000 provide for? For how many?—About 1,700, including the hutments.

5183. Could you say how long it took you to put up either the hutments or the permanent buildings?—The permanent buildings took about three years; the hutments something under a year on an average. I have not any date actually available.

Mr. Mabane.] I understand it. I do not think that helps very much.

Chairman.

5184. Do you know how many those hutments accommodate?—About seven hundred.

Sir Irving Albery.

5185. Do we know the cost of those hutments?—The hutments were £40,000.

Mr. Mabane.] £40,000 for hutments providing for seven hundred people.

Sir Irving Albery.] Sir Donald, was the £1,250,000 all for building or did it include a lot of machinery or plant or anything of that kind?

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[Continued.]

Chairman.

5186. If you cannot answer that I would like to suggest this to you?—I am afraid I cannot answer it.

5187. It is rather pounced upon you in a way. I wonder if you would look at all the questions that have been put to you and embody the answers to them all in a memorandum?—I will, certainly.

5188. It will not be a very long memorandum in any case and it will give all the answers?—I will direct it, if it is the wish of the Committee, to an attempt to assess the cost *per capita*.

5189. That is what we want to know?—If I have understood the direction of the questions, what the Committee is interested in is the cost *per capita* of the temporary hutting and the permanent.

Chairman.] Yes.

Sir Irving Albery.

5190. You used the words "temporary hutting". Those hutments are serviceable for what kind of period? Are they purely temporary or semi-permanent?—We have three types of buildings, the permanent, the semi-permanent and the temporary. These were temporary. We reckon those will last about three years or something of that kind—three to four years.

5191. Could you give us a very brief description of the kind of thing they are? Have they got foundations?—No. I am speaking without knowledge of these actual hutments at Halton, but, generally speaking, the type of construction is a purely wooden hut with nothing more than a few bricks perhaps at either end just to rest the hut on. It is the cheapest form of accommodation not designed to last for any length of time. As I think I explained last time, there is a more permanent type or semi-permanent type of hutment with brick foundations and that is the type of thing we are going in for now in regard to anything beyond a certain expansion programme.

5192. That would be about ten years or so?—That, I think, ought to last us ten years or so.

5193. Have you any idea what that costs?—No; if you wish it I would give you some indication of that type.

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Chairman.

5194. Please do, in regard to the three—the temporary, the semi-permanent and the permanent?—Yes.

Sir Irving Albery.

5195. Can we also be told which is the type they have put up for £40,000 at Halton?—Yes.

Chairman.

5196. Are the most temporary kind used for housing and sleeping?—Yes.

5197. Not storage?—That is so.

Sir Eugene Ramsden.] Would it be interesting to have a brief description of what these hutments really represent, whether they are sleeping quarters or whether they are partly used for stores or whether they provide mess accommodation.

Sir Irving Albery.] I think we understood they were put up to accommodate 700 persons.

Sir Eugene Ramsden.

5198. Are they purely sleeping quarters?—Yes, they are barracks, living quarters, sleeping quarters.

5199. Sir Donald knows the general line of the information we want?—Yes, I will let you have a statement directed particularly to Halton, but you would like a general statement also on our building costs in relation to these three types of accommodation?

Chairman.

5200. Yes, and if you can give a comparative statement with regard to Cranwell as well, so much the better?—I thought even of extending it to our experience elsewhere.

5201. Please do?—We are putting up a big second Halton at Cosford and there our experience will be even more immediate and up to date than Halton.

Sir Assheton Pownall.

5202. Where is Cosford?—Cosford is in Shropshire.

Sir Eugene Ramsden.

5203. I would like to ask about two items under Appropriations in Aid. You have "Receipts from Dominion Governments in respect of students at the Imperial Defence College" and then "Receipts from Dominion Governments

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[Continued.]

in respect of students at the Staff College". Do the figures you have given there represent the total cost? You have £700 in the first case and £1,600 in the other?—On a rough assessment, yes. There are some free candidates.

5204. I presume these are students that Dominion Governments are supposed to pay for?—I cannot answer that question.

Chairman.

5205. Could Mr. Clothier say?—(Mr. Clothier.) India does not pay for the students at the Staff College because we have a reciprocal arrangement. Imperial forces at home (British forces) also send officers to Quetta, so there is a reciprocal arrangement, but with

regard to the Imperial Defence College all the Dominions and India pay for their students.

5206. Is this the whole cost?—Yes, this is an estimated complete cost, but, of course, not including flying or anything like that. It is £350 a year for each student at the Imperial Defence College and £400 a year for each student at the Staff College, but in respect of the fees for the Imperial Defence College, of course, the Air Ministry only gets one-third, because each of the three Services contribute towards the cost of the Imperial Defence College equally, so that any Appropriation in Aid is divided among the three defence Services equally.

Chairman.] May I take it that this Account is approved? (*Agreed.*)

VOTE 7.

AUXILIARY AND RESERVE FORCES.

(*On this Account no questions were asked.*)

VOTE 8.

CIVIL AVIATION.

Chairman.

5207. Vote 8, page 22. On page 22, Sir Donald, will you please look first at sub-head C, "Technical Equipment, Stores and Experimental Services". You have an explanation on the opposite page, but I think we should like a little fuller information, if you could give it to us, than is contained in the note?—(Sir Donald Banks.) In general, we had hoped to make definite progress on the equipment of the Empire Routes in particular, which proved not to be realised. It was a big job and it is not completed yet. Down the Nile we had certain troubles. As the Nile shallows you have such trouble as floating sudd which took a lot of overcoming. We are responsible for the equipment of the airports there and we had to devise various novel methods to deal with the sudd. In another place the mooring buoys presented a difficulty. Some rubber buoys were sent out there but the crocodiles took a fancy to them and we had to devise some other methods. Perhaps I am being a little detailed, but I find it rather difficult to explain in general.

Chairman.

5208. We gather that they were unforeseen difficulties. On sub-head D the second part of the note says that the difficulties "were partly offset by increased grants to the Government of Newfoundland". Could you give us a little more information about that?—There are two bases which we are constructing in Newfoundland; one is a flying-boat base at Botwood and the other is a land base at a place called Gander Lake. We have undertaken to finance those airports; I am afraid I have forgotten the proportion of it, but the greater proportion of those airports—(Sir Gilbert Upcott.) Five-sixths. (Sir Donald Banks.) Five-sixths of the finance of those airports is to come from United Kingdom funds. The remainder is contributed by the Newfoundland Government. They, of course, as you will realise, are for the Trans-Atlantic crossings and we hope to have them in use towards the end of this year.

5209. Returning for a minute to page 22, section 2, Sir Donald, in the details of sub-head G.—Appropriations in Aid,

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[Continued.]

Item 2—why was there that under-receipt? There is an estimate of £112,000 and £76,000 was realised: "Contributions from Dominion and Colonial Governments towards Empire Air Services"—There were a number of contributory factors there. For one thing, some of this ground equipment we supply was on a repayment basis, therefore when we got in arrear with the ground equipment the Governments did not repay us the amounts we had estimated we should receive from that source. That will come, of course, in subsequent year and adjust itself. The remainder were matters of comparatively small adjustments. When the flying boat service was introduced we arrived at an agreement with the Union of South Africa by which we discontinued the land route from Kisumu down to Johannesburg and, as a matter of fact, the South African Government is now flying that route itself. That meant a diminution in the *pro rata* contribution that they were making to the general subsidy to Imperial Airways. There was another small adjustment in respect of a contribution from Hong Kong. We could not get the service going to Hong Kong quite as soon as we expected and the Hong Kong Government correspondingly did not pay the equivalent amount that we had anticipated.

5210. On page 23 I see in the accounts for the London (Croydon) Airport, on the Receipts side, the sum was £2,025 for the last item in 1936, and on the other side, the Payments side, it was £1,572 in the previous year. Could you explain the apparent discrepancy between those two figures, Sir Donald?—(Sir Gilbert Upcott.) There was a balance on the right side in 1935 and there is a loss in this year. (Sir Donald Banks.) The facts were that both sides went up, but payments went up a little more in proportion than receipts. (Sir Gilbert Upcott.) The main item which has gone up besides salaries and wages is the expenditure on maintenance.

5211. Higher up there is an item on the Payments side, "Works, buildings and lands:—Maintenance, repairs, etc."; the previous year it was £6,497 and in the year of account it was £10,461; on what was that mainly incurred?—(Sir Donald Banks.) My information is that it was mainly on the buildings. I am

afraid I have not the detail of that, Mr. Chairman.

Sir Assheton Pownall.

5212. On "H.M. Customs for entertainment tax" in 1935—I do not know quite what entertainment you provided but you paid £225; in 1936 you apparently ceased to entertain?—I think we reduced the charge so that it no longer became taxable.

5213. What was the entertainment, was it admission fees?—The entertaining was that you paid so much to go and see the aeroplanes.

5214. I could not quite make out the entertainment?—I agree views might differ on that, Sir Assheton. The Customs held it to be entertainment.

Chairman.] Are there are further questions?

Mr. Mabane.

5215. Was that accepted by you as an entertainment?—I have no doubt we argued about it; but I think we had to succumb.

5216. Was that an inter-Departmental fight, or was it decided in the Courts or where?—I am speaking too much from recollection, not a personal recollection, to trust myself to go far on this subject.

5217. I should have thought you would have fought it to the death?—(Sir Gilbert Upcott.) The main reason which has saved the Air Ministry is the provisions of the Finance Act, 1935, by which admission fees not exceeding 6d. are now free of tax. The fees at Croydon are 1d. for admission, I understand, and 6d. for a conducted tour and, under the provisions of the Finance Act, 1935, those fees are exempted from entertainment tax. It is the provisions of the Finance Act which have the effect of exempting them from entertainment tax.

Sir Eugene Ramsden.

5218. I was just asking the Chairman whether he would think it was possible that, in presenting the accounts next year, they might be put in a form which would be easier to understand. I think it is rather complicated by the previous year's receipts; you get 1936, and it is reversed on the other side under "Payments"—(Sir Donald Banks.) I entirely sympathise. I found myself in the same difficulty as the Chairman and the Honourable Member.

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[Continued.]

5219. Would be possible to simplify them next time?—We will make a note of that.

Sir Irving Albery.

5220. "Rents, housing and landing fees." Has that any relation to what one might call the civil side of the Croydon aerodrome? Are those rents received from the companies?—Yes.

5221. Is the aerodrome as a whole under the control of the Air Ministry now?—Entirely.

5222. And any civil flying is under them, the people paying rent?—Yes, this is one of the two Government-owned airports in the country, Croydon and Lympne.

5223. It was not always completely Government-owned, was it? It was

mixed, was it not?—I think not; I think it has always been Government-owned. (*Sir Gilbert Upcott.*) This account relates purely to civil traffic.

Chairman.

5224. Turn please to page 62, Appendix No. V, Works, Buildings and Lands. Would you just tell us briefly, Sir Donald, what "Service Deferred" means in respect of No. 1—"Ground Neon lights"?—(*Sir Donald Banks.*) There I think we decided to adopt a new system, and we went in for strip lighting. That was a change of technical method of guiding the aircraft in landing.

Chairman.] Are there any further questions on pages 62 and 63? May I take it that this Account is approved? (*Agreed.*)

VOTE 9.

METEOROLOGICAL AND MISCELLANEOUS EFFECTIVE SERVICES.

VOTE 10.

AIR MINISTRY.

VOTE 11.

HALF-PAY, PENSIONS AND OTHER NON-EFFECTIVE SERVICES.

(On these Accounts no questions were asked.)

Chairman.] Page 32, "Balances Irrecoverable and Claims Abandoned". We turn to the Appendices. Appendix I, Production Account, pages 34-37; Appendix II, Laundries, Cost Statement, page 38; Appendix III, page 39, Bakeries, Cost Statement; Appendix

VII, page 69; Appendix VIII, page 69; Appendix IX, Losses Statement, page 70; Appendix X, page 73; Appendix XI, page 73; Appendix XII, page 73; Appendix XIII, page 74. May I take it that these Accounts are approved?—(*Agreed.*)

(Sir Donald Banks, Mr. Clothier and Mr. Bridges withdrew.)

Mr. W. R. FRASER called in and examined.

USE OF CASH RECEIPTS TO MEET CASH EXPENDITURE.

Chairman.

5225. We will take the Memorandum on "Use of Cash Receipts to Meet Cash Expenditure". For that we have a paper circulated* Mr. Brittain, will you tell us why it is that, in respect

of section (1), Board of Control, you start off by saying, "These institutions have no bank accounts"? Could you tell us why?—(*Mr. Brittain.*) In the first place, in each of these cases the bank is seven miles from the Institution. Rampton is near Retford and the

* See Appendix 18.

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nearest bank is at Retford; at Moss Side the nearest bank is seven miles away, in Liverpool.

Sir *Eugene Ramsden*.

5226. A bank of any kind?—A local bank. When they have to receive imprests from Headquarters, they receive a cheque from Headquarters and they take that in to their banks and it is cashed for them at a small commission, 1 shilling per cent.*

5227. One shilling per cent.; that is a great deal, is it not?—I think it is a normal commission; the figure has existed for quite a long time.

Sir *Irving Albery*.

5228. One shilling per cent. means one shilling per £100?—Yes. (*Mr. Fraser*.) One-twentieth per cent.

Chairman.

5229. What is the amount of the cash receipts involved, do you know, Mr. Britain?—(*Mr. Britain*.) For the two institutions together it is about £1,500 a year, plus £650 cash for patients, so it is about £2,000 a year in all for the two institutions together.

Sir *Assheton Pownall*.

5230. On which they get £1 at that rate?—No. I am sorry; that is not the amount of cash drawn through the bank. I am afraid I have not got that figure; this is the figure of the actual cash receipts which are retained in the institution. I am sorry I have not the total amount of the imprests.

Chairman.

5231. Could you tell us the amount of payments?—I do not think I have the figure for the whole of their cash payments.†

5232. I was going to ask the same question in regard to section (5), Ministry of Agriculture; not in regard to the first one but in regard to (b) and (c); why do you not bank those rents, and so on?—The Ministry of Agriculture have, at these settlements, certain cash outgoings and it is only, I think I am right in saying, a proportion of the rents that are received there in cash. There are a number of payments received in cheques. For the whole of the three farm settlements and the National Stud, the rents and farm produce receipts collected locally in cash only come to £400 in the year all told.

SUPPLY OF POSTAL ORDERS, POSTAL DRAFTS AND STAMPED POSTAL STATIONERY.

Chairman.

5233. We will pass to the next paper, "Supply of Postal Orders, Postal Drafts and Stamped Postal Stationery."‡ On this I have nothing on page 1; page 2, paragraph 4, says in the second subparagraph, "The Public Accounts Committee in paragraph 4 of their Second Report for 1934 commented on the fact that their previous recommendations of 1929 should have been reversed without previous consultation with them"; I thought that the Committee actually recommended that before the expiry of contracts the question should be carefully considered in the light of experience gained in the meantime. What has been the experience gained in the meantime, do you know, Mr. Fraser?—(*Mr. Fraser*.) I am not quite clear what the under-

* *Note by Witness*:—It should have been stated that commission is charged at only one of the two banks.

‡ *See Appendix 19*.

standing was under which this was left with the Committee, last time it came up in 1935 in Mr. Waterfield's time. I have read carefully through the minutes and it is not clear whether what was left for discussion with the Committee was a matter of detail or the whole question of principle. As far as I could see, the Committee wanted to hear about the matter again if it was found impossible to meet their wishes, but we are not clear from reading the minutes what precisely their wishes were, whether they were cavilling at the general Government decision to adopt the Bridgeman Committee recommendation, or whether what the Committee were anxious about was that, before the contracts were renewed, the Stationery Office should be given an opportunity of doing the work at the State Printing Works, provided

† *Note by Witness*:—The total cash payments amount to about £50,000 a year.

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[Continued.]

that efficiency and economy were attained thereby. However, we thought it best to put the whole matter before the Committee, if only as a matter of courtesy.

5234. I thought the appropriate answer to you would have been that we took both objections, did we not?—Yes, but since 1929 the thing has been altered by the appointment of the Bridgeman Committee and the adoption by the Cabinet of the recommendations of that Committee.

5235. In 1929 I thought the Committee recommended that the Stationery Office should either manage the placing of the contracts or do the work?—Yes.

5236. Do you say that since then the situation has been changed?—By the Bridgeman Committee Report of 1932.

5237. The Bridgeman Committee took what I might call the Post Office point of view, so to speak?—Yes, and the Government endorsed it.

5238. But this Committee has never really changed its position from 1929, has it, in relation to the matter?—I do not think it has.

5239. You say in paragraph 6 that "the time is now ripe for a decision whether or not these three contracts are to be further extended"?—Yes.

5240. Then you say "in accordance with the recommendation in paragraph 4 of the Second Report of the Public Accounts Committee for 1934, the whole question has been carefully reviewed with the Post Office and, as a result it has been decided, while maintaining the conclusion of the Bridgeman Committee that the responsibility for postage stamps, stamped stationery, postal orders

and postal drafts should remain with the Postmaster-General, that the Post Office should, in calling for tenders, invite the Stationery Office to tender." That is very different, is it not, from the view which we expressed in 1929?—I am afraid it is. It seems to us that it is as far as one can go in meeting the Committee without trenching on the Government's decision on the Bridgeman Report of 1932 which was taken as a matter of principle. There are, in fact, two general principles at issue in this case and I am afraid they conflict. It is like when an irresistible force meets an immovable object; one has to give way. There is the general position which has always been adopted by the Treasury and the Public Accounts Committee, that the expert Stationery Department should deal with all stationery demands, but there is also the position which arose from the appointment of the Bridgeman Committee and their recommendations, that the Post Office should be regarded from then on as a commercial entity and given a great deal more freedom than it had before in matters of this kind. What has really been done is to try to interpret that decision with as much weight as possible to the other general consideration, that is to say, the Stationery Office is going to be given a chance to tender; and it is also the fact that the Stationery Office is allowed to tender without making an allowance for profit, although, of course, it has to make an allowance for depreciation and all that kind of thing, and therefore, if it is really efficient and economical for the Stationery Office to do this work, it should in fact get the tender; but whether it will, of course, we cannot guarantee.

(The witnesses withdrew.)

(Adjourned till Thursday at 2.30 p.m.)

THURSDAY, 26TH MAY, 1938.

Members present:

MR. MORGAN JONES in the Chair.

Sir Irving Albery.
Mr. Culverwell.
Mr. Pethick-Lawrence.

Sir Isidore Salmon.
Sir Robert Smith.

Sir GILBERT UPCOTT, K.C.B., Mr. W. R. FRASER and Mr. H. BRITAIN, called in and examined.

TREASURY MINUTE ON PARAGRAPH 1 OF THE SECOND REPORT OF THE COMMITTEE OF PUBLIC ACCOUNTS, 1937.

(EXTRACTS FROM A TREASURY MINUTE OF 14TH AUGUST, 1872.)

Sir RICHARD V. NIND HOPKINS, K.C.B., called in and examined.

Chairman.

5241. Treasury Accounts: turn please to the Treasury Minute dated 8th November, 1937, on the Second Report of the Public Accounts Committee, 1937, paragraph 1, dealing with the responsibility of Accounting Officers. There is also circulated with this a copy of the paragraphs which are actually sent out, I take it, Sir Richard, to the Accounting Officers on taking office?—(*Sir Richard Hopkins.*) That is so.

5242. I would like to ask one question, Sir Richard, if I might. So far as I can see it is generally satisfactory, but there is one point I would like to get rather clearer, as to whether an Accounting Officer, on taking over from a predecessor, ought to have his attention called to the fact that he is entitled to satisfy himself as to the correctness of the Accounts for the period when he was not

Accounting Officer?—I hardly think it requires to be made more clear than it is now. In the letter which is addressed to him he is told that when he signs the Appropriation Account he makes himself responsible for its correctness.

5243. You are satisfied that that covers the whole point?—I think so.

Chairman.] Otherwise I think I have no objection at all and that is not really an objection either.

Sir Isidore Salmon.

5244. Are there many Departments now where the Accounting Officer is not the permanent head?—There are only one or two left; there are one or two special cases to be dealt with as opportunity arises.

5245. The Foreign Office is one?—The Foreign Office is now in line.

TREASURY MINUTE ON PARAGRAPH 4 OF THE SECOND REPORT OF THE COMMITTEE OF PUBLIC ACCOUNTS, 1937.

Chairman.

5246. Turn to paragraph 4, "Citation of Statutes in Part I of Estimates." I

understand that this has been done now, has it not, Sir Richard?—(*Sir Richard Hopkins.*) Yes, Sir.

TREASURY MINUTE ON PARAGRAPH 5 OF THE SECOND REPORT OF THE COMMITTEE OF PUBLIC ACCOUNTS, 1937.

Chairman.

5247. Turn to paragraph 5, "Extra-statutory superannuation schemes": I do not think there is anything to say upon this matter. I suppose we may take it that, if My Lords, after consideration, come to a different conclusion

from that of the Committee, they will not take any action without referring to the Committee, will they?—(*Sir Richard Hopkins.*) Certainly.

Sir Isidore Salmon.

5248. In connection with the University schemes, do they come under

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[Continued.]

the same category for pensions or is there already statutory provision made in that connection?—I do not think any question has so far arisen of using this. In the Board of Education, for example,

the ordinary superannuation provisions apply. (Sir *Gilbert Upcott*.) This paragraph relates to the Federated Universities Superannuation Scheme so far as it applies to state servants.

PUBLIC INCOME AND EXPENDITURE ACCOUNT, 1936.

Chairman.

5249. Pass, please, to the White Paper on Public Income and Expenditure. I do not think there is a report paragraph upon this, is there, Sir *Gilbert*?—(Sir *Gilbert Upcott*.) No. I have an obligation to certify that the Accounts are correct.

5250. I would like to ask one question as to the last item on page 2. Does that five and a half million pounds roughly represent the deficit in 1936-7?—(Sir *Richard Hopkins*.) That is the deficit of the year, but, of course, as against that there was money available inside the fixed debt charge for the redemption of debt.

5251. That is the £13,000,000 on the other side of the page, is it?—That is so.

Sir Irving Albery.

5252. On pages 4 and 5 I see on one side "By National Savings Certificates" £25,600,000 and on the other side "repaid" £25,600,000. Could one have a little explanation? I do not quite understand that. Is it that the public just happened to subscribe for the same amount of new National Savings Certificates as were redeemed?—Yes, I think that must be so. It is, I think, the case that the two items just happened to agree.

5253. But surely they cannot agree to that extent. It would be an extraordinary thing if the public applied for the exact amount that was redeemed?—

I am sorry; it is a cross entry. We borrow the money for the purpose of repaying.

5254. I do not quite understand that?—On the left hand side we raise by the creation of debt £25,600,000.

5255. But you could only do that if the public subscribe for them?—No; I think we raise that by Treasury Bills for the purpose of making repayments to persons who present the certificates for encashment.

5256. It says "For other issues" which means there was a definite issue of £25,600,000 savings certificates?—I am sorry if I am caught unawares with this. If you will be good enough to leave it I think I could get it cleared up for you later.

Sir Isidore Salmon.

5257. Could you at the same time say what "repaid otherwise" means, under (b)?—I will deal with that at the same time.

Mr. Pethick-Lawrence.

5258. Is not that the solution of the mystery? Is it not the difference between the amount issued and the amount paid out, £1,500,000?—I am sorry; I am not quite *au fait* with it at the moment, but I will get it cleared up.

Chairman.

5259. Then we will postpone that until you have information available?—If you will.

CONSOLIDATED FUND ABSTRACT ACCOUNT, 1936.

Chairman.

5260. Turn to the Consolidated Fund Abstract Account, 1936, page 9. The Comptroller and Auditor General's report is to be found on page 9. On paragraph 2 have you any further observations to make upon this in regard to any changes in the National Debt during the year?—(Sir *Richard Hopkins*.) No, I do not think there is anything more I need say. I think the summary of the transactions which has

been given by the Comptroller and Auditor General is as clear as it can be.

Sir Isidore Salmon.

5061. The net effect is that the National Debt has been increased by £2,000,000 odd?—Yes, that is right.

Chairman.

5262. Paragraph 3, "Securities surrendered for death duties". In regard to sub-paragraph (2), Sir *Richard*,

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[Continued.]

where did the redemption moneys come from?—They are part of the annual drawings—the sinking fund which is provided for Victory Bonds, and, of course, like all sinking funds, they are provided out of the revenue, or, failing that, out of moneys borrowed by statutory power.

5263. They did, in fact, then come from the sinking fund?—They came from the sinking fund.

5264. Turning over to the next page, sub-paragraph 4, there is a sentence which reads as follows "The transfer was effected and the amount was taken into account as current year's revenue"?—Yes.

5265. Are you satisfied that money which came from the sinking fund should come back again as current revenue?—I am not sure that I should like to be pressed too far upon that subject, but it is what the law provides and, for the time being, while the amounts are quite small and will remain small, I do not think it is worth looking at. I think later on, when these drawings become very large, it is a matter which might well engage the attention of both the Treasury and, if necessary, the Committee, but I suggest not now.

Sir *Isidore Salmon*.

5266. The last few lines on page 11 are: "It will be seen, therefore, that the effect of Section 3 (3) of the War Loan Act, 1919, is that over the next 40 years cash amounting to £119,351,955 will become available for payment into the Exchequer as the Treasury may direct"?—Yes.

5267. Is one to understand by that, that over the 40 years there will be a sum which, in the end, will amount to £119,000,000?—Yes.

5268. But during the currency of the period the Treasury would be able to relieve taxation by crediting the income of the National Exchequer by whatever sum it might be?—Yes, this will come in as the bonds are drawn, and every year, on an average, more bonds are drawn than in the year before, so this is a growing sum, but whatever is drawn in the year is available to be paid into the Exchequer. As the Chairman just said, we are authorised to pay it in as revenue and have so far done so.

5269. When you say it does not arise at the moment, it arises surely each year?—Yes.

5270. Therefore if you draw out each year it is quite clear that at the end of the 40th year you will not have £119,000,000 to play with, you will only have the balance?—Yes, there will be a certain sum available to go into the Exchequer year by year. (Sir *Gilbert Upcott*.) Those bonds are held at the moment by the National Debt Commissioners; that is the amount of the bonds now held by the National Debt Commissioners.

5271. That is the total value of the bonds?—That is the total value of the bonds and they are drawn year by year. (Mr. *Fraser*.) The present sum is £1,250,000. It is a rising sum. In the 40th year it will be considerably more than £1,250,000, by the annual additions to the sum each year from now on for the next 40 years.

Chairman.

5272. Paragraph 4, "Retired allowances to members of Royal Households". On paragraph 4 (1) there is the phrase "on a scale and in accordance with conditions approved by the Treasury"?—(Sir *Richard Hopkins*.) Yes.

5273. What exactly do you mean by "conditions"? Are they conditions that apply to a particular individual case?—No.

5274. Or are they conditions that are of general application?—I take it that there is a general scheme providing for a rising amount of pension according to salary, service, etc., and such conditions as meritorious service and the like.

5275. I asked the question for this reason: if you look at the Civil List Act, 1936, it says this in sub-section (1) of Section 8: "The Treasury may undertake the payment of any retired allowances granted, on a scale and in accordance with conditions approved by the Treasury"?—Yes.

5276. That is the 1936 Act?—Yes.

Chairman. In 1937 there is the same provision, but it reads in this way: "The Treasury may undertake the payment of any retired allowances granted, on scales and in accordance with conditions approved from time to time". On "a scale" in the first case; "on scales" in the second case; but with conditions approved from time to time. Mr. Pethick-Lawrence, you were a member of the Committee; can you help us in any way as to what was implied by the "conditions" in that case?

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[Continued.]

Mr. Pethick-Lawrence.] I cannot suggest a reason why it says "a scale" in one case and "scales" in the second case; that is too small a point; but I think the word "approved" gives the indication that it would be along the lines of the Civil Service superannuation. That is how I should be inclined to interpret it. I do not know whether Sir Richard would agree with me.

Chairman.

5277. I was going to ask if it is like the Civil Service Superannuation. In the Civil Service you have retirement at 60 and in case of ill health. Is that the kind of condition you have in mind?—I think so, broadly. I am not familiar with the scale myself. I have not got it in my mind at the moment. If this is the point in your mind, Mr. Chairman, I do not think there is any significance to be attached to the difference of wording between the two Statutes. The scale and the conditions, of course, are general.

Mr. Pethick-Lawrence.

5278. Would you not say that the intention was, broadly, that these persons in the Royal Households should be subject to somewhat similar, if not identical, conditions to those in the Civil Service?—Yes; not identical, because, of course, there has been a long history behind this and a broad practice grown up; but a general similarity, I agree.

5279. Perhaps I may put it in this way: that the same principles should apply (it is not specified that they are to be identical) to the members of the Royal Households as apply to the Civil Service?—Yes, I think that is generally so.

Chairman.

5280. My question is prompted by the next sub-paragraph which reads as follows: "I have been supplied with a copy of the scale and conditions governing these awards", etc., and the next sentence: "These provisions have been applied to certain cases arising from reorganisation following the demise of the Crown"—That follows the practice which has obtained for I do not know how many years, but on the demise of the Crown, at any rate, every time during this century. The new Sovereign upon his accession is entitled, of course, to choose his own advisers, and in cases in which old advisers cease to act, they receive a pension which is calculated having regard to their length

of service. That is actually what is referred to here and is, of course, payable in this way under the actual terms of the Statute.

5281. Have you anything to add on the matter, Sir Gilbert?—(*Sir Gilbert Upcott.*) I think it is clear that the Treasury lay down a scale or scales; they are not the same as the scales in the Superannuation Act. The scale which has been furnished to me is not the same scale, but it is a scale. As regards conditions, I am not so clear. I do not think the word "conditions" in the Act is read by the Treasury in as strict a sense as the conditions laid down in the Superannuation Acts. I think the "conditions" in the Civil List Act, as interpreted by the Treasury, mean more like rulings by the Treasury in regard to cases or classes of cases. I gather that the Treasury do not regard themselves as bound by any such precise limitations as those laid down by the Superannuation Acts, but as possessing under the Civil List Act a good deal more discretion in dealing with particular cases.

5282. What do you mean by that; do you mean a pension can be determined by the Treasury in accordance with what they consider to be the merits of a particular case?—Perhaps the Treasury can answer that better than I can, but I think they do consider themselves as possessing a certain degree of discretion. (*Mr. Fraser.*) As I am the person in the Treasury who deals with these cases, Sir Richard may like me to say something about it. The difference between the Royal Household scheme and the Civil scheme was explained to the Committee; they were given not all the detail of it but the general rules. They are rather different; at some points it is more favourable, at some points less favourable; on the whole I should say it is less favourable. With regard to the point Sir Gilbert has just made, we have been advised legally, and also we are quite certain that it was the intention of everybody, that the conditions should not be quite so rigid as in the Civil Service, that is to say, you should not lay down a code which has the effect of an Act of Parliament and stick to that through thick and thin, but you should have general rules governing particular classes of cases, and that we have power to alter those rules from time to time. What we should not regard ourselves as able to do would be to alter any general rules in favour of a particular

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[Continued.]

individual. We can assure the Committee that nothing like that happens or would happen.

5283. I think that makes it clear?—(Sir *Gilbert Upcott.*) The Committee will understand that it is not my right or duty to interpret the intentions of the Civil List Select Committee, but to satisfy myself that the Treasury are acting in accordance with legal advice as to the meaning of the Civil List Act.

5284. Yes. Paragraph 5: "Expenses under the Representation of the People Acts". Have you anything to say further upon this matter, Mr. Comptroller and Auditor General?—This is somewhat similar to the case which the Committee had before them last year, in which I felt obliged to explain that I was not altogether satisfied that a charge against the Consolidated Fund was strictly in accordance with the statutory provisions. I regard it as my duty to satisfy myself, before granting a credit on the Consolidated Fund, that the charge is correct. In this case there seemed to be some doubt as to whether the payment was strictly in accordance with the Statutory Rule and Order made under the Representation of the People Acts. The amount was comparatively inconsiderable and I did not feel justified in refusing the credit for which the Treasury asked, but I felt it necessary to qualify my certificate on this particular point and I asked the Treasury to consider whether it would be possible to amend the Statutory Order so as to regularise any future cases. As the Committee will see, the Treasury have not found it possible to take that course, but they now propose not to place the charges on the Consolidated Fund but to deal with them in a different way and that will relieve my difficulty in future.

5285. Could Sir Richard tell us why it is impossible to meet the situation by an amendment of the rules?—(Sir *Richard Hopkins.*) The rules have to be rigid and precise in regard to amount, and they cannot in regard to this matter, because the damages are what lawyers call unliquidated damages and they may run to any sum; therefore, without some slight alteration of the Statute, we are told the alteration of the rule would not be feasible.

5286. Is there any alteration of the Statute in contemplation?—If and when we can get an opportunity to alter this

branch of the law we will, of course, put this thing in.

5287. That will not be soon, I gather?—It might, of course, happen soon or late; it might be 100 years before an opportunity occurred to alter it.

5288. Paragraph 6, "Trade Facilities Acts". Is this the end of payments now in respect of the Royal Mail Group, Sir Richard?—Yes, we have paid out all the liabilities, but, of course, we have not got in all the credits that we hope to secure in mitigation of the payments we have made. Some of the assets we hold will have to be nursed, it may be, for some considerable time.

5289. On paragraph 7 which is related to "Other loans" could you tell us whether you are able to put any value on the paper received?—In that particular case?

5290. Yes?—We must wait and nurse it; I am inclined to think it may come to have quite considerable value; the concern I am told is doing pretty well at the present time.

5291. Could you give us, on the last sub-paragraph, any figures as to the difference between the issues and the receipts?—At the present time the issues are down to about £200,000 a year in all. Receipts will vary very considerably, but I think they will continue to be fairly substantial for some time to come. (Sir *Gilbert Upcott.*) That figure is not quite correct, if I may say so, as regards 1936, where the issue was a good deal larger. I can give the Committee the figures for the two years together which were £1,236,000 issues for 1936 and 1937, and receipts of approximately £1,930,000 for those same two years, so that the receipts were about £700,000 larger than the issues in those two years. (Sir *Richard Hopkins.*) Yes, but if I may say so, I think the main part of the issues was in the first of those two years. (Sir *Gilbert Upcott.*) Yes, the bulk of the issues. The issues were £376,000 for 1937.

Sir *Irving Albery.*

5292. Under the Trade Facilities Acts, how are losses dealt with when they are fully realised?—(Sir *Richard Hopkins.*) They are provided out of miscellaneous consolidated fund charges—out of revenue in the Budget.

5293. Are they kept open till the end? Take the case of the loans in paragraph 7. That is not written off, I take

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[Continued.]

it, until you have come to a final conclusion?—No; what happens is that, when we make a payment on our guarantee, we make it out of Budget revenue, and when we get a payment it comes back again in miscellaneous revenue.

Chairman.

5294. Paragraph 8, "Issues under the Government Annuities Act, 1929". How is the deficiency referred to at the bottom of the page, £472,132, arrived at?—That is an actuarial calculation arrived at in the same way as an ordinary insurance company would ascertain whether it had a surplus or a deficit.

5295. Is it the present value of what is expected to be paid out?—It is the present value, I think. I think it must be the present value because it is a deficiency as compared with the assets.

Sir Isidore Salmon.

5296. Now this is a scheme that was started many years ago, and as long ago as 1912 you found it was not a business concern and you ceased to deal with it?—Yes, that is so as regard the annuity business. The life insurance business was continued for a longer period and I think was abandoned only in 1929, but both of them date a very long way back and neither of them has been a really satisfactory or useful piece of State work, I think.

5297. So they have been really cancelled?—Really, yes.

Chairman.

5298. Paragraph 9, "Greek Guaranteed 2½ per cent. loan, 1898". What is the present position in regard to this loan, Sir Richard?—This goes on the same way from year to year. We try to get out of the Greek Government as much as we can by way of contribution towards their liability which we have to pay in conjunction with the French, and, broadly, the settlement has been about on a 30 per cent. basis. We act in conjunction with the other creditors of the Greek Government in fixing these things.

5299. Have you any hopes in regard to the future?—Perhaps it would be wiser to assume that the contribution will not expand greatly in the immediate future. The thing does not

go on for very much longer now; the sinking fund will operate to redeem the whole thing within not many years from now.

Sir Irving Albery.

5300. Is not the bulk of this loan already owned by us?—A good deal of it is held by the Savings Bank upon one of those funds.

5301. The French have continued their obligation to pay?—The French go on paying half the guarantee.

5302. It is the difference between the gold basis and the currency?—It began in that way but it is more radical now because of the general default of the Greek Government on their bonds.

Chairman.

5303. Paragraph 10, "Exchange Equalisation Account". Have you anything to put in to-day?—I do not think there is anything further I need say beyond what I told you last time.

Sir Irving Albery.

5304. Sir Gilbert, in his statement, certifies that the account has been kept in accordance with the provisions of Part IV of the Finance Act. Are you responsible also for the correctness of the account?—(Sir Gilbert Upcott.) The arithmetical correctness?

5305. Yes, the mathematical correctness?—My officers make a slight test check to make sure that the Bank of England arithmetic is correct.

5306. I only wanted to know whether you are responsible. I do not know; perhaps it is not your job at all to be responsible for that; I wanted to know if it was?—I do not certify the account; I only have to certify that the transactions were in accordance with the statutory provisions, but, of course, my auditors do look at the arithmetic. I do not think they have any reason to apprehend that the Bank of England's arithmetic has erred or is likely to err. (Mr. Fraser.) Sir Gilbert has all the facilities he wants. (Sir Gilbert Upcott.) Yes, I have all the facilities to do so if necessary.

Chairman.] Are there any further questions?—May I take it that this Account is approved? (Agreed.) There are circulated to-day the Finance Accounts and certain other papers.

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[Continued.]

PUBLIC INCOME AND EXPENDITURE ACCOUNT, 1936.

Chairman.

5307. Shall we return now for a minute to the Public Income and Expenditure Account? Have you got the answer now?—(Sir Richard Hopkins.) Yes, I am sorry I got confused about this.

Chairman.] Perhaps it would be helpful if Sir Irving would put his point again.

Sir Irving Albery.

5308. On pages 4 and 5 the point was that there had been an issue of National Savings Certificates for £25,600,000, and apparently on page 5 there had been a repayment of an exactly similar sum of £25,600,000 plus £1,500,000 otherwise repaid. The information I wanted to get if I could was why the amount repaid under (a) was precisely similar to the amount issued under (b), and as the other question of the £1,500,000 was raised it would be also interesting to know what that means?—I have the answer now. We raised £25,600,000 by the sale of new Savings Certificates.

5309. Exactly that amount?—That is what we raised by the sale of new Savings Certificates.

5310. It seems curious that the public should have subscribed for exactly that amount.

Mr. Pethick-Lawrence.

5311. No.—(Sir Gilbert Upcott.) I think you would see the position a good deal more clearly if you would look at page 68 of the Finance Accounts.

Sir Irving Albery.

5312. Perhaps I have interrupted Sir Richard. Perhaps I had better listen to his explanation?—(Sir Richard Hopkins.) Shall I finish what I was saying?

Chairman.

5313. Please?—We had to repay on certificates presented the sum altogether of £27,100,000. We used the £25,600,000, which was raised by the sale of new certificates, to go towards repayment and there was still a remaining balance of £1,500,000 to be repaid, which was repaid out of money otherwise borrowed.

5314. That is the point Mr. Pethick-Lawrence made?—Yes. (Sir Gilbert Upcott.) You will see the position set out very clearly on paper on page 68 of the Finance Accounts.

Sir Irving Albery.

5315. Thank you?—The entry at the foot of page 68 shows the amount of National Savings Certificates outstanding at 31st March, 1936, it shows the amount created in the year for cash, £25,692,000 and down below, reduced in the year by cash repayments £27,048,729, which is the exact figure of what Sir Richard gave in round figures.

Sir Robert Smith.

5316. These are round figures, of course?—The figures in the Income and Expenditure Account are round figures; the figures in the Finance Accounts are exact figures.

Mr. Culverwell.

5317. Why are the figures round in one case and detailed in the other?—This Public Income and Expenditure Account is got out immediately after the end of the year and indicates the round sums issued from the Exchequer, whereas the Finance Accounts, which are made up later, contain exact figures. These figures are the round sums issued to the Post Office; the figures in the Finance Accounts represent the exact figures dealt with by the Post Office and returned by them.

Chairman.] May I take it that this Account is approved?—(Agreed.)

NATIONAL DEBT.

Chairman.

5318. Will you look at the Paper dealing with the National Debt for a moment, Sir Richard?—(Sir Richard Hopkins.) Yes.

5319. I was inviting you to look at page 3, the National Fund: I see that the book value, so to speak, is shown as £862,717, and I take it the market value is £770,000 odd?—Yes.

5320. Turning over to page 4, The Elsie Mackay Fund shows an entirely different tendency; the book value shows £783,000, but the market value was £945,000. It might be convenient if you would explain why in one case there seems to be a depreciation and in the other case an appreciation?—You will appreciate that these are funds not under the control of the Treasury; they are

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[Continued.]

under the control of certain Trustees. In the case of the National Fund, I think it would be right to say that the known wish of the anonymous donor was that the money should be invested and the Trustees were given a great discretion in the investment, and the more rigid rules of complete safety pursued by Trustees should not necessarily be followed. I think for that reason, as the gift was very swiftly followed by the 1931 crisis, depreciations have been suffered which, in fact, were avoided in the investments of which the Treasury Solicitor and others are Trustees, where

the investments were made very largely in short Government securities and the like, where there is no great chance of appreciation either.

5321. One is largely industrial, so to speak and the other is Government?— I think very largely. (*Sir Gilbert Upcott.*) The wide discretion given to the Trustees of the National Fund is indicated on page 2 of this paper. (*Sir Richard Hopkins.*) Yes.

Chairman.] Are there any questions on this Paper? That is circulated for information.

CIVIL APPROPRIATION ACCOUNTS, 1936.

Chairman.] Turn to the Civil Appropriation Accounts, 1936. Nothing arises on paragraphs 1 to 6 of the Comptroller and Auditor General's Report.

CLASS I.

VOTE 3.

EXPENSES UNDER THE REPRESENTATION OF THE PEOPLE ACTS.

(*On this Account no questions were asked.*)

VOTE 4.

TREASURY AND SUBORDINATE DEPARTMENTS.

Chairman.] Pages 9 to 13, Class I, Vote 4, Treasury and Subordinate Departments.

Sir Isidore Salmon.

5322. With regard to the expenditure for the War Histories, is there any date when we hope that that will come to an end?—(*Sir Richard Hopkins.*) No, I do not know that I can give a date; of course the work is getting

on. I am told, in fact, that the progress which has been made in this country with the writing up of War Histories is much greater than the progress in any other country so far up to the present time, but the end is not in immediate sight, at any rate at the moment. A certain number of volumes are published every year.

Chairman.] Are there any further questions? May I take it that this Account is approved? (*Agreed.*)

VOTE 6.

PRIVY SEAL OFFICE.

VOTE 13.

GOVERNMENT HOSPITALITY.

VOTE 20.

REPAYMENTS TO LOCAL LOANS FUND.

(*On these Accounts no questions were asked.*)

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Sir RICHARD V. NIND HOPKINS, K.C.B.

[Continued.]

VOTE 21.

ROYAL COMMISSIONS, ETC.

Chairman.] Pages 36 to 41, Class I, Vote 21, Royal Commissions, etc.

Sir Isidore Salmon.

5323. On the question of Royal Commissions, have not some of them been going on for a long period?—(Sir Richard Hopkins.) Indeed some of them have.

5324. Is there any sign of their being liquidated?—No. (Sir Gilbert Upcott.) Some of them are standing Commissions. (Sir Richard Hopkins.) They are in essence standing things. Take, for example, the Statute Law Revision Committee; it carries out a work which will never be completed until years after Parliament has been finally wound up, if ever.

5325. Take the case of "Surplus stores, etc., liquidation"?—That is only a remnant. There is no Commission, the remnants are looked after by the Treasury, and a very poor lot they are.

5326. Who are?—I will leave it to the Committee to judge which of the two alternatives I was speaking of.

Chairman.

5327. On page 40 there is a note under "Surplus stores, etc., liquidation department": "The debit balances standing in the books of the Treasury at 31st March, 1937, amounted to £524,914"; is there any reduction expected in this?—

The situation will not alter very much. The mass of that money is a portion of the debt owed to this Government by a certain Government in connection with transactions in the War; we shall never see a penny of it, but we do not wish to write it off because it will be capable of use from time to time as a bargaining counter in our diplomatic relations; there are one or two other things which are also probably quite bad, but not yet fit to be written off.

5328. What is that debt of £7,500 which has been written off, referred to in the same note?—Nearly all of these things which are being written off at the present time are remnants of old debts of a considerable size in connection with the sale of war stores, of which a very considerable sum has, in many cases, been recovered. Then the debtor goes bankrupt or something of that kind happens and there is a balance to be got rid of and we get rid of it from time to time as we can. If you wish I could tell you a little more about that particular sum. This is a remnant of an original debt of £121,000 of which some £78,000 was written off as irrecoverable nearly 10 years ago. This is the balance which we have finally given up. That means to say, out of £121,000, £85,000 has been written off; the balance was all recovered long ago. The debtor is insolvent.

Chairman.] May I take it the Account is approved? (Agreed.)

VOTE 22.

MISCELLANEOUS EXPENSES.

Chairman.

5329. Page 42, Vote 22, Miscellaneous expenses. Page 43: on page 43 could you tell us a little more about the first item on the top of the page "Grant in respect of the Administration Expenses of the Special Areas Reconstruction Association Limited". The Grant was £14,000, the expenditure was £10,000. Why is that?—(Sir Richard Hopkins.) This you will remember was an institution which was set up under the authority of an Act of Parliament for providing loans for the purpose of small businesses being set up in the Special Areas, and one of the arrangements for Government assistance was

that we should be responsible for the cost of administration of the institution up to a maximum of £20,000 per annum; this was the first year. We guessed the expenditure at £14,000; in fact, it was found that the company carried on for a substantially smaller sum.

5330. Some of these businesses are already in active working, are they?—Yes.

5331. Are they repaying loans where they have had loans advanced?—Yes, I think that in general the practice of the institution has been to grant loans subject to payment of interest immediately and giving a certain interval of time before the repayments commence.

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[Continued.]

but I do not think there is any reason to suppose but that the loans will be repaid in the majority of cases satisfactorily.

Sir Isidore Salmon.] On page 43, Sir Richard, under the heading of "Honours and Dignities" where you have a realised asset of fees received, I was under the impression last year that no charges were going to be made?

Chairman.

5332. As from last year?—The stamp duties and fees on Honours and Dignities have been exempted. The question of

the remission of fees on Crown appointments is still under the consideration of the Committee which was examining into that matter.

Sir Isidore Salmon.

5333. So that the only thing in the interim that ceases is the stamp duty?—I do not say but that new arrangements may be reached in regard to the remaining fees also when the matter has been examined, but at present that has not been done. (*Sir Gilbert Upcott.*) The stamp duties are shown on page 44.

Chairman.] Are there any questions? May I take it that this Account is approved? (*Agreed.*)

VOTE 23.

SECRET SERVICE.

(*On this Account no questions were asked.*)

VOTE 24.

TREASURY CHEST FUND.

TREASURY CHEST FUND ACCOUNT, 1936.

Chairman.

5334. Page 47, Vote 24, Treasury Chest Fund. With this we take the White Paper, Treasury Chest Fund. The Comptroller and Auditor General's report is on page 7. I should like to ask one question with regard to paragraph 2, "Losses in Ceylon and Straits Settlements". They seem to be pretty substantial, especially the Straits Settlements. Have you anything to say about that matter, Sir Richard?—(*Sir Richard Hopkins.*) Yes, Sir, just this: those losses to this fund, which, as you know, is a kind of little Exchange Bank which the Government has for the management of its foreign payments, were occasioned by the fact that, throughout the year, the rupee in Ceylon and the dollar in the Straits Settlements were rather considerably above their legal parity, so that we had to buy them above their parity and we paid them out as though they were of their par value. In the main, this is not a loss to the Exchequer, it is a form of adjustment between the Chest and the War Office and other Defence Departments; that is to say, in the main the transactions were the discharge of debts due in rupees and dollars abroad, very largely in connection with the construction of

the Singapore Dock, and what had to be paid was a certain number of dollars which had to be bought at their market price. The loss here is due to the fact that, in the account between the Treasury Chest and the War Office, the dollars have been taken as being of less value than was actually the case. I must qualify that by saying that, so far as the money was used for the payment of British officials abroad who were entitled to payment in sterling, their loss is an actual loss of course, but, on the other hand, we suffer this loss only when it happens that the currency is above its legal parity; when it is below we get a gain. As a matter of fact it is below to-day.

5335. On paragraph 3, there is a large balance held at Jamaica?—Yes.

5336. How did that situation arise?—Jamaica is one of those places in which it is sometimes difficult to lay hold upon sterling as you want it. You have your sterling in London and to get it to Jamaica may be an expensive business, and it is desirable to make exchanges with persons who have remittances to make to this country from time to time. It happened that the Treasury Chest Officer had an offer for a large sum and he accepted it. Of course, while he has

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[Continued.]

it on deposit it is at interest, and it makes a good return, perhaps a better return than we should be making by keeping the money on deposit here. At the same time it was rather a large sum, and we shall not repeat the taking of so large a sum on a future occasion. The balance has now been brought down to its future level.

Sir Isidore Salmon.] Why is it necessary in giving these figures to put them down to a penny and two pence. I should have thought it would be better to introduce the decimal system.

Chairman.

5337. That is a question of policy?—You have not yet persuaded His Majesty's Government.

Sir Isidore Salmon.

5338. Seriously, is it necessary to put down the penny and two pence in these accounts? As you very rightly said before, in another account you gave a round figure?—Yes, but in the other account we gave a round figure because we were dealing with issues from the Consolidated Fund and they were in round figures in that account, but if it had happened that a penny had been issued in that account we should have put it down. I am not sure that you would consider it conformed to the accuracy of our accounting system if we omitted the pence.

Chairman.] Are there any other questions? May I take it that these Accounts are approved. (*Agreed.*)

CIVIL APPROPRIATION ACCOUNTS, 1936.

CLASS I.

VOTE 26.

REPAYMENTS TO CIVIL CONTINGENCIES FUND.

CIVIL CONTINGENCIES FUND ACCOUNT, 1936.

Chairman.

5339. Page 50, Vote 26, "Repayments to the Civil Contingencies Fund". With this there is a White Paper dealing with the Civil Contingencies Fund. There is no report on this by the Comptroller and Auditor General, but there are one or two questions I would like to ask, first on page 2, how do we stand now in regard to Item 3 on the right-hand side, the credit side, "Expenses in connection with investigations into defects of ceilings at Parliament Building, Stormont"?—(*Sir Richard Hopkins.*) That has now come to a conclusion; a settlement is being reached. As you know, there was a dispute as to who was responsible for the defects in the ceiling. It is now in process of being settled upon the basis that we shall bear the expenses which are shown in this Account and the defects will be corrected at the expense of the contractors and the architect.

5340. Pages 4 and 5. I am very much intrigued by one item. I hope you will be able to throw some light upon it. Why is it that there is an amount remitted "on faculty conferring Degree of Doctor of Divinity on the Archbishop of Perth"?—I do not think that I could

answer that except that these are all very small remissions, and they follow a regular practice which has been in force for I do not know how many years. I am always ready to answer questions on the larger remissions, but as regards the smaller ones I really cannot say.

5341. In connection with the expenses of the memorial to Earl Haig, what was the total cost of that?—I am afraid I have not got the actual total with me; about £10,000 I am told is the total; the mass of it was included in the Estimate for 1934 and these are really remnants.

5342. Would you explain the last item on the page "Recovery of overpayments in prior years, etc., and recoveries in respect of Roumanian Oil Wells"?—Those are moneys which were recovered from people who had received grants out of the Sumner Commission and who afterwards received compensation for the same losses from Turkey or Roumania. The money comes back to us; there is an entry of this kind in the accounts almost every year.

Chairman.] May I take it that these Accounts are approved? (*Agreed.*)

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[Continued.]

CIVIL APPROPRIATION ACCOUNTS, 1936.

CLASS I.

VOTE 28.

CORONATION OF HIS MAJESTY.

Chairman.

5343. Page 52, Class I, Vote 28; I take it that this is not the final Vote; we shall have the final Vote next year, shall we?—Yes, that is so; there

were two Votes altogether. The next Vote was, I think, slightly larger than this one.

Chairman.] May I take it that this Account is approved? (*Agreed.*)

(*The witnesses withdrew.*)

(*Adjourned till Tuesday next at 2.30 p.m.*)

TUESDAY, 31ST MAY, 1938.

Members present:

Sir Irving Albery.

Mr. Benson.

Mr. Lathan.

Mr. Mabane.

Mr. Pethick-Lawrence.

Sir Assheton Pownall.

Mr. Wilfrid Roberts.

Sir Isidore Salmon.

Sir Robert Smith.

(In the absence of the Chairman, Sir ASSHETON POWNALL was called to the Chair.)

Sir GILBERT UPCOTT, K.C.B., Mr. W. R. FRASER and Mr. H. BRITAIN, called in and examined.

CIVIL APPROPRIATION ACCOUNTS, 1936.

CLASS I.

VOTE 27.

TITHE REDEMPTION COMMISSION.

Sir CHARLES J. H. THOMAS, K.C.B., K.C.M.G., called in and examined.

Sir Assheton Pownall.

5344. Tithe Redemption Commission, Class I, Vote 27. Would you mind telling us something with regard to the work that the Tithe Redemption Commission is doing?—(*Sir Charles Thomas.*) The duties of the Commission are referred to generally in Section 4 of the Tithe Act, 1936, and their main duties are to determine what tithe rentcharges have been extinguished by the Act, the amount of stock to be issued to tithe owners for compensation, and the persons entitled to receive that stock; also to determine what annuities are charged by the Act in substitution for tithe rentcharges and to collect and manage those annuities; the preparation of a register

in relation to each tithe district which will record particulars of the charges; the apportionment of annuities charged where the ownership of land has been divided; the extinguishment of annuities where the cost of apportionment amongst numerous owners or where the cost of collection would be excessive in relation to the amount of the annuity; the redemption of annuities at the option of the landowner in accordance with the rules prescribed by the Treasury; the compulsory redemption of annuities where the liability of any individual landowner to redemption annuities in respect of land in any district or adjacent land in another district does not exceed £1, or where the

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annuity is charged upon lands which have been or are about to be divided into numerous plots. I think that is a brief summary.

5345. Could you say at all how long the work is likely to last?—The scheme under the Act, of course, is for these annuities to continue to be collected for a period of 60 years from the 2nd October, 1936. In the first instance, the Tithe Redemption Commission will continue to manage those annuities until such time as the Treasury, in accordance with the provisions of the Act, issue their certificate that certain completed districts are to be transferred to the Inland Revenue, but that certificate could not be issued in any case, according to the terms of the Act, within seven years of the passing of the Act.

5346. So it is rather premature, at all events now, to try to give an estimate?—Yes; if it would interest you I might give you a brief resumé of the sort of progress that has been made up to date. Would you like me to do that?

5347. Please do?—The Tithe Act received the Royal Assent on the 31st July, 1936. The Statutory Rules governing the delivery of particulars by tithe owners were made on the same date. The Tithe Redemption Commission was set up on the 4th August, 1936, and they held their first meeting on the 8th August. Since then we have been getting together a staff, organising the staff; the staff now numbers approximately 750 and our first step was, of course, to receive and deal with the particulars of tithe rentcharge as delivered by tithe owners. Some 17,000 such particulars were delivered in respect of something over 3,000,000 tithe rentcharges. They were all investigated and dealt with, in the first place, leading up to the stage of the issue of demand notes for the collection of the redemption annuities. For that purpose it was necessary to divide the 12,000 tithe districts in the whole country into collection districts. There are now 121 such collection districts in respect of which collectors have been appointed and their terms of remuneration agreed; they were all recruited from the ranks of those who had collected tithe rentcharge on behalf of tithe owners. In addition, we have, largely by way of experiment, one collection branch at the Head Office of the Commission. The tithe owners, of

course, are entitled to stock and until stock is issued they are entitled to interest or provisional interest. The total amount of stock issuable has been estimated at something rather more than £70,000,000. The amount of stock actually issued up to date is slightly more than £45,000,000. Interest is payable on that stock at the rate of 3 per cent. per annum. That, on £70,000,000, would obviously come to £2,100,000 a year. The actual amount of interest and provisional interest paid during the last completed year was just over £2,000,000, very closely approaching the maximum amount which it is estimated will be payable. Since then, for the current half year's interest, approximately a further £1,000,000 interest has been paid. The collection of annuities, of course, has been a matter of considerable difficulty. The first demand was issuable on the 1st April, 1937; it was our ambition in the Commission, with that first demand, to give every annuity payer what we call a calculation sheet, which contained a reference to the tithe district where the annuity arose and to the number on the tithe map, so that the land charged could be identified. There was also given the relative figure for the new annuity compared with the old tithe rentcharge and, in that connection, it will be remembered we had to differentiate between agricultural and non-agricultural land, non-agricultural land being subject to a higher rate of charge than agricultural land. The annuities in charge amount to about £2,800,000. I am very pleased to be able to say, Sir, that in the course of the first year of that collection, notwithstanding all the difficulties, we had actually collected 90·7 per cent. of the annuities collectable and they were actually credited to the funds of the Commission in the course of the first 12 months ended 31st March, 1938; that percentage has now gone up to about 93 per cent. (Sir Gilbert Upcott.) Not the year under review. (Sir Charles Thomas.) I thought it was your wish, Mr. Chairman, that I should deal with the progress that we had made up to date.

5348. It is up to 93 per cent. now?—It is now up to 93 per cent. and at the present time we are collecting the current half year's instalments of the annuities and we have collected approximately 25 per cent., up to date, of the current half year's annuities. When

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considering that figure it is of some interest to remember that tithe redemption annuities under the Act are not recoverable until the expiration of three months after they are due and current half-year's annuities were due on 1st April, 1938. At the same time we have been dealing with voluntary redemptions, and a capital sum up to date a little in excess of £120,000 has been paid in respect of voluntary redemptions. There is a very big task imposed on the Commission in connection with arrears of tithe rentcharge. The only body that can give a discharge for the arrears of tithe rentcharge after 1st April, 1937, is the Tithe Redemption Commission. That has meant a tremendous amount of detailed work, and a sum of no less than £186,000 has been paid in respect of arrears of tithe rentcharge. That sum, of course, is all due to the tithe owners. That, Sir, is a general picture of the progress up to date. I think it shows considerable progress, for which credit is due very largely to the co-operation of the tithe owners in performing a very difficult task, and, may I say also, of annuity payers, also to our body of collectors, who, I think, have done very valuable work, and a considerable amount of hard work on the part of the staff of the Commission.

5349. I think you mentioned that the staff was 750?—Yes, 750.

5350. Where were they recruited from?—We took over a nucleus staff from the Ministry of Agriculture; a block of work was removed from my old Department, the Ministry of Agriculture, to the Tithe Redemption Commission. We took over that block of work, or what remained of it, and the staff which had been dealing with it, which then became additional to the requirements of the Ministry, I suppose. They numbered about 160. A further block of staff, slightly in excess of 60, was recruited from Queen Anne's Bounty in accordance with an arrangement made between the Government and the Bounty at the time of the progress of the Bill. The remainder of the staff, the higher posts, have been recruited in the normal course from Government Departments generally, and our lower ranks, if temporary staff, have been recruited through the Labour Exchange; permanent Civil Servants through the ordinary Civil Service machinery, of course.

5351. To turn to the figures, sub-head B, what are the main items of that

£32,000 of miscellaneous expenses, the grant?—The grant was £32,000 and the expenditure £8,113. The main item in the expenditure is for Ordnance Survey.

5352. The main item of expenditure?—Yes, and also in the Estimate.

5353. You only spent one fourth of your estimate?—That is so, yes. As the note explains, these estimates had necessarily to be presented to Parliament and passed before the Act had received the Royal Assent. The estimates were prepared in my old Department, for which at the time I was Accounting Officer, and I accept some responsibility for them, but at that time, of course, it really was not possible to go into these estimates with any exactitude; we hardly knew how the work would be tackled and we certainly did not know at that time the extent to which we might have to call upon the Ordnance Survey Department for a special effort in connection with the revision of maps.

5354. It was a short spending on the Ordnance Survey?—Yes.

5355. £24,000 which, I presume, has been spent since?—No, it has not. I am really hoping that part of that expenditure, so far as our Vote is concerned, might be avoided. It is common knowledge that the Ordnance Survey are busy overtaking arrears of revision, but there are several calls for maps, one big call in connection with town planning. It so happens that the areas which they are likely to have to revise for town planning are also the areas in which revision will be urgent from our point of view, but since they will have to do it for another purpose, I hope there will be no special charge falling upon our accounts in that connection.

5356. Your note is: "Repayment by Ministry of Agriculture and Fisheries of salaries and expenses of staff engaged on a special service, £6,582"; what was that special service?—We took over from the Ministry the whole of the staff which had been in their Tithe Branch, but there were sundry items of work upon which they were engaged in clearing up the responsibilities of the Ministry. This work was done by that staff after its transfer to the Commission and was the subject of a credit from the Ministry's Vote to the Commission's account.

5357. "Miscellaneous receipts," the next item, £1,035?—Those are chiefly

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[Continued.]

fees. There are fees payable by the members of the public for inspecting maps and documents.

5358. You mentioned a moment ago that your receipts were 93 per cent. in the year under review. What about the other 7 per cent.? Are they likely to be collected?—(Sir Gilbert Upcott.) Not in the year under review, but the last year. There were no receipts in the year under review.

5359. 90·7 per cent. in the year under review?—No, 90·7 per cent. in the year ending 31st March, 1938. (Sir Charles Thomas.) No annuities were demandable under the Act until the 1st April, 1937.

Sir Assheton Pownall.] That will come in the next year's accounts. I thought it was for the year under review.

Mr. Wilfrid Roberts.

5360. With regard to this £62,000, that is only a part of the expenses incurred, is it not?—The £62,234 13s. 6d. is the balancing item, of course; that is the amount of issues from the Redemption Annuities Account in order to meet this expenditure. (Sir Gilbert Upcott.) The whole of the expenditure is recoverable; so far as it is not recovered from other receipts, it is recoverable from the Tithe Redemption Annuities Account.

Mr. Lathan.

5361. You said a moment ago that there have been no receipts for the year under review. That would mean then that the expenditure which we have before us now is largely in the nature of preparatory expenditure?—(Sir Charles Thomas.) The only receipts in the year under review are in respect of fees and such items as that; no receipts by way of annuities.

5362. In so far as the arrears are concerned, and to the extent to which they are recoverable, that will be taken into account, I assume, in fixing the figure for redemption. You spoke of arrears payable by those who should pay the tithe?—Yes.

5363. The process, as I understand it, by the operation of the Act, means that tithes have been acquired or have been redeemed and a certain payment has been made in respect of that tithe?—Yes.

5364. In some cases the tithe payers are substantially in arrears?—Are you referring to arrears of tithe rentcharge?

5365. Yes?—Which accrued due before the appointed date under the Act?

5366. Yes?—The machinery under the Act is that tithe owners were deprived of their rights and powers to collect those arrears and the obligation to collect them was imposed on the Commission, subject to a review in certain circumstances by an Arrears Investigation Committee which has been set up under the Act and is presided over by a County Court Judge. The arrears so incurred, after deducting any amounts remitted by the Committee, are to be paid over to the tithe owners, whatever we collect in respect of them, and indeed the other sums that we collect, speaking generally, have to be paid over to the tithe owners.

5367. They are paid over? They do not affect the amount of assessment or the value of the tithe?—Nothing, as a result of that, can go to the credit of the fund. (Sir Gilbert Upcott.) I think Mr. Lathan is asking whether the arrears are capitalized, and the answer, I take it, is in the negative.

Mr. Lathan.] Yes, that is the point; that is the only point that arises in my mind.

Sir Irving Albery.

5368. Could you tell me approximately what kind of staff did the Queen Anne's Bounty have altogether to deal with tithe?—(Sir Charles Thomas.) I am afraid I could not answer that question.

5369. Did they deal with nearly all the tithes?—Yes, it has been estimated that about five-sevenths of the tithes was vested in Queen Anne's Bounty.

5370. You have no idea what that staff was?—No; of course, they were not dealing with a task such as the Commission is dealing with at the present time.

5371. As regards the Ordnance Survey expenses, could you give us a little more explanation as to why they were necessary? Most people were paying their tithes before on maps which already existed. Locally in my own district we paid tithes; we never had any difficulty over the map part of it?—If I may say so, I think, Sir Irving, you were very fortunate in that respect. It has reached my ears that many people are rather unhappy about the condition of these old tithe maps awards. They have been in existence, of course, since 1836; they have been the subject of many alterations. Wherever there has been a formal apportionment there has been an alteration, some amendment of the map, and, in any event, those maps, excellent as they were (I entirely agree with you,

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if I may say so, that it was a wonderful effort at that time), hardly compare with the maps of the Ordnance Survey of to-day for accuracy. You can expect nearly 100 per cent. accuracy with the Ordnance Survey maps to-day.

5372. My experience was only of the recent Ordnance maps?—Tithe maps, of course, were prepared in 1836 long before the Ordnance Survey produced any maps, or produced any maps available to the public.

5373. Are not they all traceable on the Ordnance Survey maps?—No, not the boundaries of the tithe areas.

5374. Does that mean that a completely new set of tithe maps will have to be made?—We have actually completed the transfer to Ordnance survey maps, as up to date as we can get them, of the boundaries of all the tithe areas throughout the country.

5375. That was necessary?—Absolutely essential.

Sir *Isidore Salmon*.

5376. Sir Charles, you have 121 collectors up and down the country, presumably collecting these tithes?—Collecting these annuities now.

5377. Are there not any Inland Revenue officials in that area also collecting money?—I suppose in every case.

5378. Was there any reason why you had to put a special staff on for collecting these tithes, if within a Government Department there were officials who could have taken it in their stride?—I have tremendous admiration for the Inland Revenue, one of my old Departments, but I doubt very much if even they could have taken in their stride this task of collecting these annuities for the first few years. Indeed, it is provided under the Act that they shall not be asked to do that until the whole thing has been more or less cut and dried and the register contemplated in Section 9 of the Act (a formal register which shall be final evidence in a Court of Law as to the charge) has been finally prepared and sealed, and not until that date, under the Act, can they be transferred to the Inland Revenue Department.

5379. It is contemplated that, at a date, they will be transferred to the Inland Revenue?—It is contemplated that

at some date, not earlier than seven years, they will be transferred to the Inland Revenue.

5380. What steps have you taken to see that the collectors are not put on the permanent staff?—Every appointment of a collector is the subject of an agreement which is terminable at the pleasure of the Commission; they are not permanent Civil Servants; they are drawn from the ranks of practising surveyors and solicitors.

5381. What salary do you pay them?—We pay them a commission, averaging, over all, 3 per cent.

5382. On the amount of money which they collect?—On the amount of money which they collect, which is approximately the same average rate as was paid to collectors by owners of tithe for collecting tithe.

5383. Does the Head Office issue the demand note first?—The demand note is prepared in the Head Office, really through the Stationery Office; the demand notes are printed from embossed plates and dispatched in bundles to the collectors. The collectors then issue them to the annuity payers, collect the money, give receipts, account for the money and take steps to recover arrears.

5384. Then what does all your staff at Head Office do, in addition, between the 121 collectors that you have on the one hand and a total staff of 750 on the other? I agree the 750 is reduced by the 121?—No, the 121 is additional to the 750.

5385. Is that so?—Yes.

5386. Is the work of such a colossal kind that it takes all that number?—The work is so great that there has been very heavy pressure on the whole of the staff up to date and very substantial payments have had to be made for overtime.

5387. That is presumably what I may call the transitional period?—The peak for overtime was reached in April, 1937. We have really been working at tremendous pressure. Members of this Committee probably have but little idea of the tremendous volume of work involved in dealing with these 17,000 claims of tithe owners for 3,000,000 separate charges. The collection of the arrears of tithe under Section 20 means a tremendous lot of work which has to be carried out by the Commission.

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[Continued.]

5388. I suppose, Sir Charles, that, after the first year or two, things will become much easier. You will not have this pressure in the Department?—The pressure is likely to continue (I hope not so severe as it has been), I should think for a period of at least 5 or 10 years.

5389. Is that so?—I should think so. Throughout the country you have a large number of annuity payers who are still paying annuities on their neighbours' lands. In order to clear all that up (and there are scores of thousands of them) we have to get on to the land, we have to make formal apportionments, and compulsory redemption has to be carried out in accordance with the provisions of the Act.

5390. I suppose the line is clearly defined where the collectors start and finish and where you hand them over certain information?—The collectors are all servants of the Commission, of course.

Sir *Irving Albery*.

5391. Could you explain a little what you meant by "collecting on their neighbours' lands"? How does that arise—collecting annuities on their neighbours' lands?—Tithe rentcharge is payable on a definite area of land. If the ownership of that area becomes vested in more than one, any one owner can be called upon to pay the whole of that charge. That was the position so far as tithe was concerned when we took it over in 1936 and it is the position, unfortunately, to a very large extent, to-day, but I am very anxious indeed to see that position cleared up. We have in our estimates for this year a figure of £100,000 in respect of that work which we are only now able to tackle. I hope we shall be able to spend that £100,000.

5392. Does that account for a lot of the arrears?—No; that will really be spent on making formal apportionments of these annuities where the ownership of land has been divided.

5393. Can you give us an approximate figure of what amount of arrears have to be collected?—Yes, the total amount of arrears of which we have had notice from tithe owners is about £500,000. The sum which has actually been paid is just over £186,000.

5394. It is going to be very expensive collecting these arrears?—It is a very laborious and very difficult job.

5395. Have you any estimate of what percentage the cost of collection is going to be?—The collectors of annuities have

undertaken to collect those arrears at the same rate of commission, which averages 3 per cent. for the whole country, but, in addition to that, of course, somebody will have to pay the cost of court proceedings.

5396. I thought you mentioned a large sum which you had already been involved in on account of the arrangements to collect arrears; I was wrong about that?—We have already been involved in a large sum.

5397. I thought when questions arose over the expense which had already been involved, you said a lot of that was due to the arrears?—No. Dealing with this large number of arrears, totalling £500,000 in money, has meant a considerable disorganisation of what I would like to regard as the more normal work of the Commission, that is, the management of these annuities and the assessment of compensation and so on.

Sir *Isidore Salmon*.

5398. How many persons?—About 70,000 persons who are said to owe £500,000 of money to tithe owners. It is a responsibility on the Commission to collect that sum.

Sir *Assheton Pownall*.

5399. An immense amount of detailed work?—Appalling.

Mr. *Pethick-Lawrence*.

5400. I suppose the tithe owners pay you the expenses? You have to hand the money over to them, but I suppose they pay the expenses of the Commission collecting it?—No, that is an expense of the Commission which falls on the Commission's Vote; that is the scheme of the Act.

Mr. *Lathan*.

5401. Could you give us a little information as to procedure in cases where one individual is singled out to pay the whole tithe on land which may have a number of occupants?—Yes, generally speaking, we have followed, as far as we can, a procedure which was in force by tithe owners. That is to say, their practice normally was to make a demand on the owner of the largest area or the most important part. That normally is the procedure. In other cases there is a practice of collecting in rotation from A this half year and B next half year and so on.

5402. I am interested, because a few years ago I happened to be the owner and the occupant of a house that was

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on a plot of land that was originally assessable for tithe and I was in the unhappy position of paying the whole of the tithe?—Yes, paying the tithe on his neighbour's land.

Sir Robert Smith.

5403. With regard to these Ordnance Survey maps with which I understand the whole country has been mapped out, showing the area of each block of tithe, when was that done? Was that all at a given date for the whole country, or how was it done?—We tackled it as soon as may be after the Commission started.

5404. Is that a complete record which may be used in a Court of Law as to the area or not?—I do not think so.

5405. It has no sort of special standing?—No.

5406. If there are alterations, if land is disposed of, it seems to me extraordinary that you may apply to the person who has bought the smaller part of the land which is titheable and the original owner is left free. It seems such a funny thing. I should have thought he was a sort of superior and that you would have applied to the superior first?—I meant to say that the demand is normally made on the one who owns the largest area.

5407. That may be the largest area, but I should have thought the demand would have been made on the original owner; he may have sold three-quarters and kept a quarter, but I should have thought on your register of tithes you would have had him as the superior. What happens; is he bound to notify you? Did you ever register the other man as a separate entity?—It is an obligation on the Commission to apportion all those charges among the various landowners.

5408. From now on there will be no cases of two or three people chargeable with the whole tithe?—I wish I could agree with you: "from now on." We shall have to face up to it, until the

work can be completed, and we cannot hope that it will be completed in the course of a year or two.

5409. Within a reasonable time there will be a possibility of having the whole thing mapped out?—That is so.

5410. It is not going on indefinitely as it is?—No; as I have said, we have now taken in our estimates this year the sum of £100,000 to cover expenditure on that very work; we are now just starting it.

5411. That will be specially laid down and will be clear to everybody?—Yes.

Sir Isidore Salmon.

5412. Would it be possible for you to give us two figures: the number of entities that you deal with under the heading of annuities and those which you call the arrears of rentcharges?—Of the total number of annuities I have not got the precise figure, but I believe it is something rather more than 3,000,000.

5413. Persons?—Separate annuities; the total sum in charge for annuities is £2,800,000 a year.

5414. I was not thinking of the amount of money; I was rather thinking of the number of persons?—The total sum in charge is £2,800,000, I am not quite sure as to the number of separate tithe areas, but I believe there are over 3,000,000.

Mr. Benson.

5415. That will include the tithes where you have a row of houses on a plot of tithe land and there is about 6d. on each house?—No, it really means the number of separate tithe areas in respect of which we receive claims from tithe owners. Where it is claimed in respect of one area on which there may be 10 houses, we recognise that as one tithe area.

Sir Assheton Pownall.

5416. May I take it that this Account is approved. (*Agreed.*) Would you mind staying, Sir Charles, while we deal with the next item?—Certainly.

TITHE ACT, 1936, ACCOUNTS, 1936.

Sir RICHARD V. NIND HOPKINS, K.C.B., called in and examined.

Sir Assheton Pownall.

5417. Tithe Act, 1936. Would you tell us first how the £685,000 mentioned in line 6 of the report of the Comptroller

and Auditor General is arrived at?—(Sir Richard Hopkins.) That is the Exchequer contribution to the scheme. The provision of the Exchequer contribution

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[Continued.]

arose from three facts: first of all, with the abolition of tithe as such, the Exchequer was relieved of the obligation of paying rates in certain cases under the older Acts; secondly, it was agreed that a small contribution should be made towards the costs of the new Commission; and, thirdly, a sum was contributed into the fund by reason of the fact that there were certain technical gains of Income Tax to the Exchequer resulting from the new scheme. The first of those three items was much the most important; the saving to the Exchequer in respect of rates previously paid was in the region of £550,000 per annum.

5418. In the third paragraph you are empowered to make advances to meet deficiencies. Under what circumstances would you make advances from the Consolidated Fund?—We make permanent advances from the outset so far as may be necessary to keep the Fund solvent. The Fund is intended to be, and, no doubt, will prove to be, a self-liquidating fund over the whole period of its intended life, a maximum of 60 years, but in the early years there will be a deficiency. That deficiency will arise from a number of circumstances. First of all, the contribution which has to be made year by year out of the fund towards making good the loss of rate income from rating authorities is much larger in the early years than in later years. Secondly, a material sum has to be paid at the outset under the provisions of the Act to Queen Anne's Bounty out of the fund for making special provision for the case of poor livings in the early years during the lifetimes of the present incumbents. Thirdly, the initial, so to speak, capital expenses of the Commission in connection with the ascertainment of the new annuities and sums due to tithe owners will be more expensive than the normal costs of running. For that reason, in the early years, it is anticipated that there must be advances and that they will be paid off gradually in the years that come; provision, of course, was made in the Statute accordingly.

5419. They are recoverable; you cannot yet say how long it will take to recover them? That is rather the position, is it not?—I do not think I can say more than this, that we look forward to repayment, not in the initial years, but gradually, after the expiration of the initial period, over a period which will end at latest in 60 years time from now.

5420. Interest?—Interest is not actually paid, inasmuch as, in order to make that payment, a further grant would be required from the Exchequer, because *ex hypothesi* the fund is in deficiency, but interest is charged; an item, in fact, appears on page 2 of the present account: "Interest capitalised," £263 19s. 9d.; it is added to the advances. That will remain the case until the fund is in a position to begin to repay.

5421. Capitalisation of interest is £263 19s. 9d.?—That is so.

5422. You are going to add always the amount from year to year brought forward?—Until the fund is in a position to begin to make repayments.

5423. Turning to the Accounts, the figure of £364,050: how is that arrived at?—That is part of a year's payment due to rating authorities in respect of the loss of rates upon the suppression of tithe as such. It consists, I think, not of the complete sum, which could not be exactly computed, but of a payment on account of a full half year's payment, together with a small allowance which was due for the first half of this year under a provision in the Act which provided that, prior to the inception of the scheme as a whole, tithe rent, while still remaining in being upon agricultural land, should be subject to a reduction, if I remember aright, of one-eighth.

Sir Assheton Pownall.] Are there any questions?

Mr. Lathan.

5424. Has Sir Richard any view with regard to the administration expenses?—No, Sir, I have nothing special to say about that. As you have heard from Sir Charles, the amount of technical work to be carried out at the outset is undoubtedly very heavy and I have no doubt that it is being done as economically as it can be. (Sir Gilbert Upcott.) The staff is subject to Treasury control.

Sir Robert Smith.

5425. You were saying that in the initial years the expenses would be greater?—Yes.

5426. But in the later years what was advanced from the Consolidated Fund would be repaid?—Yes.

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5427. How do you know that will be so? How can you be sure that your expenses will not go up and that, in the later years, the returns may not be so great? How do you arrive at a figure that you are sure it will be all paid off?—The administrative expenses, if that is what you have in mind, are a very small part of the whole of this question.

5428. Yes, it is, but administrative expenses have an extraordinary way of mounting up in so many Departments?—There is no reason why they should in this case, because the capital task is the administrative task of correctly clamping down the tithe rent which has to be commuted and the capital rights of the persons who are to receive the stock.

5429. At the end of 60 years the thing is to balance; there will be no profit or loss?—That is so.

5430. One of my difficulties is to see how you are ever able to arrive at that?—I think a wrong perspective would be obtained if one regarded the amount of the administrative expenses as in any way the most material figure in the calculation; it is perhaps the least material. But a very careful calculation was made of the probable receipts and the probable outgoings; the probable receipts are the

permanent payments over a period of 60 years from the existing tithe payers. The permanent and regular outgoings are the interest and sinking fund upon the Government guaranteed stocks to be paid to the tithe owners. In addition to that, there is a known and closely calculable liability to rating authorities in respect of the loss of rates; that is a diminishing sum. It is quite true that the rate of diminution has been the subject of a calculation and is not capable of exact definition, but we believe that to be broadly right, and upon a calculation of that character I think it can be said with confidence that, subject, of course, to Parliament in its wisdom making any alteration in the scheme as time goes on, it will liquidate itself in 60 years at the latest.

5431. Supposing at the end of the 60 years it was found that there was a deficiency, is that provided for in the Act to be met out of the Consolidated Fund, or what happens?—It seems to me to be provided for in the circumstances of the case, in as much as advances which will have been made in the immediate future will not have been repaid in the distant future, and that is a state of affairs in Government finance with which I am familiar in many contingencies.

(*Sir Charles Thomas withdrew.*)

CIVIL APPROPRIATION ACCOUNTS, 1936.

CLASS II.

VOTE 10.

COLONIAL DEVELOPMENT FUND.

(*On this Account no questions were asked.*)

COLONIAL DEVELOPMENT FUND ACCOUNTS, 1936.

Sir Assheton Pownall.] Will the Members turn to the White Paper that has been circulated in connection with the Colonial Development Fund, pages 22 to 24 of the Comptroller and Auditor General's report. Paragraph 1 is statistical.

Sir Irving Albery.

5432. I notice that it says that the total amount received from Votes of Parliament was £4,800,000, of which £4,399,615 was issued from the Fund at that date?—(*Sir Richard Hopkins.*) Yes.

5433. Apparently a further £900,000 that is in the Civil Appropriation Accounts was granted and is treated as an expenditure?—Yes.

5434. Does not that come to this, that there is in hand all the time something like £400,000?—It has varied from year to year. It is very difficult in connection with these schemes to form a judgment at the beginning of the year as to how much will be required; these balances are not surrenderable. We try to keep them as low as we can, but in this particular year it was fairly high.

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[Continued.]

5435. I thought, judging from the account given of past payments, that it seems to be pretty constant round about £400,000?—I have a statement here which shows what the balances have been; in 1930 it was as great as the £400,000, in the four following years it varied between £300,000 in one year and £26,000 in another year; that was the best of our shots. In 1935-6 it was £180,000, this year £400,000, the following year £200,000.

Sir *Ashton Pownall*.

5436. Are there any further questions on paragraph 1? On paragraph 2, towards the bottom of the page, the Treasury pointed out in 1932 the practical difficulties with regard to this general principle being applied in certain cases. Would you mind telling us something more about the practical difficulties, now that we have had six years more practice?—The point is this: if I may say so, I think the general principle which was laid down by the Estimates Committee, which is referred to at the beginning of that paragraph, is perfectly right; it is merely that the application of it is difficult. Most of the objects for which money may be provided under the Colonial Development Act out of the Fund are also objects which a Colonial Government would perfectly naturally be carrying out in the course of its normal duties, questions of transport, roads, afforestation and so on. The question in many instances, whether it is appropriate that a grant should be made from the Colonial Development Fund, depends upon the magnitude and the character of the scheme as compared with the resources of the Colony. A question of that kind, I think, can only be decided on its merits in individual cases. Some small and normal work of road making and the like may be carried out by the Colony and we never hear of it. Some very large and important scheme may come to us and be admitted in whole. This paragraph indicates that there are some borderline cases where part of a scheme has been treated as naturally appertaining to the normal functions of the Government and the balance subject to a grant from this Fund.

5437. Is not there a danger that appreciable sums may be paid by the taxpayer through two different funds without his realising that he is doing so, one the Colonial Development Fund and the other a Grant-in-Aid?—That only

arises, of course, in the case of those Colonies which are the subject of a Grant-in-Aid, and I admit they are rather difficult cases to deal with. We have thought, however, that in the comparatively limited number of cases in which this question arises, it is better to follow the general principle which I have defined and up to the present, at any rate, that is what we have done. (Sir *Gilbert Upcott*.) Perhaps I ought to say that I have not written this paragraph by way of criticism of the practice followed by the Treasury, which, I think, is inevitable, but because I considered that Parliament ought to be aware that there are cases in which assistance has come from two sources, directly or indirectly, and because I think it is possible that the Committee may wish that some means may be adopted of indicating when those cases do occur.

5438. In the third paragraph, for instance, where the cost of a road comes in, there is also a Grant-in-Aid; would it not be worth while considering whether in cases of that sort you should not show also that there is a Grant-in-Aid subsidy, as it were, coming along in addition to the grant from the development fund? I understand that is not done?—(Sir *Richard Hopkins*.) We have not, in fact, done anything of that kind so far, but we will gladly consider whether something of that kind can be done.

5439. Are there many such cases?—There are certain cases of Grant-Aided Colonies in which part of the cost of a scheme is being borne not out of the subsidy which is paid to the Colony, but out of the revenues of the Colony which receive a general subsidy from the Exchequer; it is roughly the same thing.

5440. There is not much difference?—No.

5441. From the British taxpayers' point of view there is no difference, I suggest?—No, I do not think there is, and, if it is the wish of the Committee that we should consider making some annotation, we should be glad to go into it.

5442. We shall be glad if you will?—(Sir *Gilbert Upcott*.) These cases are not by any means numerous.

5443. No, but it makes it clearer. Are there any questions? Will the Committee take paragraph 3, "Newfoundland"? Would you tell us rather more with regard to this than appears in the note. First of all, how this substantial

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[Continued.]

excess arose. There is a very big difference here?—(Sir *Richard Hopkins*.) I do not know that there is very much more to say than the very full account which the Comptroller and Auditor General has given. It is quite obvious that so substantial an excess ought to have been found by the local government much more quickly than it was found. I think the reason was just simply this, that the public works department of that island was inexperienced in the management of a scheme of this size and was, in fact, at fault.

5444. In a case of this sort, where so much money is involved, although it is a very small late Dominion, now a Colony, do you not send someone out from home to have a check upon them?—We have not done, for this kind of purpose. You will remember that when Newfoundland fell substantially into default a Commission was set up to deal with the matter, and I think I must say really that the ultimate responsibility rests with the Commission, which in this respect was less successful than in others.

Mr. *Lathan*.

5445. Was not the Commission sent out from home?—Yes. (Sir *Gilbert Upcott*.) A certain number of the higher officials of the Newfoundland Government have been sent out from home, but I think its technical department is local. (Sir *Richard Hopkins*.) It is a local department.

Sir *Assheton Pownall*.

5446. I see that £75,000 was expended on the purchase of mechanical equipment sufficient for the requirements of the whole scheme; but that at the moment only 53 miles out of the 97 miles of new road are going to be built, which is not a very happy state of affairs?—No; I am not making any attempt to defend it. It cannot be defended, but we shall take all steps we can to see that a lapse of this kind does not occur again.

5447. I gather £205,000 was spent, first of all, then a further £58,000; that is £263,000?—Yes.

5448. And for that, just over half, 53 miles out of 97, were going to be built but unfortunately £263,000 is not sufficient and some more may be wanted?—Yes, I think very possibly so.

5449. It seems a very unhappy affair?—Yes.

5450. That prompted my question whether it would not be worth while, with big sums of this sort, if someone went out from home in the same way as the Commission went out with regard to their general affairs. Do you think this further small sum beyond the £53,000 will be sufficient?—Yes, I do not think that any large additional sum will be allowed to be spent upon this project, anyhow at the present time.

5451. Is this a loan or a gift or what is it?—The actual terms are in the Fund account. Up to the present I think that the advances for this kind of thing to Newfoundland have been either wholly or mainly loans, but we are not proposing that any further similar loans should be given to Newfoundland out of this fund, or, indeed, from any source, because I think it must be held that by now, taking under review not only these liabilities, but the very heavy liability which existed under the old converted debt of the island, they are over-borrowed.

5452. We are already putting up several hundreds of thousands of pounds, if I remember aright, for Newfoundland under another estimate—a large sum?—Yes, there is a substantial annual sum which has been as much as nearly £500,000 a year.

5453. In addition to this?—Yes.

Mr. *Wilfrid Roberts*.

5454. Can you give any figures as to what the cost per mile of the road should have been here; the estimate was approximately half the cost?—I am afraid I cannot answer that.

5455. Were any special difficulties encountered in making in the road, or was it simply a miscalculation of expenditure?—I think really, Sir, that in the main this was a question of an inexperienced department not visualising all the tasks that had to be met in making a road. (Sir *Gilbert Upcott*.) Perhaps I might say that the original estimate for the cost of the road construction was 6,850 dollars a mile and that it is actually costing 14,602 dollars a mile.

Sir *Assheton Pownall*.

5456. Just over double?—(Sir *Richard Hopkins*.) Yes; the criticism by the

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[Continued.]

Colonial Development Advisory Committee has been of serious mis-management locally.

Sir Robert Smith.

5457. You say certain construction work had been undertaken outside the terms of the original proposals?—Yes.

5458. The figures given by the Comptroller and Auditor General were only that on the original proposal it was double; there was something more than that. What was the nature of this certain construction work which had been undertaken outside the terms of the original proposals?—(Sir Gilbert Upcott.) They built a bridge which was outside the authorised programme.

5459. I notice that their equipment was sufficient for the requirements of the whole scheme; as regards that mechanical equipment, have you any sort of lien on it, in a way, when the work is done? Will it be redundant as far as the requirements of the country are concerned? Will there be anything coming back on that £75,000 that has been spent?—(Sir Richard Hopkins.) It will be the property of the Newfoundland Government, and we will see that, if it has any saleable value which can be realised, it shall be realised.

5460. How can you be sure that if it is sold it will be repaid to the Colonial Development Fund in any way? Will it be paid to you, to the Colonial Development Fund? Will it mean a smaller contribution from this country in later years to the general finances of Newfoundland, or will it be repaid? Will the equipment be disposed of and the proceeds repaid to the Colonial Development Fund?—The obligation of Newfoundland is to repay the loan. I think that the function of the Colonial Development Committee is to see that everything is done to leave the Colony in a position to make the repayment.

5461. From the Colonial Development Fund you made a further advance for this?—Yes.

5462. Would it not have been possible, when making that further advance, to say that, if there was at the end of this scheme any capital or any sum standing to the credit of the account (I mean by the sale, say, of these appliances) that should be repaid? It is by way of loan. You have no charge upon them otherwise. If they repay the loan, that is

all. They do not need to repay any of the loss that there has been?—I see that point, and I recognise that it is one that might have been taken into review by the advisory Committee at the time; I do not say that it is too late to consider its implications now, but I do say that I am afraid that, when we come to find the saleable value of that equipment on the site, we shall not find it is very large.

5463. I think it is very likely that you will not, but it seems to me that it would have been advisable to make some provision when you came to your final grant from the Development Fund?—If I may, I will look into that aspect of it; I cannot profess to have all the details which were before the Advisory Committee in my mind at the moment.

5464. I am merely putting it?—I will bear it in mind. (Sir Gilbert Upcott.) Use is being found for some of that surplus equipment on the airport which is now being established.

5465. It is again this difficulty between the two funds, the subsidy to the Colony by means of the Development Fund and the other fund?—(Sir Richard Hopkins.) Yes.

Sir Irving Albery.

5466. Was the principal object of making this road in Newfoundland to give employment?—Not so far as these loans were concerned. The principal object was undoubtedly the development of the island and to render it more economically sound than it previously was. There were, on the other hand, a considerable number of schemes of work of one kind and another of which the primary object was the giving of employment, and those, I think you will find, were met out of a Grant-in-Aid or the general revenues of the island, rather than from this fund.

5467. If the main object of these particular loans was not to give employment but to develop the island, it seems to me it will be very uneconomical to stop without completing the scheme?—(Sir Gilbert Upcott.) This was a development scheme for the purpose of improving communications; I do not think a grant could properly be made out of the Development Fund for the relief of unemployment. (Sir Richard Hopkins.) That is so. The Honourable Member says, does any real value attach to the 53 miles of road when the other 47 are not tacked on to it? I think they have

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[Continued.]

a value of their own, though the value would have been substantially enhanced if the scheme had gone right through; it opens up the area as far as it goes.

5468. In the report it says "The Treasury sanctioned the advance recommended, but stated that they shared the regret expressed by the Committee and the Secretary of State at the manner in which this undertaking had been conducted"—Yes.

5469. Does that mean anything beyond bad estimating?—No; that is what it means; imperfect supervision, inexperienced management; that is the simple fact of the matter.

5470. In making grants to Colonies for development work, do we have any check on the expenditure of the money supplied, or any control? Do we just hand it over and hope for the best? Perhaps I have not worded it well; I did not mean it as a criticism; I only wondered what the method was?—In the mass of cases the local control has proved to be quite adequate and satisfactory; in Newfoundland it will prove in the future to be the same, too; there is one illustration coming, in a very small way, in the next paragraph.

Sir *Isidore Salmon*,

5471. Where does the Treasury come in the picture?—The Treasury come in in this way: they will not sanction a grant on the recommendation of the Advisory Committee and the Secretary of State unless they are satisfied that the grant should be made and unless they are, rightly or wrongly, satisfied that the Colonial supervision will be adequate.

5472. Did they take those precautions before they agreed in this case?—Obviously, whatever precautions we took proved to be extremely ineffective, but, on the other hand, of course, after what has occurred the Advisory Committee is very alive to the necessity of securing that there is proper supervision before any new loans are granted.

5473. The point I was really trying to arrive at was this: so far as Treasury control is concerned—I am not saying it in an offensive way—it is merely a smoke screen. If the thing goes wrong it is the fault of the Department that applies for the money?—I do not want in any way to avoid any responsibility which you think rightly attaches to the Treasury here, but, of course, the

Treasury is rather remote from the actual day-to-day management of a scheme of this kind.

5474. I quite agree; I am not challenging that point. The point that rather strikes me is: are not the Treasury putting themselves in a very difficult position when they pretend to control it and yet are not really in a position to say if that money is going to be well spent or otherwise?—I think the only thing that we can do, in the light of what has happened, is to be sure that the Advisory Committee and the Colonial and Dominions Offices have this matter clearly in mind and see, before new loans are granted (in all cases, not only in this case), that there are proper and reliable measures for supervision; and that is what is now being done.

5475. Previously was that not done?—Yes, it was done, no doubt.

5476. But the Treasury did not enquire if it was done?—No, I cannot say that we did. (Sir *Gilbert Upcott*.) Parliament definitely put upon the Treasury the responsibility for approving or disapproving issues from this fund.

5477. The only way they can approve or disapprove is if they have certain evidence before them to adjudicate on. I sympathise with Sir Richard's position in this matter; it is a very difficult job?—(Sir *Richard Hopkins*.) Yes.

Sir *Assheton Pownall*.] We all see that, I think.

Mr. *Lathan*.

5478. Before we leave that, is it correct to assume that this money has been expended in the form of a grant? Is it not a fact that it is a loan?—It is a loan.

5479. The responsibility ultimately will rest upon Newfoundland to see that the money is refunded?—Yes.

Sir *Assheton Pownall*.

5480. Paragraph 4, "British Honduras"; what is the present position with regard to these free grants?—As you see in the second sub-paragraph of the Comptroller and Auditor General's report, he says what happened. After the thing had gone wrong, "the Committee, who view the position with some concern, recommended reallocation of the grants already sanctioned to enable one of the roads to be completed by curtailing work on the others. This recommendation was approved by the

31 May, 1938.]

Sir RICHARD V. NIND HOPKINS, K.C.B.

[Continued.]

Treasury. In 1937-38 further grants amounting to £65,220 have been approved".

5481. Is that a further scheme other than the four schemes?—No, I think that is simply to get the whole thing done on the basis originally approved.

5482. All four schemes are now completed?—Yes, or in process of completion.

5483. The total cost is nearly double what was originally estimated in 1935-36?—It is very nearly so. (Sir *Gilbert Upcott*.) It is the same story on a smaller scale.

Sir *Ashton Pownall*.] Not very much smaller.

Sir *Isidore Salmon*.

5484. Would Sir Richard kindly say how this arose? Did the Treasury, in the case of British Honduras, go into the scheme in a similar way to what they did with other schemes?—(Sir *Richard Hopkins*.) Yes; we will be careful that this kind of thing does not happen again. There were, I think, two circumstances in the Honduras case; one, it was found, after the scheme was under way, that the traffic to be borne by the roads was much heavier than had originally been anticipated, and that a better road was required; the other thing was simply this, that the Director of Works out there (who was upon a basis too small to have a department, almost) fell ill, and he had in the end a nervous breakdown and had to leave the service, and, for that time, the position was less satisfactory than would otherwise have been the case.

5485. These moneys come not direct but through the Development Fund, do they not?—Yes.

5486. Have not the Development Fund Committee anyone to advise them technically as to the schemes that are put before them?—Yes, the Committee themselves have Members with varied experience, and, of course, they have the help of the Colonial Office to any extent they may wish in considering these questions.

Sir *Ashton Pownall*.

5487. There is no question on paragraph 5. Will Members turn to the Accounts themselves, pages 2 to 21 inclusive? I have only two or three questions. On page 10, Kenya, at the bottom of the page: "Sisal Decorticating Machinery" "Loan subsequently converted to a free grant", and the same thing with regard to the item below it: under what circumstances were

they converted to a free grant?—That, I think, was under the terms of the original contract. It was contemplated that this loan would remain a loan, provided that the machinery in which it was being invested proved successful. If it were unsuccessful, the repayment would be given up; it proved to be unsuccessful and it was given up.

5488. A delightful arrangement for the people concerned; they could not lose and they might win. Was it for a private firm?—It was given to the local Government, but re-lent by them to a company.

5489. It proved a failure and therefore we have written it off?—Yes.

5490. Page 19, "Operations of Meat Rations Limited", Tanganyika, "Scheme in process of winding up". What is the position there? "Repayment due to Exchequer to be reduced by a sum equal to half of any loss"?—I am afraid I have no particulars. (Sir *Gilbert Upcott*.) Sir Richard put in a paper on this, two years ago, in which he told the Committee that, owing to the lack of success of this undertaking, the Government of Tanganyika decided to enter into possession and to realise the assets. He was not then in a position to tell the Committee how the assets were going to be dealt with when they were realised, but this note indicates, in effect, I think, that the Exchequer and the Government of Tanganyika are sharing the loss. (Sir *Richard Hopkins*.) Yes.

5491. Could you let us know about that at some time; it would be rather interesting to know what loss has fallen on the Exchequer?—I will put in a short note about it; so far £3,000 has been paid to the Exchequer.

Mr. *Benson*.] Page 16, in Seychelles, you have made a grant of £15,000 for roads, and here again you seem to be getting into trouble, because in March of this year there was a Question by Mr. McEntee in the House, drawing attention to the strictures of the Chief Justice of the Supreme Court of Seychelles.

Sir *Ashton Pownall*.] On this hotel?

Mr. *Benson*.

5492. I assume that it would be out of this grant that the money was paid?—I think that those were *obiter dicta*, were they not, in the course of the hearing of a libel action? We have made some enquiry into it, and we doubt whether there is any action which is required to be taken from here about it.

31 May, 1938.]

Sir RICHARD V. NIND HOPKINS, K.C.B.

[Continued.]

5493. This road has not disintegrated?
—No, it is still there.

Sir Irving Albery.

5494. There are several cases where an advance has been made for an ice-making and cold-storage plant. How is that run? Does that plant become Colonial property?—Yes, the loan will be made to the Colonial Government, and either the experiment or the work will be carried out by the Government as such, or else there will be a re-lending by the Government to a company.

5495. That is what was in my mind; I should have thought an ice-making and cold storage plant would produce revenue immediately?—(Sir *Gilbert Upcott.*) All loans or grants from this fund are made to the local Government. Whether the local Government carries out the work itself or re-lends depends upon the scheme.

5496. It seems to me probable that they would hand that over to a local company?—(Sir *Richard Hopkins.*) I think those are nearly all West Indian cases, and, in those cases, they are owned by the Government.

5497. I should have thought from the moment an ice-making and cold storage plant was up there would be an immediate revenue coming in?—I think the answer is that they are all made as loans for that reason, and not grants.

5498. I should have thought, from a cold storage plant in a hot country, you would have got revenue coming in almost from the start?—Subject to this, that the West Indies have been having a very hard time recently.

Sir Isidore Salmon.

5499. I suppose the great reason why we advance money generally to these Colonies is with a view to trying to

develop the Colonies on economic lines? —That is so. The Act, you remember, says, development purposes directly or indirectly with a view to facilitating trade with this country and to help employment in this country.

Mr. Lathan.

5500. It is not possible to have a debit and credit account, I suppose, so that we can have on the one hand not only the information the Chairman suggested was desirable, that is, the total amount expended or charged to the British taxpayer but also the estimated advantages derived from trade with the Colony on the other?—You cannot estimate them. I think they are very real, in many of these cases, all the same.

Sir Assheton Pownall.] There are very large assets which are intangible or undefinable?

Sir Isidore Salmon.] Invisible.

Sir Irving Albery.

5501. I notice with regard to some of the loans on these accounts that there is nothing payable on them for a long period. Here is one: "20 years, free of interest for five years, interest at 5 per cent. thereafter; annuities commence in the eleventh year." It occurred to me that, if that money is lent to a Government to lend to a company, they seemed to me to be over-reasonable terms?—As I said, I think these are chiefly West Indian cases. I am told that in all cases there they are owned by the Government and run by the Government. That is so.

Sir Irving Albery.] If it is run by Government I have nothing further to ask.

Sir Assheton Pownall.] May I take it that this Account is approved? (*Agreed.*)

CIVIL APPROPRIATION ACCOUNTS, 1936.

CLASS III.

VOTE II.

MISCELLANEOUS LEGAL EXPENSES.

Sir Assheton Pownall.] Civil Appropriation Accounts, pages 130 and 131, Miscellaneous Legal Expenses, Class III, Vote II.

Sir Isidore Salmon.

5502. "Miscellaneous legal expenses" seem to have more reference to Scotland

than to any other part of the country. I do not remember (perhaps we see it elsewhere for other parts of the country) a similar sort of Appropriation Account?—(Sir *Richard Hopkins.*) This Account has come year by year; I am not quite sure if I heard the whole of your question.

31 May, 1938.]

Sir RICHARD V. NIND HOPKINS, K.C.B.

[Continued.]

5503. If you notice the heading of this Miscellaneous Legal Expenses Vote on page 130, it is dealing with the whole of Scotland?—(Sir *Gilbert Upcott*.) Great Britain. (Sir *Richard Hopkins*.) Great Britain.

5504. Does it deal with Scotland only, or with the whole of Great Britain?—It is the whole of Great Britain.

Sir *Assheton Pownall*.] May I take it the Account is approved. (*Agreed*.)

CLASS IV.

VOTE 10.

SCIENTIFIC INVESTIGATION, ETC.

Sir *Assheton Pownall*.

5505. Pages 179 to 181, Class IV, Vote 10, Scientific Investigation, etc. On sub-head Q, "Agricultural Research Council," what station is that? Under what circumstances are we re-voting the £38,000 at the bottom of the page?—(Sir *Richard Hopkins*.) This was a sum of money provided for the new research station at Compton Manor, which has been sanctioned for the Agricultural Research Council for the conducting of large scale experiments which existing institutions are not able to undertake. It is going to be devoted first of all to research into the question of contagious abortion in cattle. We expected that the purchase would be effected in the year, but it was not practicable to effect it, so the money was carried over and re-voted; it has now been bought.

5506. Does not the Ministry of Agriculture do research work on these lines also?—Not precisely on these lines; the Agricultural Research Council was set up comparatively recently for the purpose of co-ordinating work, and not duplicating it, and also representing agriculture and agricultural research in the councils of the world. It was contemplated that they would not undertake any research

of the type which is already carried on. This is a special type of research which requires to be carried out and can only effectively be carried out, on a large scale, and for that reason is not capable of being managed by existing institutions.

Mr. *Lathan*.

5507. Are sub-heads D and E, "British School at Athens" and "British School at Rome", peculiar? Is that an expenditure on schools for British residents in those two cities?—The British Schools at Rome and Athens are something much more than that; they are Schools of archaeological research. The Greek School was largely responsible for digging out the Palace of Minos, in later stages carried out by Sir Arthur Evans. They are not schools of instruction.

Mr. *Mabane*.

5508. How did you manage to save £37 on the time gun?—Just that it did not cost quite so much to fire as was originally expected.

5509. It goes on being fired, I take it?—It goes on being fired.

Sir *Assheton Pownall*.] May I take it that this Account is approved? (*Agreed*.)

VOTE 11.

UNIVERSITIES AND COLLEGES, GREAT BRITAIN.

Sir *Assheton Pownall*.

5510. Pages 182 and 183, Universities and Colleges, Great Britain, Class IV, Vote 11. With regard to your Grant-in-Aid, you took £2,250,000, which was some £420,000 more than the year before, but your payments were not very much more than in the year before; they only amounted to well under £2,000,000: could you say how that happened?—(Sir *Richard Hopkins*.) That is so; I think that, in the grant which was given, there was intended to be a certain reserve available, as there has been in several

past years, in order that the Committee should be in a position to make a grant, not part and parcel of the continuing grants from year to year, but a little balance in hand to meet special requirements that may arise in any year.

5511. With all deference, is £290,000 a little balance?—Yes.

5512. It seems to me a relatively large sum. The year before it was £8,000. Your balance in the year under review is just on £300,000; as Sir Isidore points out, it is well over 10 per cent. of the total grant. It seems to me to be rather

31 May, 1938.]

Sir RICHARD V. NIND HOPKINS, K.C.B.

[Continued.]

a large balance?—I think what I said was correct, that it was intended that they should have this amount in hand.

5513. As much as this; it seems such a very large sum?—I think so.

5514. £300,000?—Yes.

5515. What has been the difference in position, that one year you should be content with £8,000 balance and the next year the balance was £300,000? It does seem a big difference?—I am afraid that the exact facts in regard to this have escaped me.

5516. Perhaps you would not mind looking into that and let us have a note on that also?—I think I had better. The situation, I think, is quite deliberate and has its explanation; I am not quite certain what the explanation is.

5517. It is a big figure, and one does not want to encourage overspending by having these large balances lying about?—I agree.

Sir Assheton Pownall.] May I take it that this Account is approved? (Agreed.)

CLASS V.

VOTE 7.

WIDOWS', ORPHANS' AND OLD AGE CONTRIBUTORY PENSIONS.

VOTE 13.

SPECIAL AREAS FUND.

(On these Accounts no questions were asked.)

CLASS VI.

VOTE 15.

DEVELOPMENT FUND.

DEVELOPMENT FUND ACCOUNTS, 1936.

Mr. E. H. E. HAVELOCK, O.B.E., called in and examined.

Sir Assheton Pownall.

5518. Page 313, Development Fund, Class VI, Vote 15. There is a White Paper with that which we might take at the same time. You have an amount for Buckie of an appreciable nature on page 8 of the figures of the Development Fund. We have written off a considerable sum, I think?—(Sir Gilbert Upcott.) £48,000 converted into grants.

5519. Outstanding is £55,807; what is the position with regard to that large sum?—(Sir Richard Hopkins.) This was one of a large number of cases in Scotland of grants for harbours in connection with the fishing industry, and default has taken place. We keep them under review from time to time, and we ask

them to do better. Buckie Town Council has recently been pressed to increase the rates.

5520. I have only one other question, on Macduff; I think the position is the same there?—Yes; it is a smaller town and a much larger amount.

5521. What are the rates in Macduff, do you know? Is it very poor from that point of view?—(Mr. Havelock.) I do not remember that, but Macduff is due for a review this year; there has been a moratorium since 1927, pending repayment of a bank overdraft, so we shall be in a position to give you more information on that next year.

Sir Assheton Pownall.] May I take it that this Account is approved? (Agreed.)

CIVIL APPROPRIATION ACCOUNTS, 1936.

CLASS VI.

VOTE 16.

DEVELOPMENT GRANTS.

CLASS VII.

VOTE 12.

RATES ON GOVERNMENT PROPERTY.

(On these Accounts no questions were asked.)

(The witnesses withdrew.)

(Adjourned till Thursday, 7th July, at 2.30 p.m.)

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PAPER handed in by Mr. *W. R. Fraser*, on 3rd February, 1938.

1935.

COMPARISON OF AUDITED EXPENDITURE WITH
EXCHEQUER ISSUES

AND

GENERAL ABSTRACT OF APPROPRIATION ACCOUNTS.

(After Audit by the Comptroller and Auditor General, and Review by
the Public Accounts Committee of the House of Commons.)

Treasury,

February, 1938.

COMPARISON of AUDITED EXPENDITURE in 1935 with
EXCHEQUER ISSUES of that Year.

	Exchequer Issues.		Audited Expenditure (Net).		Audited Expenditure (Net).			
					Less than Exchequer Issues.		More than Exchequer Issues.	
	£	s. d.	£	s. d.	£	s. d.	£	s. d.
CONSOLIDATED FUND SERVICES.	263,754,441	14 2	263,754,441	14 2				
NAVY	64,806,000	0 0	64,887,612	16 10	—		81,612	16 10
ARMY	44,046,800	0 0	44,515,871	7 10	130,928	12 2	—	
ARMY (ORDNANCE FACTORIES).	200	0 0	200	0 0	—		—	
AIR SERVICES	27,496,000	0 0	27,515,185	4 11	—		19,185	4 11
	136,949,000	0 0	136,918,869	9 7	130,928	12 2	100,798	1 9
CIVIL SERVICES	361,923,000	0 0	361,768,032	11 5	154,967	8 7	—	
REVENUE DEPARTMENTS	79,208,000	0 0	79,294,132	2 11	—		86,132	2 11
TOTAL	841,834,441	14 2	841,735,475	18 1	285,896	0 9	186,930	4 8
					186,930	4 8		
					98,965	16 1		

47855

S 3

1935.

GENERAL ABSTRACT OF APPROPRIATION ACCOUNTS.

(After Audit by the Comptroller and Auditor General, and Review by the Public Accounts Committee of the House of Commons.)

Service.	Grants and Estimated Receipts, 1935.						Expenditure, 1935.						Differences between Exchequer Grants and Net Expenditure. (Columns 3 and 6.)													
	Estimated Gross Expenditure.		Authorised Receipts in Aid of Grants.		Exchequer Grants.		Gross Expenditure.		Actual Receipts in Aid.		Net Expenditure.		Surpluses.	‡ Deficits.												
	(1.)	(2.)	(3.)	(4.)	(5.)	(6.)	(7.)	(8.)	(9.)	(10.)	(11.)	(12.)	(13.)	(14.)												
	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.											
Navy	67,915,380	0	0	3,015,380	0	0	64,900,000	0	0	68,078,563	15	9	3,190,950	18	11	64,887,612	16	10	12,387	3	2½	—	—			
Army... ..	51,572,000	0	0	6,672,000	0	0	44,900,000	0	0	50,972,454	2	1	6,456,582	14	3	44,515,871	7	10	384,128	12	2	—	—			
Army (Ordnance Factories) ...	3,610,000	0	0	3,609,800	0	0	200	0	0	13,502,455	7	3	3,502,255	7	3	200	0	0	—	—	—	—	—			
Air Services	31,002,100	0	0	3,406,100	0	0	27,596,000	0	0	30,940,778	17	5	3,425,593	12	6	27,515,185	4	11	80,814	15	1	—	—			
TOTAL, NAVAL, MILITARY AND AIR SERVICES.	154,099,480	0	0	16,703,280	0	0	137,396,200	0	0	153,494,252	2	6	16,575,382	12	11	136,918,869	9	7	477,330	10	5	—	—			
Civil Services :																										
Class I.	5,177,753	0	0	2,994,117	0	0	2,183,636	0	0	4,663,365	16	6	2,644,867	11	6	2,018,498	5	0	165,267	12	9	129	17	9		
„ II.	9,521,356	0	0	762,762	0	0	8,758,594	0	0	9,344,778	11	2	751,875	13	9	8,592,902	17	5	166,270	18	6	579	15	11		
„ III.	19,719,873	0	0	2,379,228	0	0	17,340,645	0	0	19,582,493	0	7	2,344,438	8	4	17,238,054	12	3	102,924	4	0	333	16	3		
„ IV.	62,249,161	0	0	6,337,187	0	0	55,911,974	0	0	62,177,479	11	11	6,336,441	17	2	55,841,037	14	9	71,227	3	1	290	17	10		
„ V.	177,103,782	0	0	9,425,808	0	0	167,677,974	0	0	169,682,353	9	11	8,184,700	17	7	161,497,652	12	4	6,180,470	7	5	148	19	9		
„ VI.	21,814,804	0	0	3,595,305	0	0	18,219,499	0	0	20,187,037	11	6	3,078,818	18	3	17,108,218	13	3	1,115,015	16	8	3,735	9	11		
„ VII.	10,717,280	0	0	2,377,885	0	0	8,339,395	0	0	10,497,513	15	2	2,304,310	15	7	8,193,202	19	7	146,192	0	5	—	—			
„ VIII.	46,001,959	0	0	12,364	0	0	45,989,595	0	0	46,019,519	15	7	12,364	0	0	46,007,155	15	7	31,373	4	2	48,933	19	9		
„ IX.	51,747,600	0	0	6,458,573	0	0	45,289,027	0	0	51,742,911	3	1	6,458,573	0	0	45,284,338	3	1	4,688	16	11	—	—			
TOTAL, CIVIL SERVICES	404,053,568	0	0	34,343,229	0	0	369,710,339	0	0	393,897,452	15	5	32,116,391	2	2	361,781,061	13	3	7,983,430	3	11	54,152	17	2		
Revenue Departments:																										
Customs and Excise	5,854,400	0	0	221,000	0	0	5,633,400	0	0	5,868,712	2	8	221,000	0	0	5,647,712	2	8	—	—	—	—	—	14,312	2	8
Inland Revenue	7,745,902	0	0	218,000	0	0	7,527,902	0	0	7,724,672	14	3	218,000	0	0	7,506,672	14	3	21,229	5	9	—	—	—	—	
Post Office	69,175,217	0	0	2,955,217	0	0	66,220,000	0	0	69,109,276	8	8	2,955,217	0	0	66,154,059	8	8	65,940	11	4	—	—	—	—	
TOTAL, REVENUE DEPARTMENTS.	82,775,519	0	0	3,394,217	0	0	79,381,302	0	0	82,702,661	5	7	3,394,217	0	0	79,308,444	5	7	87,169	17	1	14,312	2	8		
Deduct—Expenditure from Vote for Civil Service Remuneration already included under other Votes. (See column 8.)	640,928,567	0	0	54,440,726	0	0	586,487,841	0	0	630,094,366	3	6	52,085,990	15	1	578,008,375	8	5	8,547,930	11	5	68,464	19	10		
	—	—	—	—	—	—	—	—	—	27,341	4	6	—	—	—	27,341	4	6	—	—	—	—	—	27,341	4	6
TOTAL FOR VOTED SERVICES...	640,928,567	0	0	54,440,726	0	0	586,487,841	0	0	630,067,024	19	0	52,085,990	15	1	577,981,034	3	11	8,547,930	11	5	41,123	15	4		

CIVIL SERVICES.

1935.

ABSTRACT STATEMENT showing the APPROPRIATION of GRANTS and RECEIPTS in AID of GRANTS, for the undermentioned CIVIL SERVICES after Audit by the Comptroller and Auditor General, and Review by the Public Accounts Committee of the House of Commons for the Year ended 31st March, 1936, and the Amounts of the UNEXPENDED BALANCES or DEFICIENCIES arising upon the same. (For details see H.C. 11 of 1937.)

Service.	Grants and Estimated Receipts, 1935.			Expenditure, 1935.			Differences between Exchequer Grants and Net Expenditure.	
	Estimated Gross Expenditure.	Authorised Receipts in Aid of Grants.	Exchequer Grants.	Gross Expenditure.	Actual Receipts in Aid.	Net Expenditure.	Surpluses.	Deficits.
	(1.)	(2.)	(3.)	(4.)	(5.)	(6.)	(7.)	(8.)
CLASS I.								
CENTRAL GOVERNMENT AND FINANCE.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.
1 House of Lords Offices	65,223 0 0	14,309 0 0	50,914 0 0	64,216 18 9	14,309 0 0	49,907 18 9	1,006 1 3	—
2 House of Commons	344,378 0 0	13,000 0 0	331,878 0 0	332,629 0 5	13,000 0 0	319,629 0 5	12,248 19 7	—
3 Expenses under the Representation of the People Act.	240,000 0 0	—	240,000 0 0	239,852 4 4	—	239,852 4 4	147 15 8	—
4 Treasury and Subordinate Departments	350,471 0 0	9,839 0 0	340,632 0 0	342,521 0 9	9,839 0 0	332,682 0 9	7,949 19 3	—
5 Privy Council Office	15,815 0 0	3,690 0 0	12,125 0 0	15,690 19 10	3,690 0 0	12,000 19 10	124 0 2	—
6 Privy Seal Office	3,441 0 0	—	3,441 0 0	3,416 19 8	—	3,416 19 8	24 0 4	—
7 Charity Commission	43,277 0 0	2,400 0 0	40,877 0 0	42,054 18 0	2,400 0 0	39,654 18 0	1,222 2 0	—
8 Civil Service Commission	69,840 0 0	47,000 0 0	22,840 0 0	69,787 9 5	47,000 0 0	22,787 9 5	52 10 7	—
9 Exchequer and Audit Department ...	155,786 0 0	17,276 0 0	138,510 0 0	154,048 1 7	17,276 0 0	136,772 1 7	1,737 18 5	—
10 Friendly Societies' Deficiency ...	5,614 0 0	—	5,614 0 0	5,613 1 3	—	5,613 1 3	0 18 9	—
11 Government Actuary	35,771 0 0	3,500 0 0	32,271 0 0	35,900 17 9	3,500 0 0	32,400 17 9	—	129 17 9
12 Government Chemist	78,282 0 0	700 0 0	77,582 0 0	77,523 12 0	700 0 0	76,823 12 0	758 8 0	—
13 Government Hospitality	6,000 0 0	—	6,000 0 0	6,000 0 0	—	6,000 0 0	—	—
14 Import Duties Advisory Committee ...	58,243 0 0	—	58,243 0 0	56,983 17 5	—	56,983 17 5	1,259 2 7	—
15 Mint	2,920,000 0 0	2,820,000 0 0	100,000 0 0	2,472,347 15 10	2,472,347 15 10	—	100,000 0 0	—
16 National Debt Office	26,834 0 0	24,125 0 0	2,709 0 0	26,675 7 9	24,125 0 0	2,550 7 9	158 12 3	—
17 National Savings Committee	107,148 0 0	—	107,148 0 0	105,667 18 0	—	105,667 18 0	1,480 2 0	—

18	Public Record Office	38,651 0 0	560 0 0	38,091 0 0	38,626 1 5	557 12 7	38,068 8 10	22 11 2	—	
19	Public Works Loan Commission ...	22,173 0 0	22,073 0 0	100 0 0	21,477 15 0	21,477 15 0	—	100 0 0	—	
20	Repayments to the Local Loans Fund	73,852 0 0	—	73,852 0 0	73,351 16 8	—	73,351 16 8	500 3 4	—	
21	Royal Commissions, &c.	37,570 0 0	1,070 0 0	36,500 0 0	33,542 14 5	70 8 1	33,482 6 4	3,017 13 8	—	
22	Miscellaneous Expenses	121,887 0 0	12,200 0 0	109,687 0 0	119,627 16 8	12,200 0 0	107,427 16 8	2,259 3 4	—	
23	Secret Service	180,000 0 0	—	180,000 0 0	178,592 2 2	—	178,592 2 2	1,407 17 10	—	
24	Scottish Office	94,811 0 0	2,375 0 0	92,436 0 0	93,970 16 3	2,375 0 0	91,595 16 3	840 3 9	—	
25	Repayments to the Civil Contingencies Fund.	7,186 0 0	—	7,186 0 0	7,185 12 5	—	7,185 12 5	0 7 7	—	
26	Civil Service Remuneration, &c. ...	50,000 0 0	—	50,000 0 0	27,341 4 6	—	27,341 4 6	22,658 15 6	—	
27	Funeral of His Late Majesty... ..	25,000 0 0	—	25,000 0 0	18,709 14 3	—	18,709 14 3	6,290 5 9	—	
TOTAL		5,177,753 0 0	2,994,117 0 0	2,183,636 0 0	4,663,365 16 6	2,644,867 11 6	2,018,498 5 0	165,267 12 9	129 17 9	
CLASS II.										
FOREIGN AND IMPERIAL.										
1	Foreign Office	312,695 0 0	131,125 0 0	181,570 0 0	311,644 18 11	131,125 0 0	180,519 18 11	1,050 1 1	—	
2	Diplomatic and Consular Services ...	1,694,406 0 0	414,541 0 0	1,279,865 0 0	1,661,982 7 0	414,541 0 0	1,247,441 7 0	32,423 13 0	—	
3	League of Nations	223,500 0 0	—	223,500 0 0	222,888 2 10	—	222,888 2 10	611 17 2	—	
4	Dominions Office	53,373 0 0	1,240 0 0	52,133 0 0	52,074 9 4	1,002 5 6	51,072 3 10	1,060 16 2	—	
5	Dominion Services	613,160 0 0	22,220 0 0	590,940 0 0	553,740 16 3	19,277 12 0	534,463 4 3	56,476 15 9	—	
6	Irish Free State Services	2,293,643 0 0	—	2,293,643 0 0	2,292,834 16 8	—	2,292,834 16 8	808 3 4	—	
7	Oversea Settlement	55,850 0 0	15,000 0 0	40,850 0 0	37,735 8 1	13,899 18 2	23,835 9 11	17,014 10 1	—	
8	Colonial Office	160,225 0 0	2,506 0 0	157,719 0 0	160,373 10 11	2,506 0 0	157,867 10 11	—	148 10 11	
9	Colonial and Middle Eastern Services	1,025,891 0 0	176,130 0 0	849,761 0 0	962,956 1 8	169,523 18 1	793,432 3 7	56,328 16 5	—	
10	Colonial Development Fund, &c. ...	900,000 0 0	—	900,000 0 0	900,000 0 0	—	900,000 0 0	—	—	
11	India Services	1,666,550 0 0	—	1,666,550 0 0	1,666,981 5 0	—	1,666,981 5 0	—	431 5 0	
12	Imperial War Graves Commission ...	522,063 0 0	—	522,063 0 0	521,566 14 6	—	521,566 14 6	496 5 6	—	
TOTAL		9,521,356 0 0	762,762 0 0	8,758,594 0 0	9,344,778 11 2	751,875 13 9	8,592,902 17 5	166,270 18 6	579 15 11	

ABSTRACT STATEMENT showing the Appropriation of Grants, &c., for the Year ended 31st March, 1936—*continued.*

	Service.	Grants and Estimated Receipts, 1935.						Expenditure, 1935.						Differences between Exchequer Grants and Net Expenditure.	
		Estimated Gross Expenditure.		Authorised Receipts in Aid of Grants.		Exchequer Grants.		Gross Expenditure.		Actual Receipts in Aid.		Net Expenditure.		Surpluses.	Deficits.
		(1.)	(2.)	(3.)	(4.)	(5.)	(6.)	(7.)	(8.)						
	CLASS III.														
	HOME DEPARTMENT, LAW AND JUSTICE.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	
1	Home Office	641,146 0 0	47,893 0 0	593,253 0 0	595,667 9 2	47,893 0 0	547,774 9 2	45,478 10 10	—						
2	Broadmoor Criminal Lunatic Asylum	74,751 0 0	4,492 0 0	70,259 0 0	74,300 3 10	4,492 0 0	69,808 3 10	450 16 2	—						
3	Police, England and Wales	11,377,296 0 0	255 0 0	11,377,041 0 0	11,307,355 4 5	207 9 5	11,367,147 15 0	9,893 5 0	—						
4	Prisons, England and Wales	1,291,598 0 0	213,508 0 0	1,078,090 0 0	1,260,209 14 8	211,001 1 8	1,049,208 13 0	28,881 7 0	—						
5	Approved Schools, &c., England and Wales.	303,150 0 0	13,500 0 0	289,650 0 0	301,760 16 8	13,500 0 0	288,260 16 8	1,389 3 4	—						
6	Supreme Court of Judicature, &c. ...	515,384 0 0	515,284 0 0	100 0 0	513,988 5 7	513,988 5 7	—	100 0 0	—						
7	County Courts	767,366 0 0	767,266 0 0	100 0 0	757,635 9 10	757,635 9 10	—	100 0 0	—						
8	Land Registry	260,265 0 0	260,165 0 0	100 0 0	244,304 14 7	244,304 14 7	—	100 0 0	—						
9	Public Trustee	248,560 0 0	248,460 0 0	100 0 0	245,622 11 6	245,622 11 6	—	100 0 0	—						
10	Law Charges	155,061 0 0	37,000 0 0	118,061 0 0	150,276 12 8	35,420 6 1	114,856 6 7	3,204 13 5	—						
11	Miscellaneous Legal Expenses	46,882 0 0	6,950 0 0	39,932 0 0	45,907 11 2	6,950 0 0	38,957 11 2	974 8 10	—						
12	Police, Scotland	1,155,038 0 0	—	1,155,038 0 0	1,149,910 3 9	—	1,149,910 3 9	5,127 16 3	—						
13	Prisons, Scotland	145,044 0 0	16,860 0 0	128,184 0 0	143,345 19 4	16,860 0 0	126,485 19 4	1,698 0 8	—						
14	Approved Schools, &c., Scotland ...	62,070 0 0	3,840 0 0	58,230 0 0	61,885 1 8	3,840 0 0	58,045 1 8	184 18 4	—						
15	Scottish Land Court	9,144 0 0	390 0 0	8,754 0 0	8,797 8	390 0 0	8,407 3 8	346 16 4	—						
16	Law Charges and Courts of Law, Scotland.	184,070 0 0	144,800 0 0	39,270 0 0	184,403 16 3	144,800 0 0	39,603 16 3	—	333 16 3						
17	Register House, Edinburgh	61,685 0 0	61,585 0 0	100 0 0	60,553 9 8	60,553 9 8	—	100 0 0	—						
18	Northern Ireland Services	14,714 0 0	6,800 0 0	7,914 0 0	14,129 19 0	6,800 0 0	7,329 19 0	584 1 0	—						
19	Supreme Court of Judicature, Northern Ireland.	48,300 0 0	30,010 0 0	18,290 0 0	47,313 1 10	30,010 0 0	17,303 1 10	986 18 2	—						
20	Land Purchase Commission, Northern Ireland.	2,358,349 0 0	170 0 0	2,358,179 0 0	2,355,125 11 4	170 0 0	2,354,955 11 4	3,223 8 8	—						
	TOTAL	19,719,873 0 0	2,379,228 0 0	17,340,645 0 0	19,582,493 0 7	2,344,438 8 4	17,238,054 12 3	102,924 4 0	333 16 3						

CLASS IV																
EDUCATION.																
1	Board of Education	51,657,887	0 0	5,511,100	0 0	46,146,787	0 0	51,629,062	16 3	5,511,100	0 0	46,117,962	16 3	28,824	3 9	—
2	British Museum	207,917	0 0	28,313	0 0	179,604	0 0	205,487	12 2	28,313	0 0	177,174	12 2	2,449	7 10	—
3	British Museum (Natural History) ...	110,051	0 0	1,990	0 0	108,061	0 0	109,296	8 7	1,990	0 0	107,306	8 7	754	11 5	—
4	Imperial War Museum	12,025	0 0	735	0 0	11,290	0 0	12,117	2 3	735	0 0	11,382	2 3	—	—	92 2 3
5	London Museum	6,685	0 0	1,080	0 0	5,605	0 0	6,684	19 3	1,080	0 0	5,604	19 3	0	0 9	—
6	National Gallery	30,798	0 0	1,833	0 0	28,965	0 0	30,762	19 3	1,833	0 0	28,929	19 3	35	0 9	—
7	National Maritime Museum	7,268	0 0	10	0 0	7,258	0 0	5,953	15 11	10	0 0	5,943	15 11	1,314	4 1	—
8	National Portrait Gallery	9,882	0 0	1,245	0 0	8,637	0 0	9,674	19 3	1,245	0 0	8,429	19 3	207	0 9	—
9	Wallace Collection	12,165	0 0	1,285	0 0	10,880	0 0	12,363	15 7	1,285	0 0	11,078	15 7	—	—	198 15 7
10	Scientific Investigation, &c.	246,373	0 0	20,000	0 0	226,373	0 0	245,330	6 11	19,255	0 0	226,075	6 11	297	13 1	—
11	Universities and Colleges, Great Britain	1,912,000	0 0	—	—	1,912,000	0 0	1,877,000	0 0	—	—	1,877,000	0 0	35,000	0 0	—
12	Public Education, Scotland	8,017,481	0 0	764,288	0 0	7,253,193	0 0	8,015,222	9 3	764,288	0 0	7,250,934	9 3	2,258	10 9	—
13	National Galleries, Scotland	10,975	0 0	291	0 0	10,684	0 0	10,925	7 3	291	0 0	10,634	7 3	49	12 9	—
14	National Library, Scotland	7,654	0 0	5,017	0 0	2,637	0 0	7,597	0 0	5,016	17 2	2,580	2 10	56	17 2	—
TOTAL		62,249,161	0 0	6,337,187	0 0	55,911,974	0 0	62,177,479	11 11	6,336,441	17 2	55,841,037	14 9	71,227	3 1	290 17 10
CLASS V.																
HEALTH, LABOUR, AND INSURANCE.																
1	Ministry of Health	21,842,290	0 0	1,425,450	0 0	20,416,840	0 0	21,707,122	15 7	1,394,608	18 7	20,312,513	17 0	104,326	3 0	—
1A	Grants to Public Assistance Authorities (England and Wales).	4,350,000	0 0	—	—	4,350,000	0 0	4,325,039	0 0	—	—	4,325,039	0 0	24,961	0 0	—
2	Board of Control	160,437	0 0	13,073	0 0	147,364	0 0	157,686	11 10	13,073	0 0	144,613	11 10	2,750	8 2	—
3	Registrar-General's Office	120,650	0 0	23,900	0 0	96,750	0 0	117,571	3 7	23,888	5 0	93,682	18 7	3,067	1 5	—
4	National Insurance Audit Department	168,665	0 0	3,960	0 0	164,705	0 0	168,813	19 9	3,960	0 0	164,853	19 9	—	—	148 19 9
5	Friendly Societies' Registry	52,057	0 0	4,750	0 0	47,307	0 0	50,714	1 5	4,750	0 0	45,964	1 5	1,342	18 7	—
6	Old Age Pensions	43,331,000	0 0	12,000	0 0	43,319,000	0 0	43,146,827	7 2	12,000	0 0	43,134,827	7 2	184,172	12 10	—
7	Widows', Orphans' and Old Age Contributory Pensions.	14,000,000	0 0	—	—	14,000,000	0 0	14,000,000	0 0	—	—	14,000,000	0 0	—	—	—
8	Ministry of Labour	29,543,000	0 0	5,853,000	0 0	23,690,000	0 0	29,391,160	12 5	5,845,889	17 2	23,545,270	15 3	144,729	4 9	—
9	Unemployment Assistance Allowances	50,130,000	0 0	—	—	50,130,000	0 0	45,010,516	11 2	—	—	45,010,516	11 2	5,119,483	8 10	—
10	Grants in respect of Employment Schemes.	4,200,000	0 0	—	—	4,200,000	0 0	4,179,045	19 11	—	—	4,179,045	19 11	20,954	0 1	—
11	Commissioner for Special Areas (England and Wales)	1,400,100	0 0	1,400,000	0 0	100	0 0	531,184	4 5	531,184	4 5	—	—	100	0 0	—
12	Unemployment Assistance Board ...	2,100,000	0 0	—	—	2,100,000	0 0	1,646,276	3 4	—	—	1,646,276	3 4	453,723	16 8	—
13	Department of Health for Scotland ...	3,392,169	0 0	194,535	0 0	3,197,634	0 0	3,299,866	15 11	194,535	0 0	3,105,331	15 11	92,302	4 1	—
14	Board of Control, Scotland	16,095	0 0	490	0 0	15,605	0 0	14,756	1 8	427	9 9	14,328	11 11	1,276	8 1	—
15	Registrar-General's Office, Scotland...	18,969	0 0	1,400	0 0	17,569	0 0	18,795	0 6	1,400	0 0	17,395	0 6	173	19 6	—
16	Commissioner for Special Areas (Scotland).	493,350	0 0	493,250	0 0	100	0 0	158,984	2 8	158,984	2 8	—	—	100	0 0	—
17	Grants to Public Assistance Authorities (Scotland).	1,785,000	0 0	—	—	1,785,000	0 0	1,757,992	18 7	—	—	1,757,992	18 7	27,007	1 5	—
TOTAL		177,103,782	0 0	9,425,808	0 0	167,677,974	0 0	169,682,353	9 11	8,184,700	17 7	161,497,652	12 4	6,180,470	7 5	148 19 9

ABSTRACT STATEMENT showing the Appropriation of Grants, &c., for the Year ended 31st March 1936—*continued.*

	Service.	Grants and Estimated Receipts, 1935.						Expenditure, 1935.			Differences between Exchequer Grants and Net Expenditure.						
		Estimated Gross Expenditure.		Authorised Receipts in Aid of Grants.		Exchequer Grants.		Gross Expenditure.		Actual Receipts in Aid.	Net Expenditure.		Surpluses.	Deficits.			
		(1.)		(2.)		(3.)		(4.)		(5.)	(6.)		(7.)	(8.)			
CLASS VI.																	
TRADE AND INDUSTRY.		£ s. d.		£ s. d.		£ s. d.		£ s. d.		£ s. d.		£ s. d.		£ s. d.			
1	Board of Trade	815,841	0 0	570,929	0 0	244,912	0 0	809,184	4 10	567,908	17 6	241,275	7 4	3,636	12 8	—	
2	Mercantile Marine Services	582,325	0 0	192,689	0 0	389,636	0 0	586,060	9 11	192,689	0 0	393,371	9 11	—	—	3,735	9 11
3	Assistance to British Shipping	1,999,000	0 0	—	—	1,999,000	0 0	1,997,602	19 5	—	—	1,997,602	19 5	1,397	0 7	—	
4	Department of Overseas Trade	574,255	0 0	156,428	0 0	417,827	0 0	563,420	18 9	150,865	2 5	412,555	16 4	5,271	3 8	—	
5	Export Credits	250,986	0 0	250,886	0 0	100	0 0	55,499	16 10	55,499	16 10	—	—	100	0 0	—	
6	Mines Department of the Board of Trade.	228,654	0 0	23,530	0 0	205,124	0 0	204,615	13 8	15,381	2 8	189,234	11 0	15,889	9 0	—	
7	Office of Commissioners of Crown Lands.	34,100	0 0	—	—	34,100	0 0	34,070	5 0	—	—	34,070	5 0	29	15 0	—	
8	Ministry of Agriculture and Fisheries	2,765,485	0 0	523,998	0 0	2,241,487	0 0	2,727,011	1 3	511,976	4 1	2,215,034	17 2	26,452	2 10	—	
9	Beet Sugar Subsidy, Great Britain ...	2,878,000	0 0	—	—	2,878,000	0 0	2,285,570	6 0	—	—	2,285,570	6 0	592,429	14 0	—	
10	Milk (England and Wales and Northern Ireland).	1,895,000	0 0	—	—	1,895,000	0 0	1,625,611	9 2	—	—	1,625,611	9 2	269,388	10 10	—	
11	Cattle Fund	3,990,800	0 0	—	—	3,990,800	0 0	3,954,824	13 0	—	—	3,954,824	13 0	35,975	7 0	—	
12	Surveys of Great Britain	323,735	0 0	139,575	0 0	184,160	0 0	322,927	9 3	139,575	0 0	183,352	9 3	807	10 9	—	
13	Forestry Commission	450,000	0 0	—	—	450,000	0 0	450,000	0 0	—	—	450,000	0 0	—	—	—	
14	Ministry of Transport	789,679	0 0	680,581	0 0	109,098	0 0	687,313	3 2	616,065	17 5	71,247	5 9	37,850	14 3	—	
15	Development Fund	540,000	0 0	—	—	540,000	0 0	540,000	0 0	—	—	540,000	0 0	—	—	—	
16	Development Grants	990,000	0 0	—	—	990,000	0 0	934,758	2 4	—	—	934,758	2 4	55,241	17 8	—	
17	Department of Scientific and Industrial Research.	792,272	0 0	193,095	0 0	599,177	0 0	787,185	12 1	193,095	0 0	594,090	12 1	5,086	7 11	—	
18	State Management Districts	508,550	0 0	508,450	0 0	100	0 0	498,484	14 1	498,484	14 1	—	—	100	0 0	—	
19	Department of Agriculture, Scotland	738,956	0 0	88,515	0 0	650,441	0 0	714,245	9 4	88,515	0 0	625,730	9 4	24,710	10 8	—	
20	Milk (Scotland)	237,150	0 0	—	—	237,150	0 0	228,585	3 11	—	—	228,585	3 11	8,564	16 1	—	
21	Fishery Board, Scotland	140,446	0 0	12,069	0 0	128,377	0 0	130,810	10 3	11,647	14 0	119,162	16 3	9,214	3 9	—	
22	Herring Industry	285,000	0 0	250,000	0 0	35,000	0 0	46,140	0 0	34,000	0 0	12,140	0 0	22,860	0 0	—	
23	Clearing Offices... ..	4,570	0 0	4,560	0 0	10	0 0	3,115	9 3	3,115	9 3	—	—	10	0 0	—	
TOTAL		21,814,804	0 0	3,595,305	0 0	18,219,499	0 0	20,287,037	11 6	3,078,818	18 3	17,108,218	13 3	1,115,015	16 8	3,735	9 11

CLASS VII.																	
COMMON SERVICES (WORKS, STATIONERY, ETC.).																	
1	Art and Science Buildings, Great Britain.	427,775	0 0	42,645	0 0	385,130	0 0	390,857	7 6	42,645	0 0	348,212	7 6	36,917	12 6	—	
2	Houses of Parliament Buildings ...	120,965	0 0	900	0 0	120,065	0 0	120,681	18 4	900	0 0	119,781	18 4	283	1 8	—	
3	Labour and Health Buildings, Great Britain.	948,630	0 0	723,670	0 0	224,960	0 0	842,443	9 6	650,664	7 4	191,779	2 2	33,180	17 10	—	
4	Miscellaneous Legal Buildings, Great Britain.	162,855	0 0	1,250	0 0	161,605	0 0	142,571	12 0	1,250	0 0	141,321	12 0	20,283	8 0	—	
5	Osborne	16,750	0 0	5,330	0 0	11,420	0 0	16,364	17 5	5,330	0 0	11,034	17 5	385	2 7	—	
6	Office of Works and Public Buildings	800,003	0 0	243,600	0 0	556,403	0 0	798,615	14 9	243,600	0 0	555,015	14 9	1,387	5 3	—	
7	Public Buildings, Great Britain ...	1,307,400	0 0	147,200	0 0	1,160,200	0 0	1,304,178	4 2	147,200	0 0	1,156,978	4 2	3,221	15 10	—	
7A	Silver Jubilee	65,000	0 0	15,000	0 0	50,000	0 0	44,891	6 8	15,000	0 0	29,891	6 8	20,108	13 4	—	
8	Public Buildings Overseas	131,090	0 0	18,590	0 0	112,500	0 0	122,317	19 11	18,590	0 0	103,727	19 11	8,772	0 1	—	
9	Royal Palaces	93,935	0 0	10,850	0 0	83,085	0 0	93,089	18 4	10,850	0 0	82,239	18 4	845	1 8	—	
10	Revenue Buildings	1,500,900	0 0	24,630	0 0	1,476,270	0 0	1,498,342	0 3	24,630	0 0	1,473,712	0 3	2,557	19 9	—	
11	Royal Parks and Pleasure Gardens ...	251,345	0 0	62,100	0 0	189,245	0 0	249,738	11 4	61,531	8 3	188,207	3 1	1,037	16 11	—	
12	Rates on Government Property	2,220,932	0 0	112,720	0 0	2,108,212	0 0	2,220,245	3 11	112,720	0 0	2,107,525	3 11	686	16 1	—	
13	Stationery and Printing	2,607,770	0 0	967,000	0 0	1,640,770	0 0	2,598,917	7 1	967,000	0 0	1,631,917	7 1	8,852	12 11	—	
14	Peterhead Harbour	26,000	0 0	—	0 0	26,000	0 0	25,749	0 9	—	0 0	25,749	0 9	250	19 3	—	
15	Works and Buildings in Ireland ...	35,930	0 0	2,400	0 0	33,530	0 0	28,509	3 3	2,400	0 0	26,109	3 3	7,420	16 9	—	
TOTAL		10,717,280	0 0	2,377,885	0 0	8,339,395	0 0	10,497,513	15 2	2,304,310	15 7	8,193,202	19 7	146,192	0 5	—	
CLASS VIII.																	
NON-EFFECTIVE CHARGES (PENSIONS).																	
1	Merchant Seamen's War Pensions ...	291,679	0 0	—	0 0	291,679	0 0	286,613	17 8	—	0 0	286,613	17 8	5,065	2 4	—	
2	Ministry of Pensions	42,412,000	0 0	12,000	0 0	42,400,000	0 0	42,460,933	19 9	12,000	0 0	42,448,933	19 9	—	48,933	19 9	
3	Royal Irish Constabulary Pensions, &c.	1,513,437	0 0	—	0 0	1,513,437	0 0	1,511,030	16 0	—	0 0	1,511,030	16 0	2,406	4 0	—	
4	Superannuation and Retired Allowances.	1,784,843	0 0	364	0 0	1,784,479	0 0	1,760,941	2 2	364	0 0	1,760,577	2 2	23,901	17 10	—	
TOTAL		46,001,959	0 0	12,364	0 0	45,989,595	0 0	46,019,519	15 7	12,364	0 0	46,007,155	15 7	31,373	4 2	48,933	19 9

ABSTRACT STATEMENT showing the Appropriation of Grants, &c., for the Year ended 31st March, 1936—*continued*.

Service.	Grants and Estimated Receipts, 1935.			Expenditure, 1935.			Differences between Exchequer Grants and Net Expenditure.	
	Estimated Gross Expenditure. (1.)	Authorised Receipts in Aid of Grants. (2.)	Exchequer Grants. (3.)	Gross Expenditure. (4.)	Actual Receipts in Aid. (5.)	Net Expenditure. (6.)	Surpluses. (7.)	Deficits. (8.)
CLASS IX. EXCHEQUER CONTRIBUTIONS TO LOCAL REVENUES, ETC.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.
1 Exchequer Contributions to Local Revenues, England and Wales.	45,345,000 0 0	5,775,055 0 0	39,569,947 0 0	45,340,447 10 0	5,775,053 0 0	39,565,394 10 0	4,552 10 0	—
2 Exchequer Contributions to Local Revenues, Scotland.	6,402,600 0 0	683,520 0 0	5,719,080 0 0	6,402,463 13 1	683,520 0 0	5,718,943 13 1	136 6 11	—
TOTAL	51,747,600 0 0	6,458,573 0 0	45,289,027 0 0	51,742,911 3 1	6,458,573 0 0	45,284,338 3 1	4,688 16 11	—

APPENDIX No. 2.

PAPER handed in by Mr. *W. R. Frase* on 3rd February, 1938.

TREASURY MINUTE DATED 8TH NOVEMBER, 1937, ON THE FIRST AND SECOND REPORTS OF THE COMMITTEE OF PUBLIC ACCOUNTS, 1937.

My Lords read the Reports of the Committee of Public Accounts for 1937, dealing with the Appropriation Accounts and other Accounts for 1935, on which They make the following comments:—

First Report.

Paragraph 1.—Excess Votes.

Paragraphs 2 and 3.—Navy.

Paragraphs 4 and 5.—Wallace Collection.

My Lords note the comments of the Committee.

Paragraphs 6 to 8.—Ministry of Pensions.

My Lords note that the Committee, while appreciating that in a Vote of this nature it is difficult to foresee the precise out-turn, consider that it would have been better to present a Supplementary Estimate for the cost of the superannuation scheme for the Ministry's Nursing Staff, which was sanctioned in December, 1935. My Lords do not understand the Committee to suggest that this new service was of such a nature as to require specific Parliamentary sanction by means of a Supplementary Vote and assume that the Committee consider that it would have been better to present a Supplementary Estimate in order to ensure the provision of the necessary funds. On this My Lords would observe that a Supplementary Estimate was not presented because, even at the latest date when it would have been practicable to present one, They had every reason to believe that savings would be available on other services to cover the cost of the scheme. That this anticipation was falsified was due entirely to the unexpectedly large payments on other services which fell due, and could not be avoided, during the last week or so of the financial year. The figures given in the Appropriation Account show that, after allowing for savings and for the appropriation of surplus receipts, the excess remaining to be voted was greater than the expenditure attributable to the new superannuation scheme.

Second Report.

Paragraph 1.—Responsibility of Accounting Officers.

My Lords draw the attention of all Accounting Officers to the comments of the Committee.

My Lords desire to take this opportunity of drawing attention also to the terms in which the responsibilities of Accounting Officers were generally described in Their predecessors' Minute of the 14th August, 1872. As was stated in that Minute, the Accounting Officer

“ signs the Appropriation Account, and thereby makes himself responsible for its correctness. This officer is the person whom Parliament and the Treasury regard as primarily responsible for the balance in the custody of the department, although he himself may not hold one farthing of it. . . .

It cannot be too distinctly announced that responsibility for the proper conduct of financial business cannot be delegated to the subordinate officers who may be placed in charge of the Departmental Accounts. The signature appended to the Appropriation Account would be otherwise an idle form, calculated only to mislead Parliament.

. . . . technical knowledge of accounts is not necessary to enable the representative of the department, as above described, to discharge himself of the responsibility which his signature implies.

. . . . it is incumbent upon such officers, before making or allowing payments, to satisfy themselves, by means of statements duly certified by the officers entrusted with the detailed duties of the account, as to the correctness and propriety of the transaction If they can show that they have not acted except on such statements, that they have not failed in a due exercise of their own common sense and administrative experience, and that in any case of serious doubt or difficulty they have consulted the officers deputed by this Board for the purpose, they will be considered to have discharged themselves of their responsibility ”.

The above description of the responsibilities of an Accounting Officer is no less applicable to-day than at the time when it was originally issued and My Lords have no doubt that all Accounting Officers will be guided by it in the discharge of their duties. My Lords would now only add that it is an essential part of the responsibilities of an Accounting Officer to ensure that the organisation of his Department, and particularly of the financial branches thereof, is such as to provide adequate control of the expenditure of the funds for which he is responsible. As a particular instance of such control My Lords would emphasize the necessity for ensuring that arrangements are made for the maintenance—without regard to any personal considerations—of appropriate checks of cash balances in the hands of any officer of the Department.

Under modern practice the Permanent Head of a Department is the Accounting Officer; but My Lords desire to make it clear that in the few exceptions to this rule (which will eventually disappear) the Permanent Head of a Department is held liable for the proper conduct of the financial, as of all other business, under his control.

My Lords confirm the assurance already given to the Committee on Their behalf that in future, whenever an appointment of an Accounting Officer is made, the formal letter of appointment shall either include, or be accompanied by, formal notice of the extent of the responsibility which, by such appointment, is assumed by the officer concerned.

Paragraph 2.—Use of Cash Receipts to meet Expenditure.

My Lords note the comments of the Committee. As was proposed in the memorandum on the subject which was presented to the Committee on Their behalf, a review is now proceeding of certain of the cases in which Departments accumulate cash receipts and use them to meet expenditure.

Paragraph 3.—Supervision of Accounting Methods.

My Lords note the comments of the Committee, with which They are in complete agreement. They have no doubt that They can rely on all Departments to co-operate fully with the Comptroller and Auditor-General and with the Treasury Officers of Accounts in seeking adequate remedies for any weaknesses or failures which may be disclosed in their accounting systems.

Paragraph 4.—Citation of Statutes in Part I of Estimates.

My Lords are glad to note that the Committee approve Their proposals on this subject and They will cause the necessary changes to be made in the forms of the Estimates for 1938.

Paragraph 5.—Extra-statutory Superannuation Schemes.

My Lords have taken note of the views expressed by the Committee and will give careful consideration to the question of seeking legislative authority if any extension of these or similar schemes to other groups of employees should appear to be desirable.

Paragraph 6.—Inland Revenue. Fraud and Evasion.

My Lords note the comments of the Committee.

Paragraphs 7 and 8.—Home Office. Air Raid Precautionary Services.

My Lords note that the Committee concur in a suggestion by the Estimates Committee—with which They also are in agreement—that provision for the Air Raid Precautionary Services, apart from the administrative staff, should in future be made on a separate Vote. Provision will be made accordingly in the Estimates for 1938.

My Lords recognise the need for legislation dealing with Air Raid Precaution functions and with the financial relations between the Government and local authorities. This matter has been the subject of continuous attention in recent months and a Bill has now been introduced into Parliament.

Paragraphs 9 and 10.—County Courts. County Court Funds Accounts.

My Lords note the comments of the Committee.

Paragraphs 11 and 12.—National Gallery. Misappropriation of Cash Receipts.

Write to:—

The Trustees,
National Gallery.

MY LORDS AND GENTLEMEN,

I am directed by the Lords Commissioners of His Majesty's Treasury to invite your attention to paragraphs 11 and 12 of the Second Report of the Committee of Public Accounts, 1937, in which the Committee refer to the misappropriation of certain cash receipts by a former Accountant of the National Gallery.

While recognising the existence of other factors, the Committee state that the fundamental cause of the consequent loss of public funds was the absence of adequate and constant supervision of the accounting system by the higher officers of the Gallery. My Lords cannot but concur, with regret, in this conclusion and They would be glad to be assured that the necessary steps have been taken to ensure such supervision in the future. My Lords desire me in particular to invite your attention to the comments of the Committee on the subject of surprise checks of cash held by officers of the Gallery.

I am, etc.

Write to:—

The Comptroller and Auditor-General.

SIR,

I am directed by the Lords Commissioners of His Majesty's Treasury to refer to paragraphs 11 and 12 of the Second Report of the Committee of Public Accounts, 1937, in which the Committee refer to the misappropriation of certain cash receipts by a former Accountant of the National Gallery, and to transmit herewith, for your information, a copy of a letter which They have caused to be addressed to the Trustees of the National Gallery on this subject.

My Lords presume that your attention has already been drawn to the observations of the Committee regarding the interval at which the audit of the accounts of the National Gallery has been carried out in recent years.

I am, etc.

Paragraph 13.—Accounting Responsibility at the Tate Gallery.

My Lords note the comments of the Committee.

Paragraphs 14 and 15.—National Portrait Gallery. Antedated Orders for Payment.

My Lords invite the attention of all Accounting Officers to the comments of the Committee, with which They are in complete agreement. While there are certain well-defined exceptions to the rule that payments must be brought to account in the year in which they are made, it is not permissible, even in such exceptional cases, to date an order for payment with any date other than that on which the authority for payment is, in fact, given. Strict compliance with this rule is essential to the proper control of the regularity of the public accounts.

Paragraph 16.—Milk (Scotland). Milk used for Manufacture.

Write to:—

The Secretary,
Department of Agriculture for Scotland.

SIR,

I am directed by the Lords Commissioners of His Majesty's Treasury to invite your attention to the observations contained in paragraph 16 of the Second Report of the Committee of Public Accounts, 1937, on the subject of the basis on which payments from the Vote for Milk (Scotland) are made to the Scottish Milk Marketing Board in respect of milk converted into cheese at farms.

It will be noted that the Committee recommend that the results of the investigations into this matter which are being made by your Department should be considered by the Committee of Public Accounts for 1938.

I am, etc.

Paragraphs 17 and 18.—Herring Industry. Financial Arrangements: Use of Grants in Aid.

The Committee call attention to the fact that sums issued to the Herring Board out of the Herring Industry Vote are issued as grants in aid, expenditure out of which is not audited by the Comptroller and Auditor General; and the Committee state that they are therefore not in a position to make any satisfactory examination of the final expenditure by the Board out of such grants. The Committee suggest that these arrangements have resulted in a weakening of the financial control by Parliament which the terms of the Herring Industry Act, 1935, were designed to

secure and they hope that, in any further schemes involving expenditure out of monies voted by Parliament, such expenditure will be accounted for by means of Appropriation Accounts audited by the Comptroller and Auditor General.

My Lords think that the Committee are under some misapprehension in suggesting that the terms of the Herring Industry Act, 1935, were designed to secure for Parliament control of the expenditure of the Herring Board. Section 10 of the Act explicitly provides that the Accounts of the Board, which are to be submitted to the Ministers with the Board's annual report, shall be audited by an auditor who is to be a member of one or more of certain professional bodies specified in the Section. The Section further provides that audited statements showing the application of monies paid out of the Herring Fund Advances Account and the Herring Marketing Fund shall be transmitted to the Comptroller and Auditor General who shall lay copies of the statements before Parliament. This Section clearly contemplated, therefore, that the receipts and payments of the Herring Board should be audited by an auditor other than the Comptroller and Auditor General and that Parliament would rely on the certificates of such an auditor for evidence that the sums paid to the Board out of parliamentary grants had been applied in accordance with the intentions of Parliament when it voted the grants.

The above arrangements appear to have been a natural consequence of the general policy embodied in the Herring Industry Act. That policy was that the reorganisation of the herring industry should be carried out on the basis of a scheme framed, after consultation with the industry, by a Board of which the majority of the members were to be persons having special knowledge of the industry, and which was subsequently to administer the scheme.

As was stated by the Secretary of State for Scotland, in moving the Second Reading of the Bill, the object of the Bill was "to enable the herring industry, with financial assistance, to reorganise itself" and the Herring Board was to be an organisation within the industry and responsible to the industry. (The financial assistance to be given to the Board is limited, as the Committee point out, not only as to amount but also as to time, since the assistance by way of grant will cease on 31st March, 1938, after which the Board should be self-supporting, and no fresh issues by way of advances may be made after 31st March, 1940. The advances to the Board are repayable by the latter and the circumstances of any remission of such repayment must be reported to Parliament under Section 10 of the Act.) It was made clear by the Secretary of State, on the occasion already mentioned, that while Ministers would make appropriate enquiries about particular schemes before issuing public monies, "once agreement . . . has been reached between the Board and the Ministers on the principle of any scheme on which it may be desired to spend money, the day to day spending of that money will be left entirely in the hands of the Board." In these circumstances it would have been inappropriate that the expenditure of the Herring Board should have been accounted for by means of an Appropriation Account audited by the Comptroller and Auditor General.

My Lords think that it will be apparent from the above statement that the method by which Parliament is asked to provide funds for any particular new service must depend to a large extent on the nature of the service and on the general administrative arrangements therefor which are authorised by Parliament. They feel precluded, therefore, from giving any general undertaking that the expenditure of such funds shall always be accounted for by means of Appropriation Accounts audited by the

Comptroller and Auditor General. At the same time, My Lords are, of course, in complete agreement with the well-established rule that the use of grants in aid should be restricted as far as possible and They readily assure the Committee that They will, in connection with any future scheme involving financial assistance to outside bodies, carefully consider how far, consistently with the general policy governing the scheme, the views which the Committee have expressed on this occasion can be met.

My Lords note the suggestion of the Committee that where, in connection with proposals for legislation, any variation is contemplated from the normal system of Appropriation Accounts audited by the Comptroller and Auditor General, the attention of the House of Commons shall be specifically drawn to such variation in the relevant Financial Memorandum. Subject to the possibility that the details of the accounting arrangements for a new service may not always have been fully determined at the time when the necessary Financial Resolution or Bill is introduced, My Lords agree with the Committee's suggestion and desire that all Departments should adopt it as occasion arises. It will, of course, be understood that any arrangements outlined in the Financial Memorandum relating to any particular proposals may require modification in the light of the subsequent discussions in Parliament or of amendments to the Bill concerned.

Paragraph 19.—Works Votes (Civil). Expenditure on New Works.

My Lords are glad to note that the Committee approve the proposals which They have made for remodelling the Statements of Expenditure on New Works contained in the Civil Appropriation Accounts.

Paragraphs 20 and 21.—Navy. Losses on Exchange.

Write to:—

The Secretary,
The Admiralty.

SIR,

I am directed by the Lords Commissioners of His Majesty's Treasury to request that you will be good enough to invite the attention of the Lords Commissioners of the Admiralty to paragraphs 20 and 21 of the Second Report of the Committee of Public Accounts, 1937, on the subject of certain losses on exchange through the misuse, by Naval and Dockyard personnel on the China Station, of facilities for deposit in the Post Office Savings Bank and for purchase of National Savings Certificates.

It will be observed that the Committee, in noting the action taken by the Lords Commissioners of the Admiralty in this matter, endorse the views which My Lords have already expressed in official correspondence with your Department.

I am also to refer in particular to the suggestion made by the Committee in paragraph 21 of their Report, that there should be introduced into the relations between Accountant Officers and their superior officers some provision similar to that obtaining in the Army, whereby, in certain cases, if an Army Paymaster demurs to a transaction, the Commanding Officer is under an obligation to refer the matter to the War Office. My Lords would be glad to receive the observations of the Lords Commissioners of the Admiralty on this suggestion.

I am, etc.

Their Lordships' officers have already been in semi-official communication with the War Office and the Air Ministry as to the arrangements in force for regulating the use of facilities for the remittance of funds from abroad which are available to Army and Air Force personnel respectively.

My Lords note the views of the Committee as to the desirability of bringing specifically to the notice of individual Accounting Officers points arising in other accounts which may be expected to be of particular interest to their own Departments. It is already the practice to circulate to all Accounting Officers copies of Treasury Minutes on the Reports of the Public Accounts Committee, and the Minute on the Report of the Committee of 1922, to which the present Committee refer, was so circulated. My Lords agree, however, that in future, special steps should be taken to invite the attention of individual Accounting Officers to points arising on other accounts which may be expected to be of particular interest to their own Departments.

Paragraph 22.—Navy. Failure to obtain Treasury Authority for Expenditure.

My Lords invite the attention of all Accounting Officers to the comments of the Committee, with which They entirely agree.

Write to:—

The Secretary,
Admiralty.

SIR,

I am directed by the Lords Commissioners of His Majesty's Treasury to request you to invite the attention of the Lords Commissioners of the Admiralty to paragraph 22 of the Second Report of the Committee of Public Accounts, 1937, in which the Committee refer to certain cases where expenditure had been incurred by the Admiralty without the prior authority of this Board.

My Lords are in full agreement with the views of the Committee and trust that, as the Committee suggest, the Lords Commissioners of the Admiralty will not hesitate to consult this Department whenever they are in doubt whether Treasury sanction to any particular item of expenditure is or is not required.

I am, etc.

Paragraph 23.—Dockyard Accounts. Estimated Costs of Shipbuilding.

Write to:—

The Secretary,
Admiralty.

SIR,

I am directed by the Lords Commissioners of His Majesty's Treasury to request you to invite the attention of the Lords Commissioners of the Admiralty to paragraph 23 of the Second Report of the Committee of Public Accounts, 1937, in which the Committee refer to the possibility of publishing the estimated total cost of a ship under construction by contract or in the dockyards at an earlier date than is now customary. It will be noted that the Committee recommend that the matter should be given further consideration by the Public Accounts Committee next year.

I am, etc.

Paragraph 24.—Army. War Reserves Certificate.

Write to:—

The Under Secretary of State,
War Office.

SIR,

I have laid before the Lords Commissioners of His Majesty's Treasury your letter of the 14th May, 1937 (57/Gen/8233 (M.G.O.F.)) on the subject of the War Reserves Certificate given annually by the Quarter-Master-General and the Master-General of the Ordnance and appended to the

Army Appropriation Account, and I am to request you to invite the attention of the Army Council to the comments made on this subject in paragraph 24 of the Second Report of the Committee of Public Accounts, 1937.

The Council will note that the Committee offer no objection to the proposal that this Certificate should be temporarily suspended during the period of rearmament and suggest that such suspension should be for a period of three years, subject to the reconsideration of the matter, if necessary, at the end of that time. My Lords agree with the views of the Committee and I am accordingly to request you to convey to the Army Council Their sanction for the discontinuance of this Certificate in respect of the Army Accounts for the years 1936, 1937 and 1938.

I am, etc.

Write to:—

The Secretary,
Admiralty.

SIR,

I am directed by the Lords Commissioners of His Majesty's Treasury to request you to invite the attention of the Lords Commissioners of the Admiralty to paragraph 24 of the Second Report of the Committee of Public Accounts, 1937, on the subject of annual War Reserves Certificate of the Quarter-Master-General and the Master-General of the Ordnance, which is appended to the Army Appropriation Accounts, and the corresponding certificate regarding the War Reserves of Naval Armament Stores which is given by the Controller of the Navy and appended to the Navy Appropriation Accounts.

It will be noted that the Committee offer no objection to the proposal that these Certificates should be temporarily suspended during the period of rearmament and suggest that such suspension should be for a period of three years, subject to the reconsideration of the matter, if necessary, at the end of that time.

My Lords agree with the views of the Committee and I am accordingly to request you to convey to the Lords Commissioners of the Admiralty Their sanction for the discontinuance of the Certificate of the War Reserves of Naval Armament Stores in respect of the Navy Accounts for the years 1936, 1937 and 1938.

I am, etc.

Write to:—

The Secretary,
Air Ministry.

SIR,

I am directed by the Lords Commissioners of His Majesty's Treasury to request you to invite the attention of the Air Council to paragraph 24 of the Second Report of the Committee of Public Accounts, 1937, on the subject of annual War Reserves Certificate of the Quarter-Master-General and the Master-General of the Ordnance, which is appended to the Army Appropriation Accounts, and the corresponding certificate regarding the War Reserves of Naval Armament Stores which is given by the Controller of the Navy and appended to the Navy Appropriation Accounts.

My Lords recognise that in the circumstances which have hitherto prevailed, and which prevail to-day, the issue of a certificate in respect of Royal Air Force War Reserves would be inappropriate. When, however, in connection with the Appropriation Accounts for 1939, the issue of

the Navy and Army certificates is resumed, or their further suspension is considered, My Lords will be glad to discuss with the Air Council the question whether a similar certificate should not be given in respect of the War Reserves of the Royal Air Force.

I am, etc.

Paragraph 25.—Air Services. Ministerial Authority for Contracts.

Write to:—

The Secretary,
Air Ministry.

SIR,

I am directed by the Lords Commissioners of His Majesty's Treasury to request you to invite the attention of the Air Council to paragraph 25 of the Second Report of the Committee of Public Accounts, 1937, in which the Committee refer to the authority required for the placing without competition, although competition may be available, of orders in excess of certain monetary limits.

As the Committee point out, the procedure under which the prior authority of certain Ministers was required for the placing of such orders in the case of Army contracts, was originally submitted for the approval of this Board and of the Committee of Public Accounts in 1910, modifications of the monetary limits in question being similarly approved in 1921. Prior to the latter date the procedure had been extended to similar orders in the case of Air Force contracts. In the circumstances My Lords consider that it would have been proper that the prior authority of this Board should have been obtained by the Air Council in 1935 before the Council introduced into the agreed procedure, even temporarily and as a matter of emergency, the important modification to which the Committee now draw attention. My Lords note that the Council have now reverted to the normal procedure and They trust that Their prior approval will be sought for any alteration of that procedure in future.

I am, etc.

Write to:—

The Under Secretary of State,
War Office.

SIR,

I am directed by the Lords Commissioners of His Majesty's Treasury to request you to invite the attention of the Army Council to the observations contained in paragraph 25 of the Second Report of the Committee of Public Accounts, 1937, on the subject of Ministerial authority for certain contracts and to the views on this subject which My Lords have caused to be conveyed to the Air Council in the relevant paragraph of Their Minute dated the 8th November, 1937.

I am, etc.

Write to:—

The Secretary,
Admiralty.

SIR,

I am directed by the Lords Commissioners of His Majesty's Treasury to request you to invite the attention of the Lords Commissioners of the Admiralty to the observations contained in paragraph 25 of the Second Report of the Committee of Public Accounts, 1937, on the subject of Ministerial authority for certain contracts.

The procedure referred to by the Committee is not applied in the case of Naval Contracts since, arising out of correspondence which was brought

to the notice of the Committee of Public Accounts in 1909, all cases which present exceptional features, whether in point of magnitude or otherwise, in which it is proposed to place orders without competition, although competition may be available, are submitted to the Board of Admiralty for approval. The Lords Commissioners of the Admiralty may nevertheless desire to be aware of the views which My Lords have caused to be conveyed to the Air Council in the relevant paragraph of Their Minute dated the 8th November, 1937.

I am, etc.

Paragraphs 26 to 31.—Air Services. Control of Aircraft Prices and Steel Prices.

Write to:—

The Secretary,
Air Ministry.

SIR,

1. I am directed by the Lords Commissioners of His Majesty's Treasury to request that you will invite the attention of the Air Council to the observations contained in paragraphs 26 to 31 of the Second Report of the Committee of Public Accounts, 1937, on the subject of the control of prices for aircraft and also on the subject of steel prices.

2. In paragraph 27 the Committee record the opinion that in any case in which a contractor will receive actual costs plus a profit the absence of a contractual risk should be reflected in a lower rate of profit than might otherwise be considered reasonable, and the Committee hope that this view will be firmly upheld in negotiations with contractors. The Committee also observe, in paragraph 30, that, in cases where it is applicable, a further factor in the determination of the rate of profit to be allowed will be the provisions for the payment of compensation in respect of the termination of expansion contracts or in respect of capital assets proved to be surplus after the completion of the expansion programme.

In paragraph 28, the Committee refer to the practice whereby, pending settlement of final prices, the contractor is given instructions to proceed, and receives progress payments at provisional prices. The Committee point out that there are obvious objections to any considerable delay in fixing final prices, and express the hope that every endeavour will be made to reach agreement with the contractors, whether under the fixed or basic cost method, as early as is consistent with the attainment of sufficient technical and accounting experience.

My Lords are in entire agreement with the views expressed by the Committee in these two paragraphs, which are in accord with the views expressed by Them when conveying approval to the scheme agreed between the Air Council and the Society of British Aircraft Constructors.

3. In paragraph 29, the Committee refer to the agreement on price-fixing procedure which was made by the Air Council, not with individual contractors, but with the Society of British Aircraft Constructors. In this connection the Committee point out that it is important to ensure that there should be no doubt or ambiguity as regards the application of the agreed procedure in all respects to individual contracts. My Lords understand that steps are being taken to ensure that the terms of the agreement entered into with the Society are legally binding on individual contractors and They would be glad to be informed in due course of the action taken.

4. My Lords have noted the comments of the Committee, in paragraph 31 of their Report, on the steps taken by your Department to ascertain that identical prices quoted by firms tendering for certain contracts for the

supply and erection of steel work for hangars were fair and reasonable. They note that, as the Committee were assured, the procedure adopted on that occasion can, if necessary, be repeated in similar cases.

I am, etc.

Paragraph 32.—Steel Prices: Statistics Supplied to the Import Duties Advisory Committee.

This matter has now been further considered and, with a view to strengthening the existing machinery, the Import Duties Advisory Committee have been authorised to appoint an accountant or firm of accountants to advise them in their examination of the detailed costs furnished to them in connection with their general oversight of iron and steel prices.

APPENDIX No. 3.

PAPER handed in by Mr. G. Ismay.

POST OFFICE CONTRACTS.

Note on Questions 195-197 (8th February).

The value of the contracts to be placed by the Post Office for Stores and Works in the year to 31st March, 1938, is £23,861,000 (including an estimated figure for the month of March).

This total is divided as follows:—

	Competitive.	Non Competitive.	Under Bulk Agreements.	Total.
	£	£	£	£
Stores Department :				
Engineering Stores	4,738,000	556,000	4,024,000	9,318,000
Non Engineering Stores.	1,558,500	384,500	---	1,943,000
Engineering Department.	3,100,000	1,655,000	7,845,000	12,600,000
	9,396,500	2,595,500	11,869,000	23,861,000

The non-competitive category includes Carrier Equipment and Co-axial Cable, otherwise it consists mainly of proprietary articles (e.g., Teleprinters, Motor Chassis, Thermionic Valves, etc.).

The total for Telephone plant and equipment (excluding ductwork, lifts, etc.) included in the above schedule is £18,618,000, divided as follows:—Competitive £4,738,000, Non-Competitive £2,011,000; Bulk Agreements £11,869,000. The figures quoted in Questions 192-194 were based upon an analysis for a short period and the analysis for the year now given shows that the proportion of supply under Bulk Agreements to the total supply was somewhat overstated.

APPENDIX No. 4.

PAPER handed in by Sir *Thomas Gardiner*, K.C.B., K.B.E., on
8th February, 1938.

IMPERIAL AND FOREIGN SURCHARGED AIR MAIL SERVICES,
1936-37

Expenditure.	Revenue.
£	£
Payments for air conveyance, including payments to other Administrations out of revenue	Estimated postage receipts, including Official correspondence assessed at public postage rates ...
876,230	548,140
Estimated cost of handling & surface transport ...	Receipts from other Administrations
81,310	445,500
Publicity and special printing	
6,800	
General Administration, Accounting etc....	
16,300	
Balance (surplus) ...	
13,000	
993,640	993,640

Accountant General's Department,
February, 1938

APPENDIX No. 5.

PAPER handed in by Mr. *G. Ismay*.

INTERNAL TELEGRAPH PLANT.

Note on Questions 499-503 (10th February).

The Internal telegraph plant displaced owing to the changes in operating methods, etc., during recent years has been dealt with in accordance with the practice normally adopted in the Post Office Commercial Accounts. Charges equivalent to the value of the displaced apparatus, as new, and at the cost levels ruling at the date of displacement, have been borne on the Telegraph Depreciation Account, together with the cost of recovery, and that Account has received credit in respect of the realised value of the recovered material and for the value of usable components. Plant

(capital) Account has been charged only with such expenditure as represents a definite increase in asset value—i.e., the additional cost of the new apparatus over and above the current value (as new) of the displaced apparatus.

To a substantial extent it was possible to meet charges to the Depreciation Account from the accumulated provision already made in respect of the recovered apparatus, much of which had been in use for a considerable proportion of the full life originally assigned to it. The unprovided balance of the original cost (allowing for recovery costs and credit in respect of the recovered material) and the excess costs of replacement due to the general post-war rise in price levels, etc., has, *pro tanto*, represented an overdrawing of the accumulated depreciation provision for the plant in question. In accordance with the usual practice, an additional annual depreciation provision was at once set up to cover the "excess cost" element, and this special provision was continued up to the end of the financial year 1934. The position of the Telegraph Depreciation Account as a whole then came under examination in connection with the general revision of depreciation rates following the plant revaluation and review of plant lives (see Commercial Accounts, 1935, pages 7-9). That examination showed that while there had been an overdrawing on depreciation provision in respect of internal telegraph plant, overprovision had occurred in respect of other classes of telegraph plant. The net shortage at 1st April, 1935—approximately £83,000—is being made good by special annual provision over a period of years approximating to the unexpired life of telegraph plant. The rate of depreciation adopted for internal plant as from 1st April, 1935 (following the review of plant lives referred to above) is much higher than that which was previously in use, whilst on the other hand, as the Committee has been informed, the Depreciation Account has been relieved of certain charges which it previously bore but which are now charged direct to the Income and Expenditure Account.

The value of the displaced apparatus, etc., has thus been fully covered either by the accumulated depreciation provision at the time of recovery or by the special measures instituted in 1935. It is not possible to divide the figures between the modernisation element and normal renewal works, but the following table shows the extent of the combined operations on internal plant during the past 10 years:—

Financial Year	Net Charges to Depreciation Account	Balance at credit of Depreciation Account at end of year	Expenditure on Plant (Capital) Account
	£	£	£
1927	46,744	202,492	30,927
1928	76,029	182,659	32,700
1929	74,844	167,377	45,452
1930	106,051	125,807	44,835
1931	114,743	78,822	4,920
1932	172,451	— 19,713	35,942
1933	211,626	— 145,816	62,506
1934	115,818	— 171,705	68,321
1935	45,037	— 100,038	64,546
1936	49,698	— 59,608	124,779

APPENDIX No. 6.

PAPER handed in by Mr. C. L. Stocks, C.B.

REGENT STREET ARREARS.

(Qn. 1358, 24th February.)

STATEMENT SHOWING THE TOTAL ARREARS OF GROUND RENT AT THE 1ST APRIL, 1934, 1935, 1936, 1937 AND 1938, AND AT THE 23RD FEBRUARY, 1938.

	£	s.	d.	No. of Lessees in arrear, i.e. under separate Leases.
1. Total arrears at 1/4/1934	112,811	0	0	27
2. Total arrears at 1/4/1935	137,699	0	0	24
3. Total arrears at 1/4/1936	162,822	0	0	29
4. Total arrears at 1/4/1937	209,375	0	0	30
5. Total arrears at 23/2/1938	193,300	9	5	24
6. Total arrears at 1/4/1938	174,722	0	9	24

Notes.

(1) With Treasury approval, remissions and arrears amounting to £38,322 3s. 9d. have been made and written off.

(2) The total annual rent normally payable by all the persons (added together) in the latest list at 6 above is £113,385 10s. The total annual rental payable in the whole of Regent Street is £500,000.

APPENDIX No. 7.
PAPER handed in by Sir *Adair Hore*, K.B.E., C.B.

MINISTRY OF PENSIONS.
(Qns. 1627, etc., 3rd March)

No. of Beneficiaries.		Correspondence.		Claims to Pension, etc.					Medical Services.		Cost of Administration.			
Year.	No. of Beneficiaries.	Received.	Despatched.	Claims to Pension.		Revision of pension rates, etc.			No. of men treated.	Artificial Limbs, etc.	Benefit Expenditure.	Cost of Administration.	Cost per £ of benefit.	Staff (excluding Institutions).
				Applica-tions.	Claims accepted.	Medical Examina-tions.	Final Awards amended.	Widows and Dependants.						
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12) £	(13) £	(14) Pence	(15)
1933	1,107,000	4,155,021	3,099,217	9,693	2,071	75,129	944	6,401	17,550	64,589	45,931,671	868,834	4·5	3,020
1934	1,053,500	3,769,612	2,879,406	7,686	1,813	60,851	895	5,654	14,257	62,860	44,256,462	777,277	4·2	2,679
1935	1,006,600	3,461,547	2,698,661	6,601	1,619	50,688	936	5,150	12,042	62,807	42,516,825	731,374	4·13	2,480
1936	963,500	3,398,114	2,677,038	6,181	1,542	44,059	889	4,680	12,065	62,729	41,721,540	719,076	4·13	2,439
1937	932,250	3,364,989	2,549,805	6,588	1,408	40,479	769	4,417	11,602	63,203	40,659,083	717,051	4·23	2,368

Cols. (5) and (6) Includes "Over Seven Years" cases, new, revised and appeals and first awards, Widows and Dependents.

(7) Medical Examinations for Pension or Treatment.

(8) Final Awards amended—Officers, Nurses and Other Ranks.

(9) Includes Widows' cases transfer of awards (Change of Article) and Dependents' pensions resumed or rate revised.

(10) Excludes men in Public Mental Hospitals.

(11) Limbs maintained or supplied and Surgical Appliances issued.

(12) Net expenditure less cost of administration.

(13) Subheads A-B.

APPENDIX No. 8.

PAPER handed in by Sir *Alexander Maxwell*, K.C.B.

POLICE VOTE—SPECIAL SERVICES, 1936-37.

(Qn. 2406. 17th March.)

When the estimates for Special Services were framed it was anticipated that substantial progress would be made in the course of 1936-37 on the establishment of Forensic Science Laboratories and also on a series of experiments on the use of wireless for police purposes; it was also anticipated that substantial expenditure would be incurred on experimental work in connection with the technical training of detectives and other measures which were being initiated, largely as an outcome of the inquiry of the Committee on Detective Work and Organisation. As regards the Forensic Science Laboratories, the procedure followed is to establish a Laboratory in accommodation provided by a local authority and to meet from the Exchequer the cost of equipping the Laboratory and maintaining it over the period of its initial development; when it is fully established the liability is transferred from the Exchequer to the police funds of the forces in the area which it serves. It was contemplated, when the estimates were framed, that it would be possible to initiate three laboratories in the course of 1936-7; actually, it proved, for various reasons, only possible to provide for the East Midlands Laboratory at Nottingham, and even this laboratory did not become a charge to the Exchequer until the 1st July, 1936, so that the cost of only nine months' working fell upon the Vote for that year. It was also found possible to equip the laboratory at a figure below the original estimate. Two additional laboratories were brought into being in 1937-8.

As regards wireless, the estimates were framed upon the basis that it would be possible over this financial year to undertake extensive experimental work in the use of wireless telephony for county police purposes and in the possibilities of wireless transmissions on ultra short wave lengths. In this period it was, however, necessary to initiate the work on an agency basis, the actual arrangements being made by selected local police authorities, whose expenditure would be recouped from the Special Services Sub-Head. The initial negotiations were much more protracted than had been anticipated, with the result that it was only possible in 1936-7 to make a start with the provision of the necessary equipment, the bulk of the expenditure not being incurred until after the close of the financial year.

As regards both the wireless experiments and the initiation of experimental work in other directions, it was in practice found possible to organise a good deal of the work by means of co-operative arrangements between the forces, with the result that only half the expenditure fell upon the Exchequer, and none of it on this Sub-Head.

APPENDIX No. 9.

PAPER handed in by Sir *Alexander Maxwell*, K.B.E., C.B.

Explanatory Statement in connection with Questions 2477, 2487, 2499 and 2506 relating to the State Management Districts. (17th March.)

1. In the *Carlisle State Management District* the normal practice is to finance reconstruction schemes out of revenue, but in certain cases it has been considered desirable to create reserves out of profits for certain specific purposes. The existing reserves in Carlisle were created for:—

	<i>Balance at 31st March, 1937.</i>
	£
(a) Deferred Repairs and Improvements to Properties	8,443
(b) For Alterations at Old Brewery	5,279
(c) Special Reserve for Improvements of Properties	2,189
Total	<u>£15,911</u>

The first two reserves were created during the War because improvements had to be deferred owing to the shortage of building labour at that time. Subsequently, a large proportion of these two reserves was used, but a balance remained which has been left undisturbed for many years. The third reserve was created in 1925 to cover such items as special schemes of decoration or lighting designed to improve and modernise the appearance of new or existing premises. Sums amounting in all to £11,600 have been allocated out of profits to this reserve during the 13 years of its existence.

2. In the *Scottish State Management Districts* also, the normal practice is to finance reconstruction schemes out of revenue but, owing to the smaller revenues in these districts, it is sometimes necessary to spread the execution of works of magnitude over two or more years; and for such works of magnitude it has been considered desirable to create reserves out of profits in advance. The reconstruction of the National Hotel in Dingwall in the Cromarty Firth State Management District was a case in point. Reserves from profits amounting to £3,000 had accumulated at the 31st March, 1936, and these reserves were applied in the year 1936-7 when the work was finally completed. The situation to which the Committee has called attention was due to the absorption of these reserves.

3. Reserves from Profits for Repairs and Improvements which cover both the Carlisle and Scottish Districts' reserves, are shown in the Published Trading Accounts and Balance Sheets as follows:—

- As at 31st March, 1935. £17,966 (H.C. 26, page 106.)
- As at 31st March, 1936. £18,879 (H.C. 29, page 98.)
- As at 31st March, 1937. £15,911 (H.C. 32, page 96.)

Particulars of the increase and decrease during the years ended 31st March, 1936, and 31st March, 1937, are as follows:—

	£	£
<i>Year to 31st March, 1936.</i>		
Cromarty Firth District (increase)		1,000*
less:—		
Carlisle District (applied during year out of reserve in para. 1 (c) above)		87
Net Increase		<u>£913</u>
 <i>Year to 31st March, 1937.</i>		
Carlisle District (increase)		1,000
less:—		
Carlisle District (applied during year out of reserve in para. 1 (c) above)	968	
Cromarty Firth District (applied during year) ...	<u>3,000†</u>	<u>3,968</u>
Net Decrease		<u>£2,968</u>

* Last instalment of the £3,000 placed to reserve for the National Hotel, Dingwall, and referred to in para. 2 above.

† See para. 2 above.

4. The two amounts of £1,000 shown in the previous paragraph as placed to reserve in 1935-6 and 1936-7 respectively were included in the Profit and Loss Accounts under the item "Alterations and Improvements to Properties—proportion of cost written off." In future, any such items placed to reserve out of profits will be shown separately in the Profit and Loss Account.

APPENDIX No. 10.

PAPER handed in by Sir *Patrick Duff*, K.C.B., C.V.O.

HOUSES OF PARLIAMENT BUILDINGS.

HOUSE OF COMMONS.

Reconstruction of Strangers' Gallery and Press Gallery.

(Qn. 2800, 24th March.)

The reconstruction provided 24 additional seats in the Strangers' Gallery and ten additional seats in the Press Gallery, which previously accommodated 170 and about 50 persons respectively.

It was not practicable to increase the seating accommodation in the Strangers' Gallery, as it formerly existed, by mere modification or minor adjustment. Additional seating could only be gained by dismantling the Gallery, including seating and flooring, down to the bare structure. The Gallery as it now exists, though constructed as far as possible from the old materials, is in effect an entirely new structure, the additional seats having been contrived by making an extra row, giving rather narrower seats than before, but providing as much leg room as possible by using bronze supports to the seat backs.

The Gallery forms an architectural feature of the Chamber and it may perhaps be claimed that the most satisfactory feature of the scheme is that the transformation has been effected without making any appreciable alteration in the appearance of the Gallery and that there is no visible evidence of the large amount of change which it entailed.

Similarly, the seating and staging of the Press Gallery had to be entirely reconstructed, and as a slight extension of the Gallery was necessary, the oak screens separating it from the Members' Galleries were reconstructed. In addition, improved facilities were provided for reporters to do their work.

The work presented many difficulties owing to its character, the time available for its execution and the limited space in which it had to be done. A considerable amount of carved oak work and cast metal work to match that existing had to be made. Directly employed labour was necessarily engaged for a large part of the work, but Contracts were made wherever possible for sections of the oak joinery required.

APPENDIX No. II.

PAPER handed in by Sir *Patrick Duff*, K.C.B., C.V.O.

METROPOLE BUILDINGS.

(Qns. 2806-2839, 24th March.)

In order to clear the sites of the first section of the new Whitehall Building and the extension of New Scotland Yard, it was necessary to provide alternative accommodation for over 1,000 staff of the Ministries of Transport and Labour.

Extreme difficulty was being experienced at the time in obtaining any large area of good office accommodation in Westminster for increased staffs consequent upon the defence programme, and the former Hotel Metropole was the only building available in the vicinity in which the staffs of the Ministries of Transport and Labour could be housed adequately.

As the premises required considerable adaptation to render them suitable for use as offices, the Department was faced with three alternatives:—

- (1) to rent the premises as they stood, undertaking responsibility for adaptations as a charge against Votes;
- (2) to rent the premises on the basis of an adapted building;
- (3) to rent the premises on the basis of an assumed expenditure on adaptations to be executed by the lessors, any saving or excess on the datum line being refunded by or paid to the lessor.

A rental quotation was not obtained on the basis of the first alternative for the reason that it was rejected on two grounds:—

- (a) that time being the essence of the matter the normal Departmental methods connected with preparations of plans, bills of quantities, invitation of tenders, etc., would involve a period of delay which could not be faced.
- (b) the lessors are a company which, in previous work for the Department had proved their capacity to carry out extensive building works very expeditiously, and it was an advantage to the Department at a time when the Defence Programme was laying a very heavy burden on it, to command the services of the lessors' organisation in getting the adaptations carried out.

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The second alternative was considered and rejected on the score that the cost of the adaptations could not be estimated with anything approaching the degree of accuracy necessary to arrive at a proper assessment of a rental charge.

The third alternative which was finally adopted, had two advantages:—

(a) that under an arrangement with the lessors whereby the Department examined all alterations and additions before execution and scrutinised all labour and materials costs before authorisation, the Department was in a position to satisfy itself to the fullest extent possible that the repairs and adaptations were carried out efficiently and economically.

(b) the Department secured the services of a Company which had previously proved its capacity, to carry out building works very expeditiously.

From a preliminary survey of the building it was estimated that the cost of the adaptations would not be less than £50,000 but might amount to £60,000 dependent upon the extent of the work found necessary when the building was opened up. The premises were accordingly rented on the basis of an anticipated expenditure of £60,000, but it was provided in the Agreement that any saving or excess on this amount should be refunded by or paid to the lessors.

The actual cost of the alterations executed by the lessors amounted to £60,254, and the excess of £254 was paid by the Office of Works to the lessor. Competitive tenders were obtained by the lessors for all sections of the work, and were submitted to the Department for prior approval. Of the total expenditure of £60,254, £25,780 was in respect of work executed on prime cost contracts, the remainder being the subject of lump sum contracts. The amount of £25,780 includes expenditure on materials, such as cement, sand, ballast, steel, etc., for which competitive offers were obtained.

The rent payable for Metropole Buildings compares favourably with that demanded for accommodation in the Westminster area. The only alternatives available at the time would have resulted in the staffs being inconveniently housed in scattered accommodation spread over more than one building, which would have been much inferior to that provided in Metropole Buildings and which would have involved a substantially higher cost in rent per annum.

Metropole Buildings are held on an under-lease for a term of 26 years, being the unexpired term of the head-lease, and on its expiration they will revert to another Government Department, the Commissioners of Crown Lands, who are the freeholders. The premises will continue to be required for the housing of official staffs after completion of the new Whitehall Building in about ten years' time. Should it become necessary at any time to dispense with hired accommodation as a result of the contraction of departmental staffs or on account of an extended Government building programme, Metropole Buildings would be one of the last sets of premises to be vacated owing to their convenient situation and reasonable rent.

H.M. Office of Works,

April, 1938.

APPENDIX No. 12.

PAPER handed in by Sir Roy Robinson, O.B.E.

FIRE INSURANCE ACCOUNT.

(Question 3018. 29th March.)

The statement below shows the provision and loss on fires together with credit and debit balances:—

Year.	Provision.	Loss.	Balance.	
			Credit.	Debit.
	£	£	£	£
1921	309	—	309	
1922	457	12	754	
1923	713	—	1,467	
1924	916	44	2,339	
1925	1,220	3,698		139
1926	1,624	440	1,045	
1927	2,083	120	3,008	
1928	2,593	1,292	4,309	
1929	3,133	25,795		18,353
1930	3,761	6,816		21,408
1931	5,387	3,111		19,132
1932	6,223	2,403		15,312
1933	7,037	18,984		27,259
1934	7,862	8,691		28,088
1935	13,896	3,241		17,433
1936	15,425	18,815		20,823
1937	17,000 (approx.)	2,750		6,573

It will be seen that for the years 1921-8 there was a credit balance, with the exception of the year 1925. The maximum amount in credit was in the year 1928 when it stood at £4,309. The fire damage in 1929 (£25,795) was the worst experienced since the commencement of the Commission's operations and the balance of £4,309 was turned to a debit balance of £18,353.

From the year 1929 the balance has been continuously in debit reaching its maximum in 1934 (£28,088). In that year the insurance rate was increased from 2s. 6d. to 4s. per £100 at risk. At the end of 1937 the debit balance had been reduced to £6,573.

Forestry Commission.

April, 1938.

APPENDIX No. 13.

PAPER handed in by Sir *Roy Robinson*, O.B.E.

RATING OF FOREST WORKERS' HOLDINGS.

(Questions 3064, 3069. 29th March.)

The item "Rates, taxes, etc." covers Local Rates, Tithes, Water Rates, etc. on property. The payment of £249 19s. 5d. in 1936 was divided as follows:—England and Wales £119 os. 3d., Scotland £130 19s. 2d.

In *England and Wales* the normal rent for a house and garden is £8 per annum with additional rent for land and outbuildings attached to the holding. This land is de-rated. Tenants are liable for all outgoing except Landlord's Property Tax and Tithe. The payment of £119 os. 3d. comprises £88 16s. 0d. for Tithe and £30 4s. 3d. for water charges levied on the Commission and recovered from the tenants by way of rent.

In *Scotland* the houses, buildings and land are rated together as one subject. The Gross Annual Value is the annual rent of the holding, and the Rateable Value (as Agricultural subjects) is 12½ per cent. of the Gross. Rates are levied on Owner and Occupier as determined by the rating authority; normally they are borne equally by Owner and Occupier. The normal rent for house and garden is £8 per annum. The payments made refer to Owners' rates.

Forestry Commission.

April, 1938.

APPENDIX No. 14.

PAPER handed in by Sir *Ernest Fass*, K.C.M.G., C.B., O.B.E.

PUBLIC TRUSTEE ACCOUNTS.

(Qns. 3630-3655, 7th April.)

The securities standing in the name of the deceased Solicitor into which, together with the firm's accounts, the Accountants were asked in March, 1930, to enquire were (a) securities stated by his surviving partner in a statutory declaration dated 27th November, 1929, to belong to the firm of which the deceased was a partner, but which stood in his name alone, (b) securities standing in the name of the deceased alone stated as above to be held by him as trustee of certain estates, and (c) securities standing in the name of the deceased alone stated as above to be held by him in an official capacity for certain Societies and Institutions. These securities were in fact examined and verified by the Accountants.

The deed held as security for an advance, originally £800 later increased to £1,000 made by the testator to his Managing Clerk and subsequently misappropriated by him was not claimed to belong to anybody other than the deceased and the Accountants were not asked to inspect it. It was not examined by the Trust Officer on the occasion of his visit to Oswestry in 1929. The Managing Clerk was entitled to a legacy of £3,500, to discharge which the assets of the estate (sworn at £20,010 19s. 1d. after excluding the estimated value of the testator's share in the firm), were apparently ample. He had on various occasions expressed orally and in writing his

intention of paying off at an early date his indebtedness to the testator. The title deed was deposited with a Bank in fraud of the equitable charge upon it on the 21st September, 1933, and a legal mortgage taking priority to the equitable charge in favour of the testator was executed by the Managing Clerk on the 21st of February, 1934. He committed suicide on the 28th of May, 1934.

APPENDIX No. 15.

THE SALE OF ARMY MARES FOR BREEDING.

MEMORANDUM BY THE WAR OFFICE.

(Qns. 4591-4660. 12th May.)

1. Owing to the decline in light horse breeding since the war, it has been the policy of the War Office for many years actively to encourage the breeding of the light type of horse which will be required in large numbers on mobilisation. The progress of mechanization has reduced these requirements, but it has reduced the number of horses in the Army in peace to a relatively greater degree and the additional number required on mobilization is still very considerable.

2. The War Office has encouraged light horse breeding in two ways. First, it has provided subsidies with the object of securing service of mares by suitable stallions. The War Office originally administered these subsidies, but since the total sum available was reduced some years ago to £5,000 a year, it has been found more economical and satisfactory to use appropriate agencies. £4,500 is paid to the Hunters' Improvement and National Light Horse Breeding Society, whose object is to improve the breed and promote the breeding of hunters and other horses used for riding or driving and for military purposes. The Society pays premiums to stallions exhibited at the Society's show. The balance of £500 is paid to similar societies for encouraging the breeding of ponies.

3. The War Office has also assisted by providing mares suitable for breeding. With this object in view, Treasury sanction was obtained in 1926 for a scheme by which mares cast as no longer fit for Army service should be sold to selected breeders by private treaty.

(1) Those fit for further work.—These were to be sold at the best price obtainable by accepting the highest bid from a selected list of buyers.

(2) Those unfit for further work.—These were to be sold at a nominal price of £1. This was less than their carcase value, but, with the object of encouraging light horse breeding, it was considered worth while to sell them to the breeders at a price which amounted to a subsidy.

4. It was found in practice that the scheme failed to fulfil its object, largely because the War Office had insufficient control over the individual breeders to ensure that the mares were used for breeding. It was consequently decided in 1928 that the scheme should be modified. All cast mares suitable for breeding were in the first instance to be offered to the Hunters' Improvement and National Light Horse Breeding Society, with the object of ensuring that the mares were in fact used for breeding. A price could no longer be arrived at by competition as at (1) of paragraph 3

above, and it was agreed that the Director of Remounts at the War Office should assess a price in each case, having regard to the mare's marketable value and its capabilities for further work. The minimum price for all mares was fixed at £1. The agreement concluded with the Hunters' Improvement Society provides that:—

(i) The mare shall at all times be properly cared for by the Society.

(ii) The mare shall be mated annually with a Premium Stallion.

(iii) The mare shall be employed only on such work as she can reasonably perform without impairing her usefulness as a brood mare.

(iv) The mare shall not be run in races of any kind nor shall she be used for hunting or for the purposes of or in connexion with any military training nor shall she be hired out for any purpose whatsoever.

(v) Any Remount Officer on behalf of the Secretary of State shall have the right of inspecting the mare or her progeny at any reasonable time.

(vi) The Society shall not resell the mare unless she proves barren for two consecutive years and in the event of the Society reselling the mare the Society shall pay to the Secretary of State such part (if any) of the net proceeds of sale as shall be in excess of the price paid by the Society to the Secretary of State for the purchase of the mare.

5. This arrangement abandoned the distinction between those cast mares which were fit for further work and those which were not; the distinction was abandoned because a mare not fit for further work at the time might become fit later. The new arrangement, however, maintained the principle that the price obtained should be the marketable value subject to the minimum of £1, and in assessing this price account was taken of the mare's further capabilities of work. This change of procedure was not at the time referred to the Treasury as it adhered to the principles approved by them and mentioned in paragraph 3 above. In another connexion, however, the Treasury were advised of this change and informed that it would entail no loss to the public.

The procedure for sale to the Hunters' Improvement Society has been that the six Deputy Assistant Directors of Remounts in Home Commands and the two Inspectors of Remounts at the Remount Depots at home have negotiated with local representatives of the Hunters' Improvement Society and have then obtained War Office approval for the prices proposed.

6. Owing to mechanization, the number of horses in the Army at Home dropped in the years 1936-38 from about 11,000 to about 5,000 and the number of horses cast rose very considerably. Moreover in anticipation of early mechanization units had not always asked for the replacement, for so short a time, by fresh horses, of many that would normally have been cast. The majority of those cast were either put up to auction or destroyed. For example, of the 2,958 mares cast in 1936 and 1937, 1,207 were sold at auctions, 1,146 were destroyed, 339 were sold by private treaty to good homes, and 266 were sold for breeding, the great majority to the Hunters' Improvement Society. It was considered by the competent officers that, owing to their various defects, these 266 mares could not be sold by auction without spoiling the good name of Army horses with the result that the prices they would fetch in future would drop. This opinion was accepted by the War Office at the time. The average price for the 266 mares sold in 1936 and 1937 for breeding was £3 10s. This 266 includes the 188 referred to by the C. and A.G. in his report as sold to the Hunters' Improvement Society for £3 each or less.

The 266 mares were sold at various places in the Commands through the agency of the Deputy Assistant Director of Remounts for the Command concerned or of one of the Inspectors of Remounts.

7. As regards administrative control over the sales of mares for breeding, the responsibility for deciding what cast mares are to be offered to the Hunters' Improvement Society on the grounds that they are not fit for auction has hitherto been laid upon the local Deputy Directors of Remounts and the two Inspecting Officers. It has now been decided that in order to strengthen control, and in fairness to the Remount Officers, any cast mares are only to be offered to the Hunters' Improvement Society if certified by a veterinary officer as unfit for sale by auction, but fit for breeding.

At the same time it has been decided that such mares will not be sold at a price below £10.

8. The Hunters' Improvement Society, as stated in (vi) of paragraph 4, does not ordinarily resell the mares, but places them on loan with selected custodians, and the Inspecting Officers are satisfied that all mares sold in 1936 and subsequently to the Hunters' Improvement Society have not been resold.

H. J. CREEDY.

The War Office,
11th June, 1938.

APPENDIX No. 16.

(a) PAPER handed in by Mr. E. E. Bridges, M.C.
(Qns. 4750-4843. 17th May.)

NAVY APPROPRIATION ACCOUNTS—1936.
(Report of Comptroller and Auditor General—Paragraphs 13-15.)

Correspondence between the Treasury and the Admiralty regarding the purchase and conversion of s.s. "Majestic".

Treasury,
11th May, 1938.

COPY.

TREASURY CHAMBERS,
31st October, 1936.

S.41187.

SIR,

The Lords Commissioners of His Majesty's Treasury have had before Them Memoranda Nos. 26 and 27 submitted to the Treasury Inter Service Committee relative to the proposed acquisition and conversion of the "Majestic" in order to provide additional training facilities for 1,500-2,000 boys from April, 1937, as a result of the recent decision to increase the total personnel of the Fleet.

2. My Lords note that the cost of the only alternative method of providing these facilities, viz., by the construction of hutting accommodation, would be prohibitive, and that the provision of such accommodation is open to objection on other grounds. The Lords Commissioners of the Admiralty are therefore satisfied that the use of a suitably equipped

merchant ship offers the most economical means of meeting training requirements within the time available, and that the only suitable ship obtainable is the "Majestic" a vessel recently sold by the Cunard-White Star Company to Messrs. Ward to be broken up.

3. Three alternative methods of obtaining the use of the ship have been considered: (a) hiring (b) purchase, and (c) exchange for certain small naval vessels on the sale list, the tonnage so exchanged to be of an equivalent scrap value. Following negotiations with Messrs. Ward, the Lords Commissioners of the Admiralty are satisfied that the last course would be the best course to adopt, and that the circumstances of the case justify a departure from the normal procedure of disposing of ships on the sale list by competitive tender. My Lords note that the value of the tonnage to be exchanged will be settled by agreement or arbitration, and they assume that, in the event of the actual tonnage transferred being more or less in value than £140,000, i.e. the lowest price which Messrs. Ward are prepared to accept for the vessel, an adjusting payment will be made by, or to Messrs. Ward.

4. In reply I am directed to request you to inform the Lords Commissioners of the Admiralty that My Lords sanction the acquisition of the "Majestic" for the purpose in question on this basis. The proper method of showing this transaction in Navy Votes and of bringing it to the notice of Parliament are the subject of separate discussion between the Admiralty and this Department.

5. As regards the conversion of the vessel, the following are the main items involved:—

- (1) Structural and other alterations necessary to adapt the vessel for use as a training establishment.
- (2) Docking and coating of the bottom for purposes of preservation.
- (3) Renovations generally, including repairs to the existing structure and fittings, painting, cleaning, etc.
- (4) Reconditioning of the machinery for the voyage to Rosyth.
- (5) Delivery to Rosyth.

6. It is proposed that this work should be entrusted to Messrs. Thornycroft, without inviting tenders; and that items (1), (3) and (4) should be carried out on the basis of cost plus an agreed percentage for profit; and that prices should be fixed in advance for items (2) and (5). At the present time no reliable estimate can be framed of the total cost of conversion.

7. The placing of a contract on this basis involves a number of departures from normal practice which can only be justified by very exceptional circumstances. As regards the selection of a firm without tender, My Lords note that owing to pressure of urgent work, the conversion cannot be undertaken in His Majesty's Dockyards, and that owing to the size of the vessel, there is only one other firm who could undertake it without delay. The Lords Commissioners of the Admiralty are satisfied that Messrs. Thornycroft are in a better position to carry out this particular work than any other firm, and further that it is unlikely that more favourable terms could be obtained elsewhere.

8. While My Lords regret that it should be necessary to carry out so large a part of the work on a cost plus percentage basis, they are satisfied that owing to the nature of the work to be performed, and to the need for completion by April, 1937, no other course is practicable in this case. They note that special arrangements will be made for recording the work, in order that the firm's costs may be checked, and They trust that the officers of your Department engaged in supervision of the conversion will be specially instructed to take all possible steps with a view to ensuring

that the work is speedily and economically carried out. I am also to ask that an estimate of the total cost of conversion should be furnished at the earliest practicable date.

9. Subject to the above, My Lords, sanction the placing of a contract for the conversion of the vessel with Messrs. Thornycroft on the basis proposed.

I am,
Sir,
Your obedient Servant,
(Sgd.) R. V. NIND HOPKINS.

COPY.

ADMIRALTY,
S.W. 1.
5th March, 1938.

M.F. 28865/37.

SIR,

With reference to your letter of the 31st October, 1936, S.41187, respecting the conversion of the s.s. "Majestic" into a Training Ship for Boys, I am commanded by the Lords Commissioners of the Admiralty to forward for the information of the Lords Commissioners of His Majesty's Treasury, a copy of a communication they have received from the Exchequer and Audit Department, and of the reply which they have caused to be sent to the Comptroller and Auditor General.

It will be seen from this reply that Their Lordships have found it impracticable to forward an early estimate of the cost of this work as requested in the Treasury letter under reply.

I am, Sir,
Your obedient Servant,
(Sgd.) R. H. A. CARTER.

The Secretary,
H.M. Treasury,
S.W. 1.

COPY.

No. A. 10/36.

REFERENCE SHEET.

From: Exchequer and Audit Department,
Audit House,
Victoria Embankment, E.C. 4.

To: The Accounting Officer
of the Navy.

Dated: 29th December, 1937.
N.A. 89/36.
Vote 8 III Subheads A and C.
Conversion of s.s. "Majestic".

(1) Treasury Letter S.41187 of 31.10.36, sanctioning the acquisition and conversion of the "Majestic" in order to provide training facilities for boys, noted that the cost of the only alternative viz., the construction of temporary hutting accommodation, would be prohibitive. This cost appears

to have been estimated at £150,000 (T.S.D. 2570/36.T). Further, the contract for the conversion of the ship, which was placed mainly on a cost plus percentage basis, emphasised the need for keeping all repair and renovation work strictly to the minimum on the distinct understanding that the services of the ship were required for a limited number of years only (C.P. 26253 and 26254/36).

It is observed that payments of £326,467 to Messrs. Thornycroft in this connection were charged to Vote 8 III in 1936, and that the sum due on the cost and percentage contract up to 31.7.37 was provisionally stated by P.A. at £468,641 including £186,168 for the machinery (Acct. 2073/37). In addition, it appears that 8181 tons of oil fuel have been issued to the vessel.

Information is requested (i) as to the circumstances necessitating this large expenditure, particularly in respect of machinery, in view of the vessel being placed on a harbour basis at Rosyth; (ii) whether the original intention as regards the period of use of the vessel has been modified and, if so, whether the relevant papers can be furnished to this Department at an early date, and (iii) whether the estimate of cost asked for in paragraph 8 of Treasury letter S.41187 of 31.10.36 has yet been furnished.

(Sgd.) C. P. HONEYSETT.

Director of Audit.

REPLY TO EXCHEQUER AND AUDIT DEPARTMENT, NO. A.10/36.

In consequence of the decision of the Government to expedite re-arming, the Admiralty, in the autumn of 1936, found themselves faced with the necessity of providing additional training facilities for 1,500 to 2,000 boys from April, 1937. It was intended that these facilities should be temporary until a new training establishment at Rosyth could be completed in about four years' time. The only two ways of providing these facilities were by constructing hutting accommodation or by the use of a suitably equipped merchant ship. It was considered that the provision of hutments ready for occupation as a training establishment, that is, with roads, heating, drains, etc., would have taken 12 months, with the risk of unexpected delay. Moreover, the hutments would occupy ground required for other purposes. A sum of at least £150,000 would have been required under Vote 10 to provide the minimum temporary accommodation for the housing of the boys, without taking into account the accommodation required for Officers and staff, and a considerable sum would have had to be added for Vote 8 contingent work, for example, steam heating, lighting and equipment. Such accommodation would not have been in any way comparable with that available in the ship, and, although it would have been a temporary construction, it would have taken much longer to provide than the conversion of the vessel. It therefore became necessary to adopt the other alternative, and to convert the "Majestic," the only suitable merchant ship, which had been sold to Messrs. T. W. Ward & Co. for breaking up. The cost of the ship was estimated at £140,000, and there was an unknown sum for converting the ship for the purpose. On the other hand, the ship would have a considerable value when ultimately sold, which would not be the case with the temporary hutments.

After very full discussion with the Treasury, it became apparent that it would be necessary to entrust the work to Thornycrofts, and to do it largely on a "time and lime" basis. It was fully recognised at the time that this procedure, though inevitable, was open to objection. The Admiralty are always reluctant to agree to repairs by contract, and they were still more reluctant to allow the work of conversion such as this of

a passenger liner into a boys' training establishment to be done by a private contractor. The reason for this is that experience shows that it is impossible to ascertain in advance what work requires to be done, and that it has frequently happened that no proper estimate can be formed of what is required until the work is far advanced. This is, in fact, what happened in the case of the conversion of the "Majestic."

So well recognised is this possibility that when conversion of this kind is undertaken in the Dockyards, a special technique of submitting successive estimates has been evolved. It was not of course possible to adopt this procedure in the case of a private contractor. It must not be inferred that estimates made by the Dockyard Authorities at the early stages of such work can in the nature of things ever be completely reliable, and in some cases they are found to be much below the ultimate total cost.

The heavy expenditure incurred on the conversion and fitting out of the "Majestic" is accounted for under a variety of headings, the principal factors contributing to what are admittedly higher costs than had been anticipated when the work commenced, being:—

(a) Recourse to extensive overtime was necessary to ensure completion of the vessel in time to meet urgent training requirements at Rosyth, the position being aggravated by the outbreak of an influenza epidemic which delayed progress.

(b) Advances in labour and material prices occurred while the work was in hand.

(c) The ship's hull and fittings on opening up were found to be in a more unsatisfactory state than expected and substantial unanticipated expense arose in repairing, modifying, renovating, painting, etc., to bring the vessel up to the required standard.

(d) Additional work which had not been foreseen in the first instance was required as follows:—

(1) It was necessary to fumigate the ship at Southampton on account of vermin.

(2) An additional number of spaces on "E" and "F" decks were fitted up for specific purposes, viz.:—

Civilians' wash-places, marking room, tailor's shop and fitting room, printing room, band mess room, band instrument room, two Chapels, recreation spaces and store-rooms.

(3) On "C" deck additional apartments were required for Sisters and Maids in connection with the Hospital arrangements. Extra class rooms were also fitted out on this deck.

(4) Hand rails were fitted throughout the whole length of the open decks and canvas screens were fitted on the Port and Starboard sides of the Promenade "A" and mooring decks.

(5) It was found necessary to improve passage facilities for the boys and new ladders and platforms were provided involving deck extensions, alterations to pillars and existing structure and modifications to stanchions and handrails.

(6) The fittings of the gun armament as finally approved (2-6 inch—2-4 inch) necessitated considerable alterations to the existing bulwarks, stiffeners, etc., to clear the training of guns.

(7) It was necessary to remove various large deck fittings, such as bollards and bits to give more deck space, and this work was carried out on the arrival of the vessel at Rosyth.

(8) It was necessary to scrape the outer bottom and coat with bitumastic solution and enamel instead of coating with the ordinary protective only.

(e) The eventual complement found necessary for the vessel, having regard to her general lay out, and the type of electrical and engine room equipments, was larger than anticipated and increased accommodation had, therefore, to be provided.

(f) Machinery costs were enhanced, as during the progress of the work the pipe systems opened up so badly that extensive renewals of innumerable parts were necessary. A similar state of decay was found throughout on other machinery equipment and such expensive items as the complete renewal of tubes in the auxiliary condensers, cylinders and barrels for pumps and large repairs of bunkers and boilers were necessary. The bulk of the expenditure on machinery was in respect of equipment which is now in daily use under auxiliary steam.

(g) Certain additional electrical, etc., installations, including instructional Fire control apparatus had to be provided.

(h) The oil fuel requirements for the running of the auxiliary machinery including electric generators are very heavy, on account of the large personnel to be provided for. It is estimated that hot water supply and ship's heating account for about 70 per cent. of the oil fuel expenditure and dynamos and evaporators for about 25 per cent.

The whole of the work carried out is considered to have been necessary for the purpose of producing an efficient and hygienic training ship in a short space of time and while it is appreciated that the cost involved is substantial the Admiralty are satisfied that having regard to the circumstances in which the work had to be executed the expenditure incurred was unavoidable.

In the light of the foregoing explanation, it will be appreciated that it would have been impossible to furnish a reliable estimate of the total cost of conversion at any early stage of the work.

Boys were in fact received in the ship on 10th May, 1937—considerably before hutments could be expected to be ready.

It may be added that though it was originally intended that the "Caledonia" ("Majestic") should only be used as a temporary training ship till a new establishment was built, the Admiralty are now hopeful that it will be possible to use the ship for at least 10 years to come, and the proposals for a permanent training establishment at Rosyth are not at present being proceeded with.

The circumstances in which the total expenditure has been incurred are being reported to H.M. Treasury.

(Sgd.) R. H. A. CARTER,

Accounting Officer of the Navy.

5th March, 1938.

COPY.

S.41187.

SIR,

TREASURY CHAMBERS,

14th April, 1938.

I am requested by the Lords Commissioners of His Majesty's Treasury to refer to your letter of the 5th March (M.F.28865/37), enclosing a copy of a communication addressed to the Admiralty by the Exchequer and Audit Department and of the reply thereto, regarding the conversion of the s.s. "Majestic" (since renamed "Caledonia") into a Training Ship for Boys. The matter has subsequently been referred to by the Comptroller and Auditor General in his report upon the Navy Appropriation Account, 1936.

2. The contract for the work was placed without competitive tender with Messrs. Thornycroft in accordance with arrangements approved in Treasury Letter of the 31st October, 1936 (S.41187), which also set out the reasons why it was not possible in this case to follow the normal practice of competitive tender.

This letter also set out the reasons why, although it was possible to fix prices in advance for two items, namely:

- (i) Docking and coating of the bottom for purposes of preservation;
 - (ii) Delivery to Rosyth;
- it was considered necessary that the three other items, namely:
- (iii) Structural and other alterations necessary to adapt the vessel for use as a training establishment;
 - (iv) Renovations generally, including repairs to the existing structure and fittings, painting, cleaning, etc.;
 - (v) Reconditioning of the machinery for the voyage to Rosyth;
- should be carried out on the basis of cost plus an agreed percentage (namely $7\frac{1}{2}$ per cent.) for profit.

Finally the letter while noting that no reliable estimate of the total cost of conversion could then be given, asked that an estimate should be furnished at the earliest practicable date.

3. Although as already stated no reliable estimate of the cost was available in October, 1936, My Lords then understood that this might be in the region of £150,000. It now appears, however, that the sum due on the cost and percentage contract up to the 31st July, 1937, was provisionally stated to be £468,641. This apparently does not represent the total final liability under this part of the contract, and there is in addition the expenditure on the two fixed price items.

4. In view of the request made at the end of paragraph 8 of Treasury Letter of 31st October, 1936 (S.41187), My Lords consider that it was incumbent upon the Admiralty to have kept Them informed of the position, more especially when it became clear that the original anticipations as to cost were being so greatly exceeded.

5. My Lords will now be glad to receive at the earliest practicable moment information on the following points.

- (a) A statement of the full cost of the conversion, divided among the five heads referred to in paragraph 2 above;
- (b) A detailed analysis of the cost of these items as compared with the estimates prepared before the work was begun, and the reason of any increases;
- (c) Whether any such increases could have been foreseen, and if so to what extent;
- (d) Whether it was not possible for any of the work under the three items done on a cost plus profit basis to have been carried out on a fixed price basis.

My Lords recognise that originally it was not considered possible to arrange that while the preliminary work of demolition should be carried out on a cost plus profit basis, the work of construction should be planned and a price fixed for it while demolition was being done. They will be glad to receive an assurance that this would not have been possible as regards any of the additional items responsible for the greatly increased cost.

- (e) One of the main objections to contracts on a cost plus percentage basis is that it affords an incentive to the contractor to increase the total cost of the work. My Lords would be glad to learn what steps

were taken to supervise the work and whether the Lords Commissioners of the Admiralty can give an assurance that, despite the largely increased cost, the work was carried out economically, and that good value has been obtained for the very large expenditure incurred.

I am, Sir,

Your obedient Servant,

(Sgd.) J. A. BARLOW.

The Secretary,
Admiralty.

COPY.

ADMIRALTY, S.W.I.

3rd May, 1938.

M.F.9334/38.

SIR,

In reply to Treasury letter of the 14th April, S.41187, on the subject of the cost incurred in the conversion of the s.s. "Majestic" (now H.M.S. "Caledonia") into a Training Ship for Boys, I am commanded by My Lords Commissioners of the Admiralty to request that you will lay before the Lords Commissioners of H.M. Treasury the following information which is furnished in response to the enquiries contained in the letter.

In considering what follows it is necessary to bear in mind that at the relevant date H.M. Government had just ordered deficiencies of Naval personnel to be made good within four years instead of six.

With this in view the Admiralty looked first and foremost to the time factor and the greatest possible expedition was of the essence of the question of providing additional accommodation for the numbers of boys to be trained. Every alternative which involved avoidable delay had perforce to be rejected.

2. The total cost of the conversion of the vessel has worked out as follows:—

Thornycroft's Net Cost Contract.

Machinery items	£	180,820	£
Hull items		241,799	
Electrical items		30,659	
		453,278	

Fixed Price Items.

Docking and coating bottom, including drawings for docking purposes	11,216
Delivery to Rosyth	6,029
Provision of permanent mooring	2,930
Supply of shock absorbers	2,000
	22,175
	£475,453

3. Paragraph 5 (a) of the Treasury letter asks that this expenditure may be divided over the following heads, viz.:—

- (i) Docking and coating of the bottom for purposes of preservation,
- (ii) Delivery to Rosyth,
- (iii) Structural and other alterations necessary to adapt the vessel for use as a training establishment,
- (iv) Renovations generally including repairs to the existing structure and fittings, painting, cleaning, etc., and
- (v) Reconditioning of the machinery for the voyage to Rosyth.

The required information so far as hull and electrical items are concerned is as follows:—

	£
(i)	11,216
(ii)	10,959 (including mooring, etc.)
(iii)	172,458
(iv)	100,000

As regards (v), the cost of the work on the machinery amounted to £180,820. It is regretted that without a detailed investigation of the accounts, it is not possible to say how much of this was due to reconditioning the machinery for the voyage to Rosyth.

It can, however, be stated that the items of machinery which had to be reconditioned solely on account of the voyage were negligible in comparison with the items reconditioned on account of the intended service of the vessel at Rosyth; in fact the principal machinery item on this account was the shortening of the funnels to enable the "Caledonia" to pass under the Forth Bridge, which cost £2,454.

4. On the question of providing an analysis of the costs as compared with the estimates prepared before the work was begun, I am to explain that a survey of the vessel in a technical sense was not undertaken before she was purchased and could not in fact have been carried out to Admiralty standard as it would have taken several months to complete. It would moreover have involved a cost of at least £50,000, liability for which would have matured, whether or not the vessel was acquired.

Even had such a survey been carried out there is but little doubt that additional items of work would have been found necessary as the work proceeded.

5. In estimating, therefore, what work would be required to fit the ship for her new service the Admiralty professional officers could only rely on a visual and mainly surface examination as she lay in the hands of the shipbreakers and on what knowledge there was of her recent life and service. This examination gave no indication of the immense amount of work which the subsequent opening up of the vessel disclosed would be necessary, nor in what state the main and auxiliary machinery would be found.

6. In these circumstances it was quite impossible to offer any proper forecast of what expenditure might be necessary, but on the meagre information available the opinion formed by the Admiralty professional officers before work had been commenced was that the cost could not be less than £250,000 (say Hull £200,000—Machinery £50,000).

7. This figure could naturally, only be regarded as extremely speculative and was not one which My Lords would have felt justified in putting forward as representing an estimate suitable for presentation in response to the request contained in paragraph 8 of Treasury letter of the 31st October, 1936, S.41187. It was only as the ship was opened up in stages during the period of conversion that the magnitude of the work necessary to be done became evident. Even on the position as known after the work had been in progress for several months it was still not found practicable to form any reliable conclusion as to what the total cost of the conversion would be, though it had become clear, owing to advancing labour and material costs and the necessity for recourse to overtime, that the ultimate charges would exceed appreciably the original tentative estimate.

8. My Lords do not demur to the suggestion that in the circumstances an earlier explanation of the position should have been furnished to H.M. Treasury, rather than that it should have been deferred, as it was, until

the full cost of the conversion work had been determined and an investigation made of the various factors which accounted for the large expenditure. The anticipation, however, that the required information would have been forthcoming without undue delay was continually disappointed. It will be remembered that in the Supplementary Estimate for 1936 dated 1st March, 1937, an approximate estimate of £366,000 was given for that part of the expenditure on purchase and conversion which fell to be met in the financial year 1936.

9. A detailed analysis of the original estimate as compared with expenditure is, it will be realised, hardly practicable in view of the circumstances stated in paragraph 6. It can, however, be stated that the original tentative estimate figures were made up broadly as follows:—

<i>Hull.</i>		£
General work of demolition and re-construction		157,000
Docking and coating bottom		9,000
Delivery and mooring		9,000

Electrical.

Work generally	25,000
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Machinery.

Work expected to be required to place the machinery generally in a proper state for the voyage and in preparation for her intended service	50,000
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10. As regards the Hull and Electrical work which, inclusive of docking and coating bottom and delivery, cost about £294,000 it may be accepted that the excess over estimate arose mainly through unanticipated expenditure incurred as follows:—

		£
(a) Fresh and Salt water services, drainage, bathrooms, w.c's and swimming bath		21,000
Ventilation arrangements		4,000
Shock absorbers		2,000
Docking and coating of bottom		2,000
Galleys		5,000
Electrical items		5,000
(b) Wages increase during period of conversion represented a rise in costs of		2,000
(c) Advance in costs of materials during progress of work meant an excess over estimate of		15,000
(d) Extra expenditure due to recourse to extensive overtime was		20,000
(e) Additional work to meet requirements not known originally, involved extra costs—		
Extra spaces fitted on three decks	£	6,500
Extra work on open deck spaces, handrails, canvas screens, ladders and platform deck extensions		8,000
Gun stiffening		1,000
Fumigation		500
	—	16,000

11. The excess in respect of *Machinery* items is attributable to the necessity of undertaking very heavy work on renovations and renewals found necessary as the vessel was opened up. The original estimate was based on the supposition that the machinery generally had suffered no more than normal fair wear and tear. This however was found not to be the

case: the blading of all the Turbo Rotors, for example, required extensive repair, the auxiliary condensers required to be wholly retubed and the very extensive pipe systems required in many cases complete renewal. Of the forty-two boilers, eight only were required to be used by the Admiralty, but of these eight 15 per cent. of the boiler tubes required renewal.

12. My Lords have no hesitation in giving an assurance that it was not possible having regard to the conditions under which the work of demolition and reconstruction took place for any of the items carried out on the basis of "net cost plus profit" to have been arranged at fixed prices.

13. Finally with regard to the question of the measures taken for the supervision of the work, I am to state that with the object of minimising costs My Lords caused instructions to be issued at the outset, both to the contractors and to the Admiralty overseers and other officers concerned, that all possible steps were to be taken to ensure that the work should be performed as economically as possible, that it should be limited strictly to that necessary to adapt the ship for her new service and that in carrying out modifications special care should be taken to reduce to a minimum the extent of alterations to existing arrangements. The work was carried out under the close supervision of constructive staff and engineering officers employed at the Shipyard and the expenditure on labour and material was checked concurrently by Recorders of work responsible to the Principal Accountant who conducted the examination of the firm's books.

14. My Lords are satisfied that their instructions were carefully observed and that despite the heavy expenditure incurred the work was carried out economically and that good value has been obtained for the outlay.

15. As stated earlier in this letter less expensive methods had to be rejected for the sake of the speedy provision of the training facilities. Thus the alternative of providing hut accommodation ashore, which incidentally would, it is believed, have cost only little less (with all the necessary facilities) than the conversion of the ship, could not have been ready inside 12 months and might very probably have taken considerably longer. The "Caledonia" was completed and berthed at Rosyth and the boys on board by May, 1937, that is to say eight months after approval was given.

I am, Sir,

Your obedient Servant,

(Sgd.) T. Fry.

(b) MEMORANDUM containing supplementary information promised during the course of evidence on 17th May, 1938, handed in by Sir R. H. A. Carter, K.C.B., K.C.I.E.

CONVERSION OF S.S. "MAJESTIC" (Now H.M.S. "CALEDONIA").

(1) The "Majestic" was last surveyed by the Board of Trade in January, 1936. The Director of Sea Transport, who is an official both of the Board of Trade and of the Admiralty, was aware of the proposal to purchase the "Majestic", and one of his representatives visited the ship in July, 1936, together with a representative of the Director of Naval Construction, to establish the suitability of her general arrangements for conversion to a training ship. This inspection was not intended to, and did not, deal with the condition of the ship, as the Sea Transport Department is not the Department of the Board of Trade responsible for inspecting merchant ships from the point of view of the condition of their hull and machinery. The Admiralty did not enquire from the Board of Trade whether they could give any information as to the condition of the ship.

It has now been ascertained from the Board of Trade that, if they had been consulted, it is unlikely that any information which they could have given would have thrown much light on the state of that part of the machinery on which it proved necessary to incur expenditure so greatly in excess of the Admiralty's expectations.

The reason for this is that, with few exceptions, the work which had to be done had no bearing on the question of the safety of the ship, from the point of view of seaworthiness, which is the primary consideration of the Board of Trade.

(2) As already stated representatives of the Director of Naval Construction and Director of Sea Transport visited the ship in July, 1936.

The main object of the visit was to ascertain whether her accommodation would be adequate, when converted, to meet the requirements of a Boys' Training Ship. Following the inspection an oral report was made that the vessel appeared suitable.

(3) In accordance with Admiralty Letter C.P. 26254/36, of which a copy is attached, all proposals were carefully considered before instructions were given to put any particular work in hand. Many proposals of a minor nature were not agreed to, such as for example, more extensive renewal of linings and decorations not considered necessary; patching of deck coverings was done in lieu of renewal of planking, etc., which had been suggested; reduction of renewal of paint and enamelling work; reduction of amount of removal and renewal of structural items and fittings in converting spaces for accommodation, messing, sleeping and hospital arrangements.

(4) If the vessel had been towed to Rosyth instead of steaming there, additional expense amounting to some £7,000 would have been involved. The cost of towage would have been about £12,000 and insurance would have cost more, say approximately £4,000-£5,000 more. Against this may be set the fact that some of the work on the machinery not exceeding £9,000 at the most, would not have been required if the vessel had been towed, and about £500 would have been saved on account of the smaller crew required. (This sum of about £500 is the only part of the item £6,029 for "delivery to Rosyth" which would have been saved if the vessel had been towed.)

Admiralty,

31st May, 1938.

26254/36.

GENTLEMEN,

27th August, 1936.

"MAJESTIC"—CONVERSION FOR SERVICE AS A TRAINING
ESTABLISHMENT FOR BOYS.

With reference to the Department's letter of the 26th August, C.P.26253/36, I have to forward the enclosed Outline of Requirements and Drawings showing proposed allocation of spaces and hospital arrangements, for your information and guidance in commencing the work.

2. The work is to be taken in hand as early as possible after the 31st August, so as to be complete in all respects, with the exception of the drainage arrangements referred to later, and enable the vessel to be delivered to Rosyth by you by the end of February, 1937, certain. It is *essential* that the ship should be at Rosyth by that date, whether the work is complete or not, and the Admiralty trust that you will make every endeavour to complete the whole of the work accordingly.

3. The modifications are to be carried out on the lines indicated in the outline print and statement of requirements, and further details will be communicated to you as soon as they become available. Should you desire to make any departure from, or variations to, these arrangements, such proposals should be brought to the notice of the Overseers for Admiralty consideration at an early date. Any proposals of this nature that would tend towards economy would be greatly appreciated.

4. In addition to the structural and other alterations, the vessel is to be docked at Southampton, for coating bottom, etc., also repairs and renovations (including cleaning, painting, etc.) are to be carried out on the lines indicated later.

5. On the completion of the work at Southampton, she is required to be navigated to, and delivered at Rosyth by you, and handed over in the Dockyard to Admiralty representatives appointed to receive her. Should any work be required to be done at Rosyth in connection with mooring and securing the vessel, further instructions will be sent.

6. The whole of the work at Southampton will be carried out under the direct supervision of Admiralty Overseers, and for this purpose (as regards the hull work) a Principal Ship Overseer and an Assistant Overseer will be appointed to the staff of the Warship Production Superintendent at Southampton, and will be solely employed in affording you assistance and closely supervising the work.

7. It is essential that the amount of work performed should be strictly limited to that which is necessary to adapt the ship for her new service. In carrying out the modifications special care is to be taken to minimise the extent of the alterations to existing arrangements, and to utilise as far as possible existing fittings. You are requested to co-operate as closely as possible with the Overseers and other Admiralty representatives who will visit the ship frequently during the course of the work.

8. In regard to the repairs and renovations, a superficial survey of the structure and fittings is to be carried out, and also such tests of machinery and working fittings performed as may be required, in consultation with Admiralty Overseers, after which a list of items of work found necessary is to be drawn up for approval by the Admiralty, or by the Overseers (in the case of minor items) before the work is taken in hand.

9. It is to be distinctly understood that as the services of the ship are required for a limited number of years only, the work of repairs and renovations (painting, etc.), is to be kept strictly to the minimum, and only such items as are necessary to bring the parts of the ship required for habitation or use into an efficient condition are to be undertaken. Painting is to be limited in amount to that required for preservation purposes and cleanliness.

10. Particular attention is called to the requirements for drainage and the disposal of sullage. Subject to the approval of the system to be adopted for this purpose, the work entailed is to be progressed as far as possible at Southampton, and finished off after arrival of the vessel at Rosyth.

11. Although the greater part of the work will be carried out on the "time and lime" basis of payment, fixed prices are required for:—

(1) Docking and coating bottom. (The material for coating will be communicated later.)

(2) Navigation to and delivery at Rosyth.

These prices should be forwarded in detail and approval obtained before the work is taken in hand.

12. You are required to take full responsibility and custody of the vessel from midnight on the 31st August, and adequate arrangements are required to be made to safeguard the vessel and her fittings, etc., against risk of fire, damage and theft.

13. Please acknowledge receipt of this letter.

I am, Gentlemen,
Your obedient Servant,
(Sgd.) P. DALE BUSSELL,
for Director of Navy Contracts.

Messrs. J. I. Thornycroft & Co., Ltd.,
Thornycroft House,
Smith Square,
Westminster, S.W.1.

APPENDIX No. 17.

PAPER handed in by Sir *R. H. A. Carter*, K.C.B., K.C.I.E.
(Qns. 4873-4902, 17th May.)
H.M.S. "VULCAN."

The "Vulcan" (late "Aston Villa") a mercantile trawler was built in 1933 and was nearly three years old when purchased by the Admiralty in July, 1936.

Her displacement when purchased was 490 tons and the purchase price £19,000 equivalent to say £39 a ton.

Her displacement after conversion for Admiralty service was 670 tons, and the total cost (purchase £19,000 plus conversion £31,000) works out at £50,000 equivalent approximately to £74½ a ton.

For purposes of comparison of costs with those of a Trawler built to Admiralty design the "Mastiff," a Fishery Protection Trawler of 490 tons affords the best example. She was tendered for in October, 1936, and her cost (exclusive of armament) is working out at approximately £44,000, or £90 a ton. She is due for delivery in May, 1938.

The only other recent example is the "Basset" tendered for in October, 1934. She is 480 tons and her cost (exclusive of armament) was £27,500, equal to say £57½ a ton. The vessel is in her essentials similar to the "Mastiff" but she was ordered two years earlier, at a time when prices were very much lower and when contractors for the sake of securing building contracts were prepared to work on the very finest margin of profit. Had the "Basset" been ordered at the same time as "Mastiff" there is no reason to suppose that her price per ton would have been less than that of "Mastiff."

The Admiralty Professional Officers estimate that had a Depot Ship been ordered of special design, built to Admiralty requirements and embodying "Vulcan's" main features, she would have had to have been of at least 725 tons displacement and would have cost about £80,000 (say £110 a ton). Allowing for production of design and period of construction she could not have been ready for service in less than 18 months.

There has, in fact, been no occasion for the Admiralty for many years to provide a vessel for service really comparable with that for which "Vulcan" was required, the nearest approach being the "Linnet," a tender to the Torpedo School at Portsmouth, ordered in October, 1936. She is of 498 tons displacement and her cost is working out at about £56,000, equal to about £112 a ton.

An analysis is attached of the work done in the conversion of the "Vulcan."

Admiralty.

12th May, 1938.

All gear fitted for requirements as a Trawler was removed and various compartments gutted out, viz:—

- Trawl winch.
- Fishponds.
- Boats.
- Foremast.
- Tunnel in main bunker.
- Captain's cabin and wheelhouse.
- Fishhold and reserve bunker gutted out.

The original conversion specification provided also for the following alterations, viz.:—

Provision made for oil fuel in lieu of coal. This involved new oil-tight bulkheads and welding of existing structure to ensure oil tightness and provision of oil fuel filling arrangements, etc.

Additional compartments were fitted, viz.:—

- Water-tight deck house on upper deck to take cabins, wardroom, pantry, bathrooms, etc.
- Mess spaces for crew.
- Additional cabins.
- Washplaces, bathrooms, and W.Cs.
- Small arms magazine.
- Spirit room.
- Compartment for stowage and overhaul of torpedoes.
- Torpedo store.
- Shipwrights' store and workshop.
- Naval stores.
- Paint room.
- Lamp room.
- Provision room and store.
- Compartment for stowage of motor torpedo boats' spare engines.
- Petrol-driven generator compartment.
- Air compressor room.
- The forecastle deck was extended.
- New watertight and non-watertight bulkheads fitted.
- New flats and decks in store room, etc.
- Additional pillars and girders fitted.
- Alterations made to cable locker.
- Fresh-water tanks and reserve feed tanks.

The pumping, flooding and draining arrangements were brought up to Admiralty requirements and additional pipe lines, valves, fresh and salt water tanks provided.

Ventilation arrangements (natural and artificial) provided to various compartments.

- Navigating, signalling and sounding arrangements fitted.
- Additional voicepipes fitted.

Awnings, canvas covers, etc., provided.
 New steel foremast with derrick fitted.
 Galley arrangements modified and new galley fitted.
 Steam winch fitted.
 Wireless telegraphy arrangements provided.
 Stowage arrangements for boats and life-saving equipment provided.
 Accommodation ladders and guest warp booms fitted.
 Stowage for petrol provided.
 Fire extinguishing arrangements provided.
 Steam-driven dynamo fitted.
 Permanent ballast supplied and stowed.

Modifications made to the machinery arrangements, due to oil fuel being used in lieu of coal.

Steam-driven generator fitted.
 Pipe systems installed for new auxiliary machinery.
 Oil-driven generator fitted.
 Main engine spare gear supplied.

Modifications and additions required during progress of conversion and not included in firm's original tender:—

Battery room and charging arrangements.
 Distilling plant.
 Provision and issue room and ward room store.
 Refrigerating room.
 Further alterations to shipwrights' store and workshop.
 Coppersmiths' shop.
 Additional gear in torpedo room.
 Drummond lathe.
 Further alterations to mess spaces and crews' accommodation.
 Regulating office.
 Further additional voice pipes.
 Alterations to galleys (oil fired).
 Breakwater on forecastle deck.
 New main mast and rigging.
 Repairs to machinery.
 Machinery spare gear.
 Steam-driven generator.
 Petrol-driven generator.
 Further additional permanent ballast.
 Fitting of gallows over after end of ship to lift motor torpedo boats.
 This involved the removal of stern houses and an entire rearrangement of the after end of the ship with additional stiffening in the vicinity.
 Rudder removed, overhauled and shipped.
 Chain cables and anchor gear modified to meet Admiralty requirements.
 New chains for steering gear fitted.
 Additional painting of compartments, cabins and mess spaces required due to alterations and rearrangement of various spaces.
 Alterations necessary in compartment for stowage of motor torpedo boats' spare engines.
 Additional stowage arrangements for torpedoes' collision heads, etc.
 Increased requirements in the accommodation spaces, store rooms and magazines.
 Increased requirements in the pumping, flooding, and fresh and salt water services.
 Additional requirements in connection with the oil fuel filling arrangements.

APPENDIX No. 18.

USE OF CASH RECEIPTS TO MEET CASH EXPENDITURE.

(Memorandum by the Treasury.)

(Questions 5225-5232, 24th May.)

1. At the meeting of the Committee on the 24th February, 1938, the Treasury undertook to inform the Committee of the circumstances obtaining in those Departments in which it was proposed not to disturb the present practice of using certain cash receipts to meet cash expenditure. In such cases the object of the Treasury review has been to ensure that adequate arrangements exist for the control of the receipts and for checks, both at regular and irregular intervals, of the cash actually held, and as a result of the review the arrangements in the various departments are considered to be adequate. The Departments are also well aware of the desirability of reducing their cash holdings to the minimum necessary for the proper conduct of their business, and of submitting demands for imprests of cash to careful scrutiny.

2. Apart from Departments where the receipts are casual in nature or trifling in amount, the cases where it is not proposed to disturb the existing arrangements are as follows:—

(1) *Board of Control: State Institutions.*—These Institutions have no Bank Accounts, all cash expenditure being met from imprests, cheques for which are cashed at local banks and the amounts of which are fixed after allowing for local cash receipts. The local cash receipts consist mainly of (a) payments by the Staff for meals, (b) the small proportion of the proceeds of industries and of sales of produce paid for otherwise than by cheque; and (c) cash for patients received from relatives. Receipts under (a) are susceptible to direct check. Receipts under (b) are covered by checks, both regular and by surprise, which include both checks of cash holdings and stocktaking. Cash under (c) is subject to special checks on receipt and is expended on the instructions of the patients.

(2) *Prisons, England and Wales.*

(3) *Prisons, Scotland.*—The largest item of the cash receipts consists of moneys belonging to prisoners and a proportion of this cash must always be held in the Prisons against the time when prisoners are discharged and moneys have to be returned to them. Apart from such repayments, and the payment to the Courts of fines and debts collected, only payments amounting to less than £5 in England and Wales and less than £2 in Scotland are made locally and such payments are subject to the prior authority of the Headquarters of the Prisons Commission. The checks on all receipts at the Prisons are elaborate and are considered to provide adequate safeguards.

(4) *Mercantile Marine Offices.*—The principal cash receipts arise from (a) Seamen's Money Order transactions; (b) Seamen's Savings Bank deposits; and (c) miscellaneous fees and fines. A sufficient cash balance (which is kept as low as possible) must be retained to meet probable demand for payments under (a) and (b), and any receipts surplus to such requirements are paid into a bank. Where receipts are insufficient to meet payments, cash is supplied by local Customs Offices on the authorisation of Board of Trade Headquarters. Receipts under each of the above headings are subject to appropriate checks.

(5) *Ministry of Agriculture*.—The principal cash receipts arise from (a) fees paid to Inspectors and used to meet the Inspectors' travelling and other expenses; (b) farm settlement rents collected locally; and (c) sales of certain farm produce. In the case of (a), applications for inspections are made to Headquarters who ensure that the fee is accounted for and to whom full accounts of expenditure must also be rendered. As regards rents under (b) full details of rents (and arrears thereof) are kept at Headquarters and the rent demands are examined at Headquarters before issue. Receipts from sales of farm produce are controlled by monthly account, including returns of production, and by periodical stocktakings.

(6) *Department of Scientific and Industrial Research*.—Fuel Research Station. Cash receipts from sales, amounting to between £2 and £3 a week are retained to maintain a floating cash balance of £25 for local cash payments apart from wages. Cash accounts are submitted weekly to Headquarters.

(7) *County Courts*.—A separate memorandum on the position in the County Courts was submitted to the Committee last year.

(8) *Colonial Office—New Hebrides*.—Receipts amounting to about £100 a year are retained in cash. Owing to the absence of local banking facilities the Resident Commissioner is obliged to keep his bank account at Sydney. Monthly accounts are received by the Colonial Office.

(9) *Royal Ordnance Factories*.—Cash receipts consist mainly of canteen takings and represent a very small fraction of regular cash disbursements in respect of wages. The receipts are at all stages subject to checks and safeguards which, after careful review, are considered adequate.

(10) *Naval Dockyards*.—Cash, as distinct from cheques, may be received in payment of rents, services rendered and stores sold. Receipts under each of these headings are susceptible to appropriate independent checks which are considered to provide adequate safeguards.

Of the above cases, the last two were not mentioned to the Committee on the 24th February but have come under review since that date.

3. The Treasury's attention has recently been drawn to the fact that His Majesty's Receivers General in Guernsey and Jersey also use cash receipts to meet expenditure and enquiry is being made into these two cases.

Treasury,

16th May, 1938.

APPENDIX No. 19.

SUPPLY OF POSTAL ORDERS, POSTAL DRAFTS AND STAMPED POSTAL STATIONERY.

(Memorandum by the Treasury.)

(Questions 5233-5240. 24th May.)

1. The Gretton Committee of Enquiry into Government Printing Establishments recommended in their Report (Cmd. 2828 of 1927), that a portion, not more than one-third, of Government printing requirements including both confidential and non-confidential work, should be executed

on the Government printing presses and the remainder under contract by the Printing Trade. They were of opinion that all confidential printing and other special work of first rate importance should be executed by the State works without being offered to competitive tender. As regards the ordinary non-confidential class of printing they recommended that all this work be put up to open competition and that, where the Government works were able to show an estimated saving by comparison with the lowest satisfactory tender received, the work should be allotted to the presses at the rate of such tender to the extent of their capacity.

2. The question of "security" printing, i.e., the printing of stamps, postal orders, forms, etc., was dealt with in paragraph 9 of the second report of the Public Accounts Committee of 1929. The Committee were agreed

"that in future, as the Stationery Office is the Department specially charged with the duty of supplying the requirements of Public Departments in the matter of printing and stationery and possesses an expert staff to deal with such matters, all contracts for printing work whether of a general or 'security' nature should be arranged by that Department."

3. As recorded in the Second Report of the Public Accounts Committee, 1934, the Treasury in 1930 decided that "security" printing should be regarded as coming within the intention of the Gretton Committee's recommendations regarding confidential printing and other work of first rate importance, and should accordingly be executed by the State works without being offered to competitive tender. In consequence, however, of representations made by the Postmaster General the matter was referred to the Bridgeman Committee of Enquiry on the Post Office. This Committee in its Report (Cmd. 4149 of 1932) expressed the opinion that the Post Office in obtaining its supplies of stamps, stamped stationery, postal orders and drafts should call for competitive tenders and place their orders in the best market. They added that the Stationery Office should be allowed to tender in competition with outside firms.

4. The Government accepted the recommendation of the Bridgeman Committee and, in accordance with this decision, the Post Office in 1933 placed contracts for the supply of postage stamps for a period of 10 years, and of postal orders, postal drafts and stamped postal stationery for a period of 5 years. The Stationery Office had not at that time the necessary accommodation and plant to enable them to tender.

The Public Accounts Committee in paragraph 4 of their Second Report for 1934 commented on the fact that their previous recommendation of 1929 should have been reversed without previous consultation with them and expressed the view that the Post Office should "make use of the services of the Stationery Office in this matter where that course conduces to economy and efficiency." The Committee took further evidence in this connexion on the 14th February, 1935.

5. The contracts placed in 1933 for the supply of postal orders, postal drafts and stamped postal stationery were determinable by either side by twelve months' notice on or at any time after the 30th June, 1938. At the end of 1936 the Treasury suggested to the Post Office that these contracts be extended for one year, as the Stationery Office, whose works at Harrow were being enlarged, would not be in a position to tender for contracts commencing on the 1st of July, 1938. The Post Office agreed, and extension was arranged accordingly with the Contractors.

6. The time is now ripe for a decision whether or not these three contracts are to be further extended. In accordance with the recommendation in paragraph 4 of the Second Report of the Public Accounts

Committee for 1934, the whole question has been carefully reviewed with the Post Office and, as a result it has been decided, while maintaining the conclusion of the Bridgeman Committee that the responsibility for postage stamps, stamped stationery, postal orders and postal drafts should remain with the Postmaster General, that the Post Office should, in calling for tenders, invite the Stationery Office to tender. In this connexion the Post Office would act in a full spirit of co-operation with the Stationery Office. It is accordingly proposed to give notice to terminate the postal order, postal draft and stamped postal stationery contracts on the 30th of June, 1939, and to invite tenders at once for new contracts from private firms and the Stationery Office, in order that any new Contractor, or the Stationery Office, may have ample time in which to purchase and instal the necessary machinery.

Treasury,

5th May, 1938.

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