

FOURTH REPORT
FROM
THE COMMITTEE OF
PUBLIC ACCOUNTS

Session 1945-46

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Tuesday, 21st August, 1945.

Committee of Public Accounts *nominated*:—Mr. Benson, Mr. Douglas, Lieut.-Col. Alan Dower, Mr. Glenvil Hall, Mr. Hector Hughes, Mr. H. Hynd, Mr. McAllister, Sir John Mellor, Mr. Peake, Mr. Pickthorn, Sir Frank Sanderson, Mr. Thurtle, Mr. Wadsworth, Mr. Maurice Webb and Mr. Williamson.—(*Mr. Mathers.*)

Friday, 14th December, 1945.

Mr. H. Hynd discharged from the Committee of Public Accounts and Mr. Haworth added.—(*Mr. Mathers.*)

Wednesday, 3rd April, 1946.

Mr. Pickthorn discharged from the Committee of Public Accounts and Mr. Cuthbert added.—(*Mr. Robert Taylor.*)

Friday, 21st June, 1946.

Mr. Hector Hughes, Mr. McAllister and Mr. Williamson discharged from the Committee of Public Accounts and Lieut.-Col. Hamilton, Mr. Holmes, Mr. Kirby and Mr. Lever added.—(*Mr. Robert Taylor.*)

TABLE OF CONTENTS

<i>Paras.</i>	<i>SUBJECT</i>	<i>Page</i>
	<i>General</i>	
1-3	Standards of Accounting and Audit	3
4-5	Form of Estimates and Accounts for Works Services	3
6-8	Payments to Local Authorities for War Services	4
9-13	Price Fixing Arrangements with Industries or Trade Organisations ...	5
14-16	Insurance of Foodstuffs and Raw Materials against Marine Risk ...	6
	<i>Revenue Departments Appropriation Accounts</i>	
17	Inland Revenue—Pay-as-you-earn, discharge of Outstanding Tax in certain cases	7
	<i>Civil Appropriation Accounts</i>	
18	Foreign Office—Purchase of Specialised Equipment	8
19	Diplomatic and Consular Services—British Council Book Export Scheme	8
20-21	Development and Welfare (Colonies etc.)—Formation of Colonial Food Yeast, Limited	8
22-23	—Approval of Schemes	9
	<i>Secret Service</i>	
24-26	Purchase of Stores from Secret Service Funds	9
	<i>Navy</i>	
27-28	Arrangements for Securing Economy in Manufacture	10
29-30	Control of Sub-Contractors' Prices... ..	11
	<i>Greenwich Hospital</i>	
31-32	Contributions towards the cost of Naval Age Pensions	12
	<i>Coal Commission</i>	
33-35	Superannuation Fund	12
	<i>Civil Appropriation Accounts (War Services)</i>	
36-37	Ministry of Fuel and Power—Coal Charges Account	13
38-40	Ministry of Works—Expenditure on Buildings for School Meals ...	14
	<i>Vote of Credit</i>	
41	Treasury—United Kingdom Commercial Corporation, Limited ...	15
42-43	Ministry of Aircraft Production—Control Price of Aluminium ...	15
44	<i>Retirement of Sir Gilbert Upcott, K.C.B.</i>	16

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FOURTH REPORT

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

GENERAL.

Standards of Accounting and Audit.

1. The Public Accounts Committees of previous years have been informed that the difficulties arising out of the manpower position during the war have inevitably led to a gradual relaxation of normal checks and in certain directions to a lower standard of accounting than Departments maintain under normal conditions. The Comptroller and Auditor General again reported that, having regard to the prevailing circumstances, he had no general criticism to make on the standard of accounting maintained by Departments.

In certain Departments, e.g. the Defence Departments, the Inland Revenue, and the Post Office, shortage of staff has necessitated further reductions in standards of internal audit or modifications in methods of control, and in some instances has caused the accumulation of arrears of normal accounting processes. Evidence was, however, given that the Departments and the Treasury are keeping under review the restoration of important checks which have had to be suspended and also the application of internal audit and control to make the most effective use of the limited resources of manpower available.

2. The Comptroller and Auditor General explained that shortage of experienced staff had necessarily led him to adopt a radically revised system of audit during the war. It had become a system of test audit designed mainly to ensure that the internal audit and control exercised by the Departments was effective, and so far as possible to bring to light, and to bring before the Public Accounts Committee if necessary, things that really mattered. He thought it very desirable that this standard should be raised at the earliest possible moment, and as the legislative programme of the Government was likely to impose new duties upon him, it would be necessary not merely to restore but to increase the pre-war permanent strength of his Department.

3. Your Committee note that steps are being taken by Departments to raise the standard of internal audit and control. They trust that the Comptroller and Auditor General will be able to secure the staff necessary to raise the present minimum standard of audit to the higher level desired, and adequately to discharge the additional duties imposed upon him by new legislation.

Form of Estimates and Accounts for Works Services.

4. Before the war Estimates for Works Services recorded in detail new works costing over £2,000 (Civil Estimates) or £2,500 (Defence Estimates) and, in a bulk figure, those costing less than these amounts but over £500. New works costing £500 or under were included in Estimates under the Maintenance and Repairs heading. Expenditure on these Works Services was recorded in the Appropriation Accounts broadly in the same detail as in the Estimates. During the war no details of individual works items have appeared in the Estimates or Appropriation Accounts of the Defence or Supply Departments.

Following the decision not to ask Parliament for Votes of Credit in 1946-47 and to present ordinary Estimates for that year, the Treasury reviewed the form of the estimates for works services. Considerable difficulties presented

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themselves in estimating and accounting under separate items for the smaller items of New Works, and in forecasting the details of individual items forming part of approved programmes. The Treasury consequently proposed that in both Civil and Defence Estimates for 1946-47, only works costing £10,000 or over should be recorded in detail, items costing less than £10,000 being shown in bulk as New Works if costing £1,000 or over, or included in the total for Maintenance and Repairs if under £1,000. These proposals were referred to Your Committee in October, 1945, and they did not feel that their work would be hampered by the changes. When the Estimates for the Defence Services (and the Ministry of Supply) came to be prepared, further difficulties arose. It proved impossible in the time available to make a final selection, for inclusion in the 1946-47 Estimates, from the many works of rehabilitation necessary, or to prepare proper estimates of total cost, or to arrive at decisions on security aspects. The Estimates of the Defence Departments and the Ministry of Supply for 1946-47, as published, therefore, omit all details of individual new works, but a statement giving details will be presented to Parliament later. Your Committee and the Select Committee on Estimates, which was set up on 5th March, 1946, will be further consulted before this statement is presented.

5. The Comptroller and Auditor General stated that the detailed form of the Statements of New Works appearing in the pre-war Estimates and Appropriation Accounts was designed many years ago when it was thought desirable to secure Parliamentary control over capital expenditure in great detail. He thought that the effect had been under modern conditions that the Estimates and Accounts became loaded with voluminous particulars of works of no especial magnitude or importance and rather bewildering to Parliament.

Your Committee are in agreement with the view expressed by the Comptroller and Auditor General in evidence that a reversion to the very detailed form of the pre-war statements of works services is to be deprecated and that some new standard should be adopted. They think that the adoption of a higher limit than before the war for the display of individual works should secure greater prominence for the most important works undertaken and give Parliament all that is necessary for controlling capital expenditure. As regards the Appropriation Accounts they feel that some further simplification might be considered with a view to including details of the important works only in cases where there was an appreciable variation from the Estimates.

Payments to Local Authorities for War Services.

Qs. 3638-
3698, 4367,
4368, 4841-
4848.
App. 11.

6. In paragraphs 1-3 of their First Report Your Committee referred to the delay in final settlement of claims by local authorities for expenditure on War Services and expressed the hope that a more satisfactory position would be reported this year. Figures supplied by the Departments concerned show a marked improvement with regard to the number of claims settled, though the position as regards the amounts of the claims still outstanding is not clear. Your Committee hope that the measures taken will continue to expedite clearance of these claims.

In their minute dated 22nd February, 1946, the Treasury stated that their evidence, to the effect that the tendency of District Auditors had been to deal too much with details of minor irregularities, was not intended to imply that these Auditors had in fact failed to bring important matters to the notice of Departments. They were satisfied that the audit, coupled as it is with current consultations, had been adequate to protect public funds from important irregularities and uneconomical expenditure.

7. The Comptroller and Auditor General accepts the examination by the District Auditors of expenditure by local authorities chargeable to Votes

of Parliament as satisfying the provisions of the Exchequer and Audit Departments Acts. He stated that the reports of the District Auditors had not, so far as they came to his notice, appeared to raise any questions of financial importance, such as he himself brought before the Committee from time to time in regard to the expenditure of Government Departments on war services. In evidence the Treasury and the Ministry of Health stated that they could not recall a case where the District Auditors had brought to notice important irregularities. Since this evidence was given, however, Your Committee have been furnished with a memorandum printed as Appendix No. II, giving examples of the various questions raised by the District Auditors, acting on behalf of the Accounting Officers concerned. It states also that the Chief Inspector of Audits sees every report of a District Auditor and any correspondence arising therefrom, and that he keeps in touch with Departments on the one hand, dealing with general points and bringing special points to their notice, and with the auditors on the other, circulating to them information on points as they arise.

8. Your Committee were glad to receive this memorandum, and they note that the information therein appears in Departmental files which are always available to the officers of the Comptroller and Auditor General. The number of separate claims is stated to be about 12,500 a year and only in a very small minority was there irregularity or extravagance. The Comptroller and Auditor General is in a special position as regards the expenditure of local authorities where he is obliged to rely on the examination of District Auditors when certifying certain Appropriation Accounts. Your Committee therefore trust that some arrangements will be made which will avoid the necessity of examining many thousands of Departmental files annually, in order that the Comptroller and Auditor General may be aware of the information and instructions circulated to District Auditors and of any reports in which attention is drawn to important irregularities or substantial examples of uneconomical expenditure.

Price Fixing Arrangements with Industries or Trade Organisations.

9. Successive Public Accounts Committees reviewed various arrangements made during the war for determining the prices of goods supplied or services rendered by specific industries or trade associations which have resulted in higher profits than had been envisaged. In some instances the arrangements provided for retrospective adjustment of prices, in others Departments were able to negotiate voluntary refunds.

The Comptroller and Auditor General drew attention to the price-fixing arrangements made by the Ministry of Supply with (a) the British Electrical and Allied Manufacturers' Association and (b) makers of technical veneers and plywood.

Paras. 33-35, of C. & A.G.'s War Services Report. Paras. 52-53 of C. & A.G.'s Vote of Credit Report. Qs. 5516-5531, 5575-5622. App. 10.

10. The arrangements with the British Electrical and Allied Manufacturers' Association cover a good many different types of product within the general field of motors, generators, switch gear and the like. In this case the Ministry made only limited cost investigations of 1942 production and, although the arrangements continued in operation till 31st March, 1946, no subsequent investigation was made to test the actual profits owing to the great pressure on their limited number of cost investigators and the falling demand for the products covered.

11. Technical veneers and plywood are manufactured to very precise specifications for sale to aircraft constructors and to contractors for other Government work such as bridges and boats. In all forty-four firms were employed some of whom made veneers, and some plywood only, while four made both. Control prices originally fixed in 1941 were reduced in March,

1943, by about 25 per cent., but in March, 1944, the Ministry's costing branch reported that the 1942 profits of three firms producing 75 per cent. of the veneers had ranged from 70 to 133 per cent. on capital employed and the profits of three firms producing 40 per cent. of the plywood from 43 to 119 per cent. Two of the firms making both veneers and plywood were also investigated. Total turnover for 1942 of all the firms concerned was some £8,250,000; the amount of total capital is not known but the Ministry stated that, if the figures for the whole range were comparable with those of the firms investigated, total profit would be something like 30 per cent. of this turnover.

12. Interim price reductions were made in April, 1944, but further reductions indicated by the investigation were deferred until the autumn of 1944, in order to prevent any possible dislocation of aircraft production programmes. The attention of contract branches was called to the special position of the firms producing both veneers and plywood whose lower costs of handling, etc., would result in excessive earnings even under the latest prices, but Your Committee have no evidence that any special reduction of their prices for subsequent Government supplies was arranged. The Ministry decided not to approach any of the firms for a voluntary refund in adjustment of the excessive prices of past supplies on the ground that it would have doubtful prospects of success and entail a great deal of work. Manufacture of the special technical veneers and plywood ceased in the autumn in 1945, and firms are now engaged in manufacturing commercial types for which control prices are to be fixed after investigation of costs.

13. Your Committee regret that information was not available regarding the actual profits from the arrangements with the British Electrical and Allied Manufacturers' Association, and that no attempt was made to secure refunds from the veneer and plywood makers. They note that in other cases refunds have been obtained where profits have proved to be excessive, and they see no reason why the same treatment should not be applied to all firms and industries of importance. In view of the possibility that effective competition may not be available for some time they recommend that steps be taken to ensure that firms should not be allowed to retain profits in excess of a fair and reasonable standard on Government orders.

Insurance of Foodstuffs and Raw Materials against Marine Risk.

Paras. 5 & 6
of
C. & A.G.'s
Vote of
Credit
Report.
Qs. 5673-
5689.

14. Since 1st January, 1940, commodities dealt with by the Ministries of Food and Supply which are normally purchased by the trade for private use have been insured against marine risk. The normal practice is not to insure Government property, but the Treasury agreed to this exceptional procedure in order to help maintain the marine insurance organisation which is a very important element in the national economy.

The Public Accounts Committee of 1941, after reviewing the arrangements, felt that they had not sufficient information on which to base a considered opinion (see paragraph 49 of their Report). They expressed the hope that full information would be available in the following year, and that some investigation of the books and records of the insurance undertakings would be carried out in order to judge whether the Government contribution was not more than was reasonably necessary to secure the object on which the policy was based. The Committee of 1942 were informed that on the two calendar years 1940 and 1941 as a whole the underwriters had sustained a loss of something over £100,000 without allowing for expenses attributable to the business. There had, however, been an increase in the rates of premium in 1941, and the Treasury stated that they would consider in the light of further experience whether the increased rates should continue.

It was the intention that the rates should cover losses from marine risks and leave a margin sufficient to meet the underwriters' expenses without providing any profit.

There have been successive reductions in the rates of premium since 1942, but the Comptroller and Auditor General reported that figures for premiums and claims showed that, while the loss incurred by the underwriters in 1940 and 1941 had proved to be about £200,000, the overall result for the years 1940 to 1944 was a margin in favour of the underwriters equivalent to 26 per cent. of the premiums, which appeared to be in excess of what was intended.

15. In evidence the Treasury said that the intended margin was 10 per cent. as compared with the 26 per cent. actually earned by the underwriters. A partial explanation of this surprising result was that, for the years 1944 and 1945 at any rate, the losses were exceptionally low in underwriters' experience. It had been the practice to review the rates of premium in December of each year and at that time the previous year's outturn was not known, so that the premiums for the following year had to be based largely on conjecture as to the safety of navigation. Even so, the Treasury admitted that, when the actual figures relating to past experience became available, they should have realised that the underwriters had been making excessive profits, and that larger reductions in the rates of premium were justified by the facts. For instance, for 1943 it was estimated that the underwriters would earn a margin of about £700,000, whereas the actual figure proved to be £2,100,000, and the discovery of this excess should have led to a larger reduction in premiums than was actually made in May, 1944.

16. Revised arrangements have now been negotiated with the underwriters under which, not only have the rates of premium been further reduced by about 15 per cent. from 1st January, 1946, but the Government is, from the same date, to receive a share of any profits made in excess of 15 per cent. of the premium income. In addition the underwriters agreed to refund a little under £1,000,000 in respect of the profits earned in 1944 and 1945, leaving them with about £300,000 more than was intended.

While Your Committee welcome the revised arrangements they share the regret expressed by the Treasury that the true position was not realised earlier and steps taken to ensure that the underwriters' margin was no more than that recommended by the Public Accounts Committee of 1941.

REVENUE DEPARTMENTS APPROPRIATION ACCOUNTS.

VOTE 2—INLAND REVENUE.

Pay-as-you-earn, discharge of outstanding tax in certain cases of Crown and railway employment.

17. The Comptroller and Auditor General drew attention to a departure from the strict terms of Section 6 of the Income Tax (Offices and Employments) Act, 1944, in regard to the discharge of unpaid tax arising under Schedule E for 1942-43 and previous years in certain cases of Crown or railway employment. The ascertainment of the precise amount of tax due to be cancelled in the numerous cases concerned presents some difficulties and, in view of the shortage of available staff, the Board of Inland Revenue decided as an administrative arrangement that, in all cases falling within the Section, arrears of tax under Schedule E, amounting to £50 or less, for the years in question should be regarded as wholly discharged.

Para. 14
C. & A.G.'s
Revenue
Report.
Qs. 1745-
48.

It appears that this administrative decision may result in the discharge of larger sums than a strict application of the Section would allow; but in the view of the Board any excess of relief thus given is to a large extent an anticipation of remissions which, in the case of members of the armed forces, would inevitably have been made at a later date, and moreover the excess will to some degree be offset by a reduction of post-war credits. In view of the extra-statutory nature of the arrangements made, Your Committee bring the matter to notice but they do not wish to offer any criticism.

CIVIL APPROPRIATION ACCOUNTS.

CLASS II, VOTE 1—FOREIGN OFFICE.

Purchase of specialised equipment.

Qs. 2564-
2576,
2579-2586.

18. Subhead E of this Vote includes expenditure by the Foreign Office on the purchase of wireless equipment. This equipment is obtained partly through the organisations of the Metropolitan Police and of the Post Office, but direct purchases are made of some specialised equipment.

It was stated in evidence that there were highly qualified staff in the Foreign Office carrying out the purchase of this technical equipment, but Your Committee are not satisfied that this staff has the same experience as the Supply Departments to enable them to deal with contracts, even for the purchase of non-standardised equipment.

Your Committee attach great importance to centralised purchasing for supplies for all Departments and they trust that the Foreign Office will so far as possible make their purchases through one of the Departments with special contract branches.

CLASS II, VOTE 2—DIPLOMATIC AND CONSULAR SERVICES.

British Council Book Export Scheme.

Para. 12 of
C. & A.G.'s
Civil
Report.
Qs. 2710-
2762.

19. In order to assist the supply of British books overseas the British Council formed a company, B.E.S. Limited, for which the Council provided the whole of the capital. It was explained in evidence that it was not thought proper for the Council as such to engage in trading operations and the Company was formed to assist the export of British books, including help in arranging transport, insurance, currency, etc. The Company operated only where ordinary business arrangements could not be made and it did not aim at making a profit. Books were purchased at wholesale prices and sold in foreign countries at these wholesale prices. The Council bore all overheads and any extraordinary charges which might be incurred in the case of special transactions.

No accounts were available subsequent to 31st March, 1944, the delay in preparation being apparently due to the accounts section going too much into details. It is therefore not possible to state the total cost of the scheme.

Your Committee doubt the need for the formation of this Company, in view of the nature of its operations. It is clearly a method of enabling the Council to subsidise the export of books to certain countries. Your Committee are glad to learn that the scheme is to cease as soon as publishers have access to the countries concerned and can carry on their transactions in the ordinary way.

CLASS II. VOTE 9—DEVELOPMENT AND WELFARE (COLONIES, ETC.)

Formation of Colonial Food Yeast, Ltd.

Para. 23 of
C. & A.G.'s
Civil
Report.
Qs. 4672-
4709.

20. In order to assist a project for the manufacture of food yeast in Jamaica, the Colonial Office promoted the formation of a private limited company in 1943, with a nominal capital of £100 held by persons nominated or approved by the Secretary of State. Up to 31st March, 1946, the company had received loans amounting to £150,000, free of interest, from the Development and Welfare Vote and further loans are promised.

The erection and equipment of the company's factory was entrusted to the West Indies Sugar Company who will also operate the food yeast factory in conjunction with their own sugar factory, the raw material for the food yeast being either molasses or sugar cane juice. Three members of the West Indies Sugar Company serve on the board of seven members of Colonial Food Yeast, Limited, without remuneration, and the operating company receive a fee of £10,000 for the period to 31st December, 1944, that is, during the planning of the factory, and thereafter £5,000 per annum plus a bonus of £2 per ton of dry food yeast produced.

21. The Colonial Office explained that they formed the company and appointed to the board three members of the West Indies Sugar Company in order to have people with expert knowledge to do the initial planning and to secure the co-operation of the sugar company. The Treasury sanctioned the arrangement as experimental and it was the intention to review it after the factory had been in production for a period.

Your Committee were not entirely satisfied as to the need for the interposition of a new company as a link between the Colonial Office and the operating company, or the advantages to be gained by its formation. They are glad to learn that, when the factory is in production and the experimental stage is passed, the need for the intervening link will be reconsidered and that the Treasury would prefer a return to more normal arrangements.

Approval of Schemes

22. Among the schemes assisted by grants under the Colonial Development and Welfare Act, 1940, is one for establishing ten agricultural centres in Jamaica and working them for a period of five years. The total net cost of the five years scheme is expected to be £980,000 towards which it is contemplated that grants of £511,600 will be made.

Para. 24 of
C. & A.G.'s
Civil
Report.
Qs. 4710-
4715.

The scheme was not finally approved by the Treasury until February, 1945, but it appears that the centres were started in the latter half of 1942, primarily as an unemployment scheme. It was then seen that it could be made an instrument of great value for training and development purposes and after prolonged discussion and technical examination the final scheme was evolved providing that part of the cost should be borne by the Jamaica Government and the remainder met by a grant from the Development and Welfare (Colonies, etc.) Vote. By that time considerable expenditure had already been incurred.

23. It was admitted in evidence that it was open to objection that the moneys provided under this Vote should be used to finance a scheme which had already been in hand for some time, but Your Committee note that in this case the Treasury had been brought into consultation at quite an early stage. The Treasury consider that it should be a rule for applications for assistance from this Vote to be submitted for approval at the outset, in order that it might be demonstrated not only that the schemes come within the ambit of the Act, but also that they are sound in themselves. Your Committee welcome the proposed rule and they recommend that the Colonial Office should impress on all Colonial Governments the need for securing that development and welfare schemes are approved in advance.

SECRET SERVICE.

Purchase of Stores from Secret Service Funds

24. Your Committee investigated a case to which the Comptroller and Auditor General drew attention. In this case the Admiralty in November, 1942, assumed responsibility for the contract arrangements in connection with

Para. 14
C. & A.G.'s
Navy
Report.

the supply of certain stores required by another Department under whose direction production had been initiated in August, 1939. He reported that the total amount so far due to the contractors was approximately £1,680,000. Before the Admiralty took over responsibility about £237,000 had been disbursed from Secret Service funds which are not subject to examination by the Comptroller and Auditor General, but the further payments were being charged to Navy Votes.

The Treasury explained that the expenditure by the Department concerned had been incurred on the initial stages of design, experiment and development of the stores, which were of a highly secret nature. Developments subsequently reached such proportions that it was found necessary to transfer the control of the contracts to the Admiralty. The Treasury took full responsibility for the arrangements made in what they regarded as rather a special case in the earlier days of the war.

25. The Comptroller and Auditor General said that he did not think that Public Accounts Committees who had frequently discussed Secret Service expenditure, had ever imagined that Secret Service funds were used to purchase stores or for capital expenditure. The use of such funds in this way prevents the ordinary audit check of the contract and accounting arrangements, and he pointed out that during the war the most secret instruments and processes had been financed from expenditure audited by him in the normal manner, particular officials being detailed for audit in cases where very special secrecy was necessary. In the present case there appeared to him to have been a division of responsibility which was open to objection.

The Treasury felt that it would not have been appropriate to make another Department responsible for the expenditure on the design and development of these particular stores. They also thought that, although some purchases of stores were borne on the Vote for the Department concerned, that Department might have felt that the expenditure in question was not quite the type for which they ought to be responsible on their ordinary Vote. They agreed that the primary ground for withdrawing Secret Service expenditure from audit was that it is expenditure which in the nature of the case is not capable of being vouched, and that these funds should not ordinarily be used for the purchase of stores and equipment. There were, however, certain ancillary functions now attached to Secret Service, and they therefore considered that some latitude should be allowed, e.g., for expenditure in development workshops, etc.

26. Your Committee consider that, as Secret Service funds are not subject to audit, it is undesirable that they should be used to purchase stores or for capital expenditure. They recognise that limited exceptions may be necessary in special cases, but they were glad to receive the assurance of the Treasury that they would not be on the scale of the expenditure incurred in the case now in question, and that the records of the stores delivered in that case and of their subsequent disposal would be open to the inspection of the Comptroller and Auditor General.

NAVY.

Arrangements for Securing Economy in Manufacture.

Paras.
15 & 16 of
C. & A.G.'s
Navy
Report.
Qs. 4048-
4109.

27. The Comptroller and Auditor General drew attention to a case where a contractor's use of more expensive material and a process requiring a heavier ingot had resulted in considerably higher costs for forgings than those incurred by other contractors.

The Admiralty have not introduced the systematic use of efficiency returns and comparative costs on the lines adopted by the Ministry of Supply. They explained that in the case of warship building the question of efficiency

in technique is left to the ship-builders. In the general area of engineering, including electrical gear, machinery, armaments and other stores, the Admiralty have always made an extensive use of the Principal Technical Costs Officer whose duty it is, in addition to the preparation of estimates of costs, to secure that the most efficient technique practicable is employed. This officer has a staff of production engineers, through whose operations co-ordination of method between firms and close co-operation with the contract departments are secured. The Admiralty claimed that, having regard to the field covered, this system was as efficient as that used by the Ministry of Supply.

28. Your Committee are not in a position to assess the adequacy of the Admiralty system, but they observe that, although the contractor concerned was carrying out similar production before the war, remedial action was apparently not initiated by the Principal Technical Costs Officer until 1943.

Your Committee recognise the difficulties in securing co-ordination of methods between firms in peace-time conditions, especially where open competition becomes fully effective. They recommend, however, that the arrangements for securing economy in manufacture should be kept under review, with the object of adapting them over the widest area practicable in the changed conditions. They note that the Principal Technical Costs Officer, used by the Admiralty, is now an officer of the Ministry of Supply, and they trust that this fact will ensure common arrangements on a wider basis between all purchasing departments, for dealing with questions of production and efficiency.

Control of Sub-Contractors' Prices

29. The Public Accounts Committee of 1945, in paragraph 11 of their Report, recommended that the Admiralty should continue to press their investigations into the overall trading results of sub-contractors, with a view to ensuring a more satisfactory control of sub-contract prices.

Para. 17
C. & A.G.
Navy
Report
Qs. 4110-
4184.

During 1945 the Admiralty extended their inquiries with the object of covering all firms believed to have undertaken substantial sub-contracts. Out of 5,910 firms brought within the field of survey, some 1,700 were found not to call for detailed investigation and 1,255 were referred to other Government Departments with a larger sub-contract interest. Of the remainder, 504 firms, employing a capital of £50,000 or more, showed profits, arising on Government orders (direct and indirect) and commercial sales, averaging 25 per cent. on a total capital employed of some £290,000,000, or 13 per cent. on the cost of sales. The Admiralty explained that these profits were not obtained wholly on Admiralty work. They stated that they were the major user of the sub-contractors and took charge of the investigations but that there might be a lot of work for other Departments as well as commercial work for private contractors. The Comptroller and Auditor General, however, drew attention to the fact that commercial work was often indirectly Government work.

30. Rebates obtained to April, 1946, mainly in respect of government sub-contracts totalled about £3,250,000 and offers of about £750,000 were under consideration. Whilst it has been useful to secure these rebates even though they are not large in relation to the total profits, the main object of the investigations is to improve the primary control of sub-contractors' prices. The Admiralty have appointed a committee, including an outside accountant, to examine this question. Measures now in mind for ensuring reasonable prices include, in addition to an extension of the practice of costing, provision in the case of all large warship sub-contracts for a certified statement of cost after the completion of the work, and in all other substantial sub-contracts, the Admiralty are to have the right to verify that the price is reasonable.

The Treasury explained that the control of sub-contract prices was also considered by the Contracts Co-ordinating Committee at the end of 1945 and is to be reconsidered at about the end of 1946, in the light of the effectiveness of the existing arrangements and of post-war contract conditions.

Your Committee welcome the attention given to this subject, and they trust that satisfactory arrangements will be made for ensuring that sub-contractors' prices are fair and reasonable in the future.

GREENWICH HOSPITAL.

Contributions Towards the Cost of Naval Age Pensions.

Paras. 2 to 5
C. & A.G.'s
Greenwich
Hospital
Report.
Qs. 3287-
3304.

31. Your Committee considered the circumstances in which, with Treasury sanction, contributions by Greenwich Hospital towards the cost of Naval Age Pensions were discontinued as from 1st April, 1944.

Greenwich Hospital was originally entirely, and a little later mainly, responsible for Naval Age Pensions. It was only after the 1914-18 war that the Navy took primary responsibility, with the Hospital making a contribution. In view of the liability placed on voted monies, the Treasury obtained an assurance from the Admiralty in 1920 that Hospital Funds would not be applied to other objects without due regard to the obligation to contribute towards these pensions. Owing largely to expenditure on the new school at Holbrook, undertaken without prior consultation with the Treasury, the annual contribution was, however, reduced in 1934, and the Public Accounts Committee of 1935 recommended that in future the Treasury should be kept in touch with the financial position of the Hospital, particularly as it developed when the Reade Legacy became available. The Admiralty accordingly agreed to provide the Treasury with a forecast of the position for each financial year and to consult them regarding any proposal for new benefits or other important changes affecting the hospital's finances.

32. In 1945, a review by the Admiralty and the Treasury of the future position of the Hospital indicated that, on the basis of current Hospital commitments, a contribution to the age pensions of about £30,000 per annum might be available in 1950, when the post-war financial position was likely to be stabilised. New commitments were, however, in mind, such as homes for the aged and increases in special pensions. Having regard in particular to the small balance likely to be available in future, the Treasury agreed to the cessation of a contribution as from 1st April, 1944.

Your Committee note that the cost of Army and Air Force Age Pensions is already borne wholly by voted monies, and they raise no objection to the Navy Pensions being similarly borne in future.

COAL COMMISSION.

Superannuation Fund.

Para. 4 of
C. & A.G.'s
Report on
Coal Com-
mission.
Qs. 5139-
5182.

33. Under their statutory powers the Coal Commission, in 1938, established a Superannuation Fund on a contributory basis, with the object of providing benefits for its staff broadly equivalent to those granted to civil servants under the Superannuation Acts. The staff paid a contribution of 5 per cent. of their salary and the Commission contributed 10 per cent., which was subsequently raised to 11 per cent.

During 1944, the Commission decided that officers who had entered its service after the age of 30 years should have an opportunity to qualify for increased superannuation allowances. Under the revised arrangements the contributions payable varied according to the age of the officer within a maximum of 17 per cent. of salary by the officer and 37 per cent. by the Commission. Out of a total staff of 102 to whom the revised arrangements were applicable 100 elected to pay the increased contribution.

34. In explanation of the departure from the normal arrangements the Commission stated that they had engaged an exceptionally large number of people of middle or past middle age and they contended that, in deciding to make provision for the grant of an increased pension, they were conforming to the almost universal practice of good employers. They added that in the Superannuation Bill before Parliament the Treasury proposed to do much the same thing for late entries into the Civil Service.

The Treasury stated that they had been informed of the Coal Commission's original scheme of superannuation, but that particulars of the extension now in question were not communicated to them. The new scheme proposed for the Civil Service in the Superannuation Bill is limited to certain entrants over 40 years of age, specified by the Treasury, with a modified concession to entrants between 35 and 40 years of age, and the names of all officers to whom the scheme is applied are to be presented to Parliament.

35. In the opinion of Your Committee the benefits granted by the Commission to its officers under the 1944 arrangements go much beyond those allowed to civil servants under the Superannuation Acts. Your Committee regard it as important that the pension rights of staffs in State service should conform broadly with accepted standards, and they regret that the Commission, before approving the revised scheme, did not consult the Treasury, as the central co-ordinating financial authority. They consider that in the case of other public organisations in a similar position care should be taken to ensure that Superannuation schemes are properly co-ordinated. In these circumstances Your Committee recommend that the arrangements made by the Coal Commission should not be regarded as a desirable precedent.

CIVIL APPROPRIATION ACCOUNTS (WAR SERVICES).

CLASS X, VOTE 5—MINISTRY OF FUEL AND POWER.

Coal Charges Account.

36. The Coal Charges Account, which was set up in June, 1942, derives its income from a levy imposed on the coal supply of all colliery undertakings and applies it to purposes connected with the production and marketing of coal. This levy is included in the price charged to the consumer. In any year when the income from the levy is insufficient to meet the expenditure chargeable against the General Purposes section of the Account advances are made from the Vote for the Ministry of Fuel and Power. The levy has been periodically raised from 7d. a ton in 1942 until it reached 12s. a ton in August, 1944, with a view to meeting additional charges falling on the account and to repaying the advances. In spite of the successive increases of income the advances outstanding at 31st March, 1945, amounted to £34,580,000, of which £16,310,000 was advanced during 1944-45. The rate of levy was further increased to 15s. a ton in May, 1945, to enable advances to be gradually repaid, but it has so far been possible to repay only £1,000,000.

Para. 26 of
C. & A.G.'s
War
Services
Report.
Qs. 5239-
5241.

37. The Ministry of Fuel and Power stated in evidence that the advances of £16,310,000 were necessary owing to the delay in raising the price of coal to meet increased wage costs. As regards repayments in 1945-46, they would have been much larger but for the fact that the bill received from the Ministry of Supply for timber was very much in excess of what had been anticipated. The Ministry further claimed that of the advances of £33,580,000 outstanding, some £10,000,000 represented working capital to cover the two months' delay in collecting the levy.

Your Committee view with concern the fact that the debt of £34,580,000 at 31st March, 1945, has been so slightly reduced in 1945-46. They trust

that every effort will be made to repay the advances and thus place the production and marketing of coal on a self-supporting basis.

CLASS X, VOTE 16—MINISTRY OF WORKS (WAR SERVICES).

Expenditure on Buildings for School Meals.

Para. 53 of
C. & A.G.'s
War
Services
Report.
Qs. 3813-
3858.

38. Before the passing of the Education Act, 1944, the provision of meals in schools by local education authorities was optional. Expenditure by them on school meals was eligible for grant from the Board of Education or Scottish Education Department.

In May, 1943, in view of the need to safeguard children from nutritional dangers arising from the war and to meet other war-time difficulties, local education authorities were urged to accelerate the expansion of the school meals service, and to encourage such expansion the rate of grant on the necessary capital expenditure, e.g., for kitchens and canteens, was raised to 100 per cent. Furthermore, in order to assist those authorities who were unable themselves to undertake the requisite building work, arrangements were made for such work to be carried out free of charge by the Ministry of Works. The Treasury agreed that the cost of work carried out by the Ministry of Works should be charged against the War Services Vote, being thus in effect financed from the Vote of Credit.

Only a small part of the programme, estimated to cost £8,000,000 in all, was completed when the Education Act, 1944, was passed which imposed a duty on local education authorities to provide free facilities for school meals, but the above mentioned arrangements have been continued and in 1945-46 and 1946-47 provision has been made to meet the cost under Class VII of the Civil Estimates.

39. The Comptroller and Auditor General pointed out that this procedure constitutes a departure from the principle embodied in successive Education Acts that expenditure on educational services for which local education authorities are responsible should be incurred by the authorities themselves, subject in appropriate cases to grant aid from the Ministry of Education or Scottish Education Department. It was laid down by the Public Accounts Committee of 1908, in paragraph 11 of their First Report, that it was desirable that only in emergency should the provisions of an existing statute be over-ridden by an Appropriation Act, and that in such a case the facts should be clearly stated on the face of the Estimates.

The Treasury assured Your Committee in evidence that there was no intention to depart from the rules then laid down, and represented that, as the expenditure would in any case have attracted grant at the rate of 100 per cent., with the same ultimate charge upon public funds, the matter might be regarded as one of accounting only, and further that the circumstances constituted a state of continuing emergency.

40. Your Committee do not feel able to accept this view of the matter. They do not consider that the assumption by a Government Department of a function specifically laid by Parliament upon local authorities can be regarded as merely a question of accounting. They note that, when it was decided that the Ministry of Transport should undertake the duty of constructing trunk roads, provision was made for the change in the Trunk Roads Act, 1936. In their opinion it was requisite that the fact that arrangements had been made for the Ministry of Works, in the place of the local education authorities, to provide buildings for school meals should have been specifically brought to notice when the Estimates were presented.

VOTE OF CREDIT.

SERVICE 13—UNITED KINGDOM COMMERCIAL CORPORATION.

41. Your Committee were furnished with the accounts of the United Kingdom Commercial Corporation, Limited, and of its subsidiary companies up to 31st March, 1945, and also a memorandum by the Comptroller and Auditor General which is printed as Appendix No. 4. The Corporation has ceased to undertake new operations of major importance and considerable progress has been made towards winding up.

Para. 8 of
C. & A.G.'s
Vote of
Credit
Report.
Qs. 5644-5,
5665.
App. 4.

With one exception the subsidiary companies have been put into liquidation, but the liquidation of the main company will depend on the progress made with that of the principal subsidiary, the English and Scottish Commercial Corporation Limited. The stock in hand of the United Kingdom Commercial Corporation has been reduced to £4,000, and the debts remaining to be collected are no more than about £1,250,000, all believed to be good. The stocks of the English and Scottish Commercial Corporation have also fallen to relatively small proportions, but there are substantial debts due to this company which are unlikely to be collected in full.

In paragraph 20 of their First Report Your Committee referred to their doubts about the utility of the accounting calculations, etc., necessitated by the fact that operations on behalf of Government Departments were being undertaken by the Corporation on a commercial basis. In view of the fact that the Corporation has been entirely financed by the Treasury out of Votes of Credit Your Committee trust that arrangements will be considered with a view to ensuring that unnecessary expenses are not incurred in the formal liquidation of the Corporation as if it were a normal commercial company.

SERVICE 63—MINISTRY OF AIRCRAFT PRODUCTION.

Control Price of Aluminium.

42. The Ministry of Aircraft Production reduced the control selling price of virgin aluminium, with effect from 1st March, 1945, from £110 per ton, the price operative since November, 1939, to £85 per ton. The revised price was based on the contract price of aluminium purchased by the Ministry from Canada for delivery in 1945, with an addition to cover freight, insurance, etc.

Para. 26 of
C. & A.G.'s
Vote of
Credit
Report.
Qs. 5453-
5472.

In reporting this reduction the Comptroller and Auditor General pointed out that the sale of aluminium at £85 per ton involved a loss to the Exchequer since it was less than the cost to the Ministry of stocks purchased under earlier arrangements and of that portion of current supplies purchased from British sources. The loss has since been increased, as Your Committee were informed that the control selling price had been further reduced to £67 per ton from 10th April, 1946.

The Ministry explained that the war came to an end with very large stocks of aluminium accumulated in this country and the world generally. The price at which new aluminium could be purchased was falling and the Ministry considered it to be more advantageous to proceed with an orderly liquidation of surplus stocks early, rather than to retain them with the probability of making a larger loss later on. While the price at which they were selling was not below that at which aluminium was being imported it was considerably below the price they were paying for home produced aluminium. In these circumstances the Ministry agreed that the prices being paid to home producers contained an element of subsidy but stated that the whole position in regard to home producers is under active consideration at the present moment.

43. Your Committee see no reason to dissent from the Ministry's view that it was necessary to proceed with an early liquidation of surplus stocks. They trust, however, that before a decision is taken on the general question of home produced aluminium, the fact that the present arrangements involve a substantial subsidy to home producers will receive the fullest consideration.

RETIREMENT OF SIR GILBERT UPCOTT, K.C.B.

44. It is with deep regret that Your Committee learn of the forthcoming retirement of Sir Gilbert Upcott, K.C.B., from the office of Comptroller and Auditor General, to which he was appointed in 1931. During the years of war Sir Gilbert has had to face, with his trained staff greatly diminished, a period of very difficult financial and accounting conditions. The creation of new Ministries and the great expansion of Government expenditure has placed an increasing burden on his Department which has been successfully discharged. His high sense of public duty has induced him to postpone his retirement until the present time.

Your Committee wish to put on record their appreciation of the invaluable service which he has at all times rendered to the Committee and to the House of Commons, and he carries with him their best wishes for happy enjoyment of many years of well earned leisure.

FOURTH REPORT
FROM
THE COMMITTEE OF
PUBLIC ACCOUNTS

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

Session 1945-46

*Ordered by The House of Commons to be Printed
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Tuesday, 21st August, 1945.

Committee of Public Accounts *nominated*:—Mr. Benson, Mr. Douglas, Lieut.-Col. Alan Dower, Mr. Glenvil Hall, Mr. Hector Hughes, Mr. H. Hynd, Mr. McAllister, Sir John Mellor, Mr. Peake, Mr. Pickthorn, Sir Frank Sanderson, Mr. Thurtle, Mr. Wadsworth, Mr. Maurice Webb and Mr. Williamson.—(*Mr. Mathers.*)

Friday, 14th December, 1945.

Mr. H. Hynd discharged from the Committee of Public Accounts and Mr. Haworth added.—(*Mr. Mathers.*)

Wednesday, 3rd April, 1946.

Mr. Pickthorn discharged from the Committee of Public Accounts and Mr. Cuthbert added.—(*Mr. Robert Taylor.*)

Friday, 21st June, 1946.

Mr. Hector Hughes, Mr. McAllister and Mr. Williamson discharged from the Committee of Public Accounts and Lieut.-Col. Hamilton, Mr. Holmes, Mr. Kirby and Mr. Lever added.—(*Mr. Robert Taylor.*)

TABLE OF CONTENTS

	SUBJECT	PAGE
NOMINATION OF COMMITTEE	... ..	ii
REPORT,—		
<i>Paras.</i>	<i>General</i>	
1-3	Standards of Accounting and Audit	iv
4-5	Form of Estimates and Accounts for Works Services	iv
6-8	Payments to Local Authorities for War Services	v
9-13	Price Fixing Arrangements with Industries or Trade Organisations	vi
14-16	Insurance of Foodstuffs and Raw Materials against Marine Risk	vii
	<i>Revenue Departments Appropriation Accounts</i>	
17	Inland Revenue—Pay-as-you-earn, discharge of Outstanding Tax in certain cases	viii
	<i>Civil Appropriation Accounts</i>	
18	Foreign Office—Purchase of Specialised Equipment	ix
19	Diplomatic and Consular Services—British Council Book Export Scheme	ix
20-21	Development and Welfare (Colonies etc.)—Formation of Colonial Food Yeast, Limited	ix
22-23	—Approval of Schemes	x
	<i>Secret Service</i>	
24-26	Purchase of Stores from Secret Service Funds	x

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<i>Navy</i>							
27-28	Arrangements for Securing Economy in Manufacture	xi
29-30	Control of Sub-Contractors' Prices...	xii
<i>Greenwich Hospital</i>							
31-32	Contributions towards the cost of Naval Age Pensions	...	...	...	...	...	xiii
<i>Coal Commission</i>							
33-35	Superannuation Fund	...	...	...	...	...	xiii
<i>Civil Appropriation Accounts (War Services)</i>							
36-37	Ministry of Fuel and Power—Coal Charges Account	...	...	...	...	...	xiv
38-40	Ministry of Works—Expenditure on Buildings for School Meals	...	...	...	...	...	xv
<i>Vote of Credit</i>							
41	Treasury—United Kingdom Commercial Corporation, Limited	...	...	...	...	...	xvi
42-43	Ministry of Aircraft Production—Control Price of Aluminium	...	...	...	...	...	xvi
44	<i>Retirement of Sir Gilbert Upcott, K.C.B.</i>	...	...	...	...	...	xvii
PROCEEDINGS OF THE COMMITTEE xviii							
LIST OF WITNESSES xxxiii							
MINUTES OF EVIDENCE I							
APPENDICES 370							
INDEX 400							

FOURTH REPORT

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

GENERAL.

Standards of Accounting and Audit.

Para. 1 of
C. & A.G.'s
Civil
Report.
Paras. 11
and 20 of
C. & A.G.'s
Revenue
Report.
Para. 4 of
C. & A.G.'s
Navy
Report.
Para. 6 of
C. & A.G.'s
Air Report.
Qs. 1674,
1718-1723,
1795-1804,
2807-30
3270-
3277.
3316-25.

1. The Public Accounts Committees of previous years have been informed that the difficulties arising out of the manpower position during the war have inevitably led to a gradual relaxation of normal checks and in certain directions to a lower standard of accounting than Departments maintain under normal conditions. The Comptroller and Auditor General again reported that, having regard to the prevailing circumstances, he had no general criticism to make on the standard of accounting maintained by Departments.

In certain Departments, e.g. the Defence Departments, the Inland Revenue, and the Post Office, shortage of staff has necessitated further reductions in standards of internal audit or modifications in methods of control, and in some instances has caused the accumulation of arrears of normal accounting processes. Evidence was, however, given that the Departments and the Treasury are keeping under review the restoration of important checks which have had to be suspended and also the application of internal audit and control to make the most effective use of the limited resources of manpower available.

2. The Comptroller and Auditor General explained that shortage of experienced staff had necessarily led him to adopt a radically revised system of audit during the war. It had become a system of test audit designed mainly to ensure that the internal audit and control exercised by the Departments was effective, and so far as possible to bring to light, and to bring before the Public Accounts Committee if necessary, things that really mattered. He thought it very desirable that this standard should be raised at the earliest possible moment, and as the legislative programme of the Government was likely to impose new duties upon him, it would be necessary not merely to restore but to increase the pre-war permanent strength of his Department.

3. Your Committee note that steps are being taken by Departments to raise the standard of internal audit and control. They trust that the Comptroller and Auditor General will be able to secure the staff necessary to raise the present minimum standard of audit to the higher level desired, and adequately to discharge the additional duties imposed upon him by new legislation.

Form of Estimates and Accounts for Works Services.

4. Before the war Estimates for Works Services recorded in detail new works costing over £2,000 (Civil Estimates) or £2,500 (Defence Estimates) and, in a bulk figure, those costing less than these amounts but over £500. New works costing £500 or under were included in Estimates under the Maintenance and Repairs heading. Expenditure on these Works Services was recorded in the Appropriation Accounts broadly in the same detail as in the Estimates. During the war no details of individual works items have appeared in the Estimates or Appropriation Accounts of the Defence or Supply Departments.

Following the decision not to ask Parliament for Votes of Credit in 1946-47 and to present ordinary Estimates for that year, the Treasury reviewed the form of the estimates for works services. Considerable difficulties presented

themselves in estimating and accounting under separate items for the smaller items of New Works, and in forecasting the details of individual items forming part of approved programmes. The Treasury consequently proposed that in both Civil and Defence Estimates for 1946-47, only works costing £10,000 or over should be recorded in detail, items costing less than £10,000 being shown in bulk as New Works if costing £1,000 or over, or included in the total for Maintenance and Repairs if under £1,000. These proposals were referred to Your Committee in October, 1945, and they did not feel that their work would be hampered by the changes. When the Estimates for the Defence Services (and the Ministry of Supply) came to be prepared, further difficulties arose. It proved impossible in the time available to make a final selection, for inclusion in the 1946-47 Estimates, from the many works of rehabilitation necessary, or to prepare proper estimates of total cost, or to arrive at decisions on security aspects. The Estimates of the Defence Departments and the Ministry of Supply for 1946-47, as published, therefore, omit all details of individual new works, but a statement giving details will be presented to Parliament later. Your Committee and the Select Committee on Estimates, which was set up on 5th March, 1946, will be further consulted before this statement is presented.

5. The Comptroller and Auditor General stated that the detailed form of the Statements of New Works appearing in the pre-war Estimates and Appropriation Accounts was designed many years ago when it was thought desirable to secure Parliamentary control over capital expenditure in great detail. He thought that the effect had been under modern conditions that the Estimates and Accounts became loaded with voluminous particulars of works of no especial magnitude or importance and rather bewildering to Parliament.

Your Committee are in agreement with the view expressed by the Comptroller and Auditor General in evidence that a reversion to the very detailed form of the pre-war statements of works services is to be deprecated and that some new standard should be adopted. They think that the adoption of a higher limit than before the war for the display of individual works should secure greater prominence for the most important works undertaken and give Parliament all that is necessary for controlling capital expenditure. As regards the Appropriation Accounts they feel that some further simplification might be considered with a view to including details of the important works only in cases where there was an appreciable variation from the Estimates.

Payments to Local Authorities for War Services.

6. In paragraphs 1-3 of their First Report Your Committee referred to the delay in final settlement of claims by local authorities for expenditure on War Services and expressed the hope that a more satisfactory position would be reported this year. Figures supplied by the Departments concerned show a marked improvement with regard to the number of claims settled, though the position as regards the amounts of the claims still outstanding is not clear. Your Committee hope that the measures taken will continue to expedite clearance of these claims.

Qs. 3638-
3698, 4367,
4368, 4841
4848.
App. II.

In their minute dated 22nd February, 1946, the Treasury stated that their evidence, to the effect that the tendency of District Auditors had been to deal too much with details of minor irregularities, was not intended to imply that these Auditors had in fact failed to bring important matters to the notice of Departments. They were satisfied that the audit, coupled as it is with current consultations, had been adequate to protect public funds from important irregularities and uneconomical expenditure.

7. The Comptroller and Auditor General accepts the examination by the District Auditors of expenditure by local authorities chargeable to Votes

of Parliament as satisfying the provisions of the Exchequer and Audit Departments Acts. He stated that the reports of the District Auditors had not, so far as they came to his notice, appeared to raise any questions of financial importance, such as he himself brought before the Committee from time to time in regard to the expenditure of Government Departments on war services. In evidence the Treasury and the Ministry of Health stated that they could not recall a case where the District Auditors had brought to notice important irregularities. Since this evidence was given, however, Your Committee have been furnished with a memorandum printed as Appendix No. II, giving examples of the various questions raised by the District Auditors, acting on behalf of the Accounting Officers concerned. It states also that the Chief Inspector of Audits sees every report of a District Auditor and any correspondence arising therefrom, and that he keeps in touch with Departments on the one hand, dealing with general points and bringing special points to their notice, and with the auditors on the other, circulating to them information on points as they arise.

8. Your Committee were glad to receive this memorandum, and they note that the information therein appears in Departmental files which are always available to the officers of the Comptroller and Auditor General. The number of separate claims is stated to be about 12,500 a year and only in a very small minority was there irregularity or extravagance. The Comptroller and Auditor General is in a special position as regards the expenditure of local authorities where he is obliged to rely on the examination of District Auditors when certifying certain Appropriation Accounts. Your Committee therefore trust that some arrangements will be made which will avoid the necessity of examining many thousands of Departmental files annually, in order that the Comptroller and Auditor General may be aware of the information and instructions circulated to District Auditors and of any reports in which attention is drawn to important irregularities or substantial examples of uneconomical expenditure.

Price Fixing Arrangements with Industries or Trade Organisations.

Paras. 33-35, of C. & A.G.'s War Services Report. Paras. 52-53 of C. & A.G.'s Vote of Credit Report. Qs. 5516-5531, 5575-5622. App. 10.

9. Successive Public Accounts Committees reviewed various arrangements made during the war for determining the prices of goods supplied or services rendered by specific industries or trade associations which have resulted in higher profits than had been envisaged. In some instances the arrangements provided for retrospective adjustment of prices, in others Departments were able to negotiate voluntary refunds.

The Comptroller and Auditor General drew attention to the price-fixing arrangements made by the Ministry of Supply with (a) the British Electrical and Allied Manufacturers' Association and (b) makers of technical veneers and plywood.

10. The arrangements with the British Electrical and Allied Manufacturers' Association cover a good many different types of product within the general field of motors, generators, switch gear and the like. In this case the Ministry made only limited cost investigations of 1942 production and, although the arrangements continued in operation till 31st March, 1946, no subsequent investigation was made to test the actual profits owing to the great pressure on their limited number of cost investigators and the falling demand for the products covered.

11. Technical veneers and plywood are manufactured to very precise specifications for sale to aircraft constructors and to contractors for other Government work such as bridges and boats. In all forty-four firms were employed some of whom made veneers, and some plywood only, while four made both. Control prices originally fixed in 1941 were reduced in March,

1943, by about 25 per cent., but in March, 1944, the Ministry's costing branch reported that the 1942 profits of three firms producing 75 per cent. of the veneers had ranged from 70 to 133 per cent. on capital employed and the profits of three firms producing 40 per cent. of the plywood from 43 to 119 per cent. Two of the firms making both veneers and plywood were also investigated. Total turnover for 1942 of all the firms concerned was some £8,250,000; the amount of total capital is not known but the Ministry stated that, if the figures for the whole range were comparable with those of the firms investigated, total profit would be something like 30 per cent. of this turnover.

12. Interim price reductions were made in April, 1944, but further reductions indicated by the investigation were deferred until the autumn of 1944, in order to prevent any possible dislocation of aircraft production programmes. The attention of contract branches was called to the special position of the firms producing both veneers and plywood whose lower costs of handling, etc., would result in excessive earnings even under the latest prices, but Your Committee have no evidence that any special reduction of their prices for subsequent Government supplies was arranged. The Ministry decided not to approach any of the firms for a voluntary refund in adjustment of the excessive prices of past supplies on the ground that it would have doubtful prospects of success and entail a great deal of work. Manufacture of the special technical veneers and plywood ceased in the autumn in 1945, and firms are now engaged in manufacturing commercial types for which control prices are to be fixed after investigation of costs.

13. Your Committee regret that information was not available regarding the actual profits from the arrangements with the British Electrical and Allied Manufacturers' Association, and that no attempt was made to secure refunds from the veneer and plywood makers. They note that in other cases refunds have been obtained where profits have proved to be excessive, and they see no reason why the same treatment should not be applied to all firms and industries of importance. In view of the possibility that effective competition may not be available for some time they recommend that steps be taken to ensure that firms should not be allowed to retain profits in excess of a fair and reasonable standard on Government orders.

Insurance of Foodstuffs and Raw Materials against Marine Risk.

14. Since 1st January, 1940, commodities dealt with by the Ministries of Food and Supply which are normally purchased by the trade for private use have been insured against marine risk. The normal practice is not to insure Government property, but the Treasury agreed to this exceptional procedure in order to help maintain the marine insurance organisation which is a very important element in the national economy.

Paras. 5 & 6
of
C. & A.G.'s
Vote of
Credit
Report.
Qs. 5673-
5689.

The Public Accounts Committee of 1941, after reviewing the arrangements, felt that they had not sufficient information on which to base a considered opinion (see paragraph 49 of their Report). They expressed the hope that full information would be available in the following year, and that some investigation of the books and records of the insurance undertakings would be carried out in order to judge whether the Government contribution was not more than was reasonably necessary to secure the object on which the policy was based. The Committee of 1942 were informed that on the two calendar years 1940 and 1941 as a whole the underwriters had sustained a loss of something over £100,000 without allowing for expenses attributable to the business. There had, however, been an increase in the rates of premium in 1941, and the Treasury stated that they would consider in the light of further experience whether the increased rates should continue.

It was the intention that the rates should cover losses from marine risks and leave a margin sufficient to meet the underwriters' expenses without providing any profit.

There have been successive reductions in the rates of premium since 1942, but the Comptroller and Auditor General reported that figures for premiums and claims showed that, while the loss incurred by the underwriters in 1940 and 1941 had proved to be about £200,000, the overall result for the years 1940 to 1944 was a margin in favour of the underwriters equivalent to 26 per cent. of the premiums, which appeared to be in excess of what was intended.

15. In evidence the Treasury said that the intended margin was 10 per cent. as compared with the 26 per cent. actually earned by the underwriters. A partial explanation of this surprising result was that, for the years 1944 and 1945 at any rate, the losses were exceptionally low in underwriters' experience. It had been the practice to review the rates of premium in December of each year and at that time the previous year's outturn was not known, so that the premiums for the following year had to be based largely on conjecture as to the safety of navigation. Even so, the Treasury admitted that, when the actual figures relating to past experience became available, they should have realised that the underwriters had been making excessive profits, and that larger reductions in the rates of premium were justified by the facts. For instance, for 1943 it was estimated that the underwriters would earn a margin of about £700,000, whereas the actual figure proved to be £2,100,000, and the discovery of this excess should have led to a larger reduction in premiums than was actually made in May, 1944.

16. Revised arrangements have now been negotiated with the underwriters under which, not only have the rates of premium been further reduced by about 15 per cent. from 1st January, 1946, but the Government is, from the same date, to receive a share of any profits made in excess of 15 per cent. of the premium income. In addition the underwriters agreed to refund a little under £1,000,000 in respect of the profits earned in 1944 and 1945, leaving them with about £300,000 more than was intended.

While Your Committee welcome the revised arrangements they share the regret expressed by the Treasury that the true position was not realised earlier and steps taken to ensure that the underwriters' margin was no more than that recommended by the Public Accounts Committee of 1941.

REVENUE DEPARTMENTS APPROPRIATION ACCOUNTS.

VOTE 2—INLAND REVENUE.

Pay-as-you-earn, discharge of outstanding tax in certain cases of Crown and railway employment.

Para. 14
C. & A.G.'s
Revenue
Report.
Qs. 1745-
48.

17. The Comptroller and Auditor General drew attention to a departure from the strict terms of Section 6 of the Income Tax (Offices and Employments) Act, 1944, in regard to the discharge of unpaid tax arising under Schedule E for 1942-43 and previous years in certain cases of Crown or railway employment. The ascertainment of the precise amount of tax due to be cancelled in the numerous cases concerned presents some difficulties and, in view of the shortage of available staff, the Board of Inland Revenue decided as an administrative arrangement that, in all cases falling within the Section, arrears of tax under Schedule E, amounting to £50 or less, for the years in question should be regarded as wholly discharged.

It appears that this administrative decision may result in the discharge of larger sums than a strict application of the Section would allow; but in the view of the Board any excess of relief thus given is to a large extent an anticipation of remissions which, in the case of members of the armed forces, would inevitably have been made at a later date, and moreover the excess will to some degree be offset by a reduction of post-war credits. In view of the extra-statutory nature of the arrangements made, Your Committee bring the matter to notice but they do not wish to offer any criticism.

CIVIL APPROPRIATION ACCOUNTS.

CLASS II, VOTE 1—FOREIGN OFFICE.

Purchase of specialised equipment.

18. Subhead E of this Vote includes expenditure by the Foreign Office on the purchase of wireless equipment. This equipment is obtained partly through the organisations of the Metropolitan Police and of the Post Office, but direct purchases are made of some specialised equipment. Qs. 2564-
2576,
259-258

It was stated in evidence that there were highly qualified staff in the Foreign Office carrying out the purchase of this technical equipment, but Your Committee are not satisfied that this staff has the same experience as the Supply Departments to enable them to deal with contracts, even for the purchase of non-standardised equipment.

Your Committee attach great importance to centralised purchasing for supplies for all Departments and they trust that the Foreign Office will so far as possible make their purchases through one of the Departments with special contract branches.

CLASS II, VOTE 2—DIPLOMATIC AND CONSULAR SERVICES.

British Council Book Export Scheme.

19. In order to assist the supply of British books overseas the British Council formed a company, B.E.S. Limited, for which the Council provided the whole of the capital. It was explained in evidence that it was not thought proper for the Council as such to engage in trading operations and the Company was formed to assist the export of British books, including help in arranging transport, insurance, currency, etc. The Company operated only where ordinary business arrangements could not be made and it did not aim at making a profit. Books were purchased at wholesale prices and sold in foreign countries at these wholesale prices. The Council bore all overheads and any extraordinary charges which might be incurred in the case of special transactions. Para. 12 of
C. & A.G.'s
Civil
Report.
Qs. 2710-
2762.

No accounts were available subsequent to 31st March, 1944, the delay in preparation being apparently due to the accounts section going too much into details. It is therefore not possible to state the total cost of the scheme.

Your Committee doubt the need for the formation of this Company, in view of the nature of its operations. It is clearly a method of enabling the Council to subsidise the export of books to certain countries. Your Committee are glad to learn that the scheme is to cease as soon as publishers have access to the countries concerned and can carry on their transactions in the ordinary way.

CLASS II. VOTE 9—DEVELOPMENT AND WELFARE (COLONIES, ETC.)

Formation of Colonial Food Yeast, Ltd.

20. In order to assist a project for the manufacture of food yeast in Jamaica, the Colonial Office promoted the formation of a private limited company in 1943, with a nominal capital of £100 held by persons nominated or approved by the Secretary of State. Up to 31st March, 1946, the company had received loans amounting to £150,000, free of interest, from the Development and Welfare Vote and further loans are promised. Para. 23 of
C. & A.G.'s
Civil
Report.
Qs. 4672-
4709.

The erection and equipment of the company's factory was entrusted to the West Indies Sugar Company who will also operate the food yeast factory in conjunction with their own sugar factory, the raw material for the food yeast being either molasses or sugar cane juice. Three members of the West Indies Sugar Company serve on the board of seven members of Colonial Food Yeast, Limited, without remuneration, and the operating company receive a fee of £10,000 for the period to 31st December, 1944, that is, during the planning of the factory, and thereafter £5,000 per annum plus a bonus of £2 per ton of dry food yeast produced.

21. The Colonial Office explained that they formed the company and appointed to the board three members of the West Indies Sugar Company in order to have people with expert knowledge to do the initial planning and to secure the co-operation of the sugar company. The Treasury sanctioned the arrangement as experimental and it was the intention to review it after the factory had been in production for a period.

Your Committee were not entirely satisfied as to the need for the interposition of a new company as a link between the Colonial Office and the operating company, or the advantages to be gained by its formation. They are glad to learn that, when the factory is in production and the experimental stage is passed, the need for the intervening link will be reconsidered and that the Treasury would prefer a return to more normal arrangements.

Approval of Schemes

Para. 24 of
C. & A.G.'s
Civil
Report.
Qs. 4710-
4715.

22. Among the schemes assisted by grants under the Colonial Development and Welfare Act, 1940, is one for establishing ten agricultural centres in Jamaica and working them for a period of five years. The total net cost of the five years scheme is expected to be £980,000 towards which it is contemplated that grants of £511,600 will be made.

The scheme was not finally approved by the Treasury until February, 1945, but it appears that the centres were started in the latter half of 1942, primarily as an unemployment scheme. It was then seen that it could be made an instrument of great value for training and development purposes and after prolonged discussion and technical examination the final scheme was evolved providing that part of the cost should be borne by the Jamaica Government and the remainder met by a grant from the Development and Welfare (Colonies, etc.) Vote. By that time considerable expenditure had already been incurred.

23. It was admitted in evidence that it was open to objection that the moneys provided under this Vote should be used to finance a scheme which had already been in hand for some time, but Your Committee note that in this case the Treasury had been brought into consultation at quite an early stage. The Treasury consider that it should be a rule for applications for assistance from this Vote to be submitted for approval at the outset, in order that it might be demonstrated not only that the schemes come within the ambit of the Act, but also that they are sound in themselves. Your Committee welcome the proposed rule and they recommend that the Colonial Office should impress on all Colonial Governments the need for securing that development and welfare schemes are approved in advance.

SECRET SERVICE.

Purchase of Stores from Secret Service Funds

Para. 14
C. & A.G.'s
Navy
Report.

24. Your Committee investigated a case to which the Comptroller and Auditor General drew attention. In this case the Admiralty in November, 1942, assumed responsibility for the contract arrangements in connection with

the supply of certain stores required by another Department under whose direction production had been initiated in August, 1939. He reported that the total amount so far due to the contractors was approximately £1,680,000. Before the Admiralty took over responsibility about £237,000 had been disbursed from Secret Service funds which are not subject to examination by the Comptroller and Auditor General, but the further payments were being charged to Navy Votes.

The Treasury explained that the expenditure by the Department concerned had been incurred on the initial stages of design, experiment and development of the stores, which were of a highly secret nature. Developments subsequently reached such proportions that it was found necessary to transfer the control of the contracts to the Admiralty. The Treasury took full responsibility for the arrangements made in what they regarded as rather a special case in the earlier days of the war.

25. The Comptroller and Auditor General said that he did not think that Public Accounts Committees who had frequently discussed Secret Service expenditure, had ever imagined that Secret Service funds were used to purchase stores or for capital expenditure. The use of such funds in this way prevents the ordinary audit check of the contract and accounting arrangements, and he pointed out that during the war the most secret instruments and processes had been financed from expenditure audited by him in the normal manner, particular officials being detailed for audit in cases where very special secrecy was necessary. In the present case there appeared to him to have been a division of responsibility which was open to objection.

The Treasury felt that it would not have been appropriate to make another Department responsible for the expenditure on the design and development of these particular stores. They also thought that, although some purchases of stores were borne on the Vote for the Department concerned, that Department might have felt that the expenditure in question was not quite the type for which they ought to be responsible on their ordinary Vote. They agreed that the primary ground for withdrawing Secret Service expenditure from audit was that it is expenditure which in the nature of the case is not capable of being vouched, and that those funds should not ordinarily be used for the purchase of stores and equipment. There were, however, certain ancillary functions now attached to Secret Service, and they therefore considered that some latitude should be allowed, e.g., for expenditure in development workshops, etc.

26. Your Committee consider that, as Secret Service funds are not subject to audit, it is undesirable that they should be used to purchase stores or for capital expenditure. They recognise that limited exceptions may be necessary in special cases, but they were glad to receive the assurance of the Treasury that they would not be on the scale of the expenditure incurred in the case now in question, and that the records of the stores delivered in that case and of their subsequent disposal would be open to the inspection of the Comptroller and Auditor General.

NAVY.

Arrangements for Securing Economy in Manufacture.

27. The Comptroller and Auditor General drew attention to a case where a contractor's use of more expensive material and a process requiring a heavier ingot had resulted in considerably higher costs for forgings than those incurred by other contractors.

The Admiralty have not introduced the systematic use of efficiency returns and comparative costs on the lines adopted by the Ministry of Supply. They explained that in the case of warship building the question of efficiency

Paras.
15 & 16 of
C. & A.G.'s
Navy
Report.
Qs. 4048-
4109.

in technique is left to the ship-builders. In the general area of engineering, including electrical gear, machinery, armaments and other stores, the Admiralty have always made an extensive use of the Principal Technical Costs Officer whose duty it is, in addition to the preparation of estimates of costs, to secure that the most efficient technique practicable is employed. This officer has a staff of production engineers, through whose operations co-ordination of method between firms and close co-operation with the contract departments are secured. The Admiralty claimed that, having regard to the field covered, this system was as efficient as that used by the Ministry of Supply.

28. Your Committee are not in a position to assess the adequacy of the Admiralty system, but they observe that, although the contractor concerned was carrying out similar production before the war, remedial action was apparently not initiated by the Principal Technical Costs Officer until 1943.

Your Committee recognise the difficulties in securing co-ordination of methods between firms in peace-time conditions, especially where open competition becomes fully effective. They recommend, however, that the arrangements for securing economy in manufacture should be kept under review, with the object of adapting them over the widest area practicable in the changed conditions. They note that the Principal Technical Costs Officer, used by the Admiralty, is now an officer of the Ministry of Supply, and they trust that this fact will ensure common arrangements on a wider basis between all purchasing departments, for dealing with questions of production and efficiency.

Control of Sub-Contractors' Prices

29. The Public Accounts Committee of 1945, in paragraph 11 of their Report, recommended that the Admiralty should continue to press their investigations into the overall trading results of sub-contractors, with a view to ensuring a more satisfactory control of sub-contract prices.

During 1945 the Admiralty extended their inquiries with the object of covering all firms believed to have undertaken substantial sub-contracts. Out of 5,910 firms brought within the field of survey, some 1,700 were found not to call for detailed investigation and 1,255 were referred to other Government Departments with a larger sub-contract interest. Of the remainder, 504 firms, employing a capital of £50,000 or more, showed profits, arising on Government orders (direct and indirect) and commercial sales, averaging 25 per cent. on a total capital employed of some £290,000,000, or 13 per cent. on the cost of sales. The Admiralty explained that these profits were not obtained wholly on Admiralty work. They stated that they were the major user of the sub-contractors and took charge of the investigations but that there might be a lot of work for other Departments as well as commercial work for private contractors. The Comptroller and Auditor General, however, drew attention to the fact that commercial work was often indirectly Government work.

30. Rebates obtained to April, 1946, mainly in respect of government sub-contracts totalled about £3,250,000 and offers of about £750,000 were under consideration. Whilst it has been useful to secure these rebates even though they are not large in relation to the total profits, the main object of the investigations is to improve the primary control of sub-contractors' prices. The Admiralty have appointed a committee, including an outside accountant, to examine this question. Measures now in mind for ensuring reasonable prices include, in addition to an extension of the practice of costing, provision in the case of all large warship sub-contracts for a certified statement of cost after the completion of the work, and in all other substantial sub-contracts, the Admiralty are to have the right to verify that the price is reasonable.

Para. 17
C. & A.G.
Navy
Report
Qs. 4110-
4184.

The Treasury explained that the control of sub-contract prices was also considered by the Contracts Co-ordinating Committee at the end of 1945 and is to be reconsidered at about the end of 1946, in the light of the effectiveness of the existing arrangements and of post-war contract conditions.

Your Committee welcome the attention given to this subject, and they trust that satisfactory arrangements will be made for ensuring that sub-contractors' prices are fair and reasonable in the future.

GREENWICH HOSPITAL.

Contributions Towards the Cost of Naval Age Pensions.

31. Your Committee considered the circumstances in which, with Treasury sanction, contributions by Greenwich Hospital towards the cost of Naval Age Pensions were discontinued as from 1st April, 1944.

Paras. 2 to 5
C. & A.G.'s
Greenwich
Hospital
Report.
Qs. 3287-
3304.

Greenwich Hospital was originally entirely, and a little later mainly, responsible for Naval Age Pensions. It was only after the 1914-18 war that the Navy took primary responsibility, with the Hospital making a contribution. In view of the liability placed on voted monies, the Treasury obtained an assurance from the Admiralty in 1920 that Hospital Funds would not be applied to other objects without due regard to the obligation to contribute towards these pensions. Owing largely to expenditure on the new school at Holbrook, undertaken without prior consultation with the Treasury, the annual contribution was, however, reduced in 1934, and the Public Accounts Committee of 1935 recommended that in future the Treasury should be kept in touch with the financial position of the Hospital, particularly as it developed when the Reade Legacy became available. The Admiralty accordingly agreed to provide the Treasury with a forecast of the position for each financial year and to consult them regarding any proposal for new benefits or other important changes affecting the hospital's finances.

32. In 1945, a review by the Admiralty and the Treasury of the future position of the Hospital indicated that, on the basis of current Hospital commitments, a contribution to the age pensions of about £30,000 per annum might be available in 1950, when the post-war financial position was likely to be stabilised. New commitments were, however, in mind, such as homes for the aged and increases in special pensions. Having regard in particular to the small balance likely to be available in future, the Treasury agreed to the cessation of a contribution as from 1st April, 1944.

Your Committee note that the cost of Army and Air Force Age Pensions is already borne wholly by voted monies, and they raise no objection to the Navy Pensions being similarly borne in future.

COAL COMMISSION.

Superannuation Fund.

33. Under their statutory powers the Coal Commission, in 1938, established a Superannuation Fund on a contributory basis, with the object of providing benefits for its staff broadly equivalent to those granted to civil servants under the Superannuation Acts. The staff paid a contribution of 5 per cent. of their salary and the Commission contributed 10 per cent., which was subsequently raised to 11 per cent.

Para. 4 of
C. & A.G.'s
Report on
Coal Com-
mission.
Qs. 5139-
5182.

During 1944, the Commission decided that officers who had entered its service after the age of 30 years should have an opportunity to qualify for increased superannuation allowances. Under the revised arrangements the contributions payable varied according to the age of the officer within a maximum of 17 per cent. of salary by the officer and 37 per cent. by the Commission. Out of a total staff of 102 to whom the revised arrangements were applicable 100 elected to pay the increased contribution,

34. In explanation of the departure from the normal arrangements the Commission stated that they had engaged an exceptionally large number of people of middle or past middle age and they contended that, in deciding to make provision for the grant of an increased pension, they were conforming to the almost universal practice of good employers. They added that in the Superannuation Bill before Parliament the Treasury proposed to do much the same thing for late entries into the Civil Service.

The Treasury stated that they had been informed of the Coal Commission's original scheme of superannuation, but that particulars of the extension now in question were not communicated to them. The new scheme proposed for the Civil Service in the Superannuation Bill is limited to certain entrants over 40 years of age specified by the Treasury, with a modified concession to entrants between 35 and 40 years of age, and the names of all officers to whom the scheme is applied are to be presented to Parliament.

35. In the opinion of Your Committee the benefits granted by the Commission to its officers under the 1944 arrangements go much beyond those allowed to civil servants under the Superannuation Acts. Your Committee regard it as important that the pension rights of staffs in State service should conform broadly with accepted standards, and they regret that the Commission, before approving the revised scheme, did not consult the Treasury, as the central co-ordinating financial authority. They consider that in the case of other public organisations in a similar position care should be taken to ensure that Superannuation schemes are properly co-ordinated. In these circumstances Your Committee recommend that the arrangements made by the Coal Commission should not be regarded as a desirable precedent.

CIVIL APPROPRIATION ACCOUNTS (WAR SERVICES).

CLASS X, VOTE 5—MINISTRY OF FUEL AND POWER.

Coal Charges Account.

Para. 26 of
C. & A.G.'s
War
Services
Report.
Qs. 5239-
5241.

36. The Coal Charges Account, which was set up in June, 1942, derives its income from a levy imposed on the coal supply of all colliery undertakings and applies it to purposes connected with the production and marketing of coal. This levy is included in the price charged to the consumer. In any year when the income from the levy is insufficient to meet the expenditure chargeable against the General Purposes section of the Account advances are made from the Vote for the Ministry of Fuel and Power. The levy has been periodically raised from 7d. a ton in 1942 until it reached 12s. a ton in August, 1944, with a view to meeting additional charges falling on the account and to repaying the advances. In spite of the successive increases of income the advances outstanding at 31st March, 1945, amounted to £34,580,000, of which £16,310,000 was advanced during 1944-45. The rate of levy was further increased to 15s. a ton in May, 1945, to enable advances to be gradually repaid, but it has so far been possible to repay only £1,000,000.

37. The Ministry of Fuel and Power stated in evidence that the advances of £16,310,000 were necessary owing to the delay in raising the price of coal to meet increased wage costs. As regards repayments in 1945-46, they would have been much larger but for the fact that the bill received from the Ministry of Supply for timber was very much in excess of what had been anticipated. The Ministry further claimed that of the advances of £33,580,000 outstanding, some £10,000,000 represented working capital to cover the two months' delay in collecting the levy.

Your Committee view with concern the fact that the debt of £34,580,000 at 31st March, 1945, has been so slightly reduced in 1945-46. They trust

that every effort will be made to repay the advances and thus place the production and marketing of coal on a self-supporting basis.

CLASS X, VOTE 16—MINISTRY OF WORKS (WAR SERVICES).

Expenditure on Buildings for School Meals.

38. Before the passing of the Education Act, 1944, the provision of meals in schools by local education authorities was optional. Expenditure by them on school meals was eligible for grant from the Board of Education or Scottish Education Department.

Para. 53 of
C. & A.G.'s
War
Services
Report.
Qs. 3813-
3858.

In May, 1943, in view of the need to safeguard children from nutritional dangers arising from the war and to meet other war-time difficulties, local education authorities were urged to accelerate the expansion of the school meals service, and to encourage such expansion the rate of grant on the necessary capital expenditure, e.g., for kitchens and canteens, was raised to 100 per cent. Furthermore, in order to assist those authorities who were unable themselves to undertake the requisite building work, arrangements were made for such work to be carried out free of charge by the Ministry of Works. The Treasury agreed that the cost of work carried out by the Ministry of Works should be charged against the War Services Vote, being thus in effect financed from the Vote of Credit.

Only a small part of the programme, estimated to cost £8,000,000 in all, was completed when the Education Act, 1944, was passed which imposed a duty on local education authorities to provide free facilities for school meals, but the above mentioned arrangements have been continued and in 1945-46 and 1946-47 provision has been made to meet the cost under Class VII of the Civil Estimates.

39. The Comptroller and Auditor General pointed out that this procedure constitutes a departure from the principle embodied in successive Education Acts that expenditure on educational services for which local education authorities are responsible should be incurred by the authorities themselves, subject in appropriate cases to grant aid from the Ministry of Education or Scottish Education Department. It was laid down by the Public Accounts Committee of 1908, in paragraph 11 of their First Report, that it was desirable that only in emergency should the provisions of an existing statute be overridden by an Appropriation Act, and that in such a case the facts should be clearly stated on the face of the Estimates.

The Treasury assured Your Committee in evidence that there was no intention to depart from the rules then laid down, and represented that, as the expenditure would in any case have attracted grant at the rate of 100 per cent., with the same ultimate charge upon public funds, the matter might be regarded as one of accounting only, and further that the circumstances constituted a state of continuing emergency.

40. Your Committee do not feel able to accept this view of the matter. They do not consider that the assumption by a Government Department of a function specifically laid by Parliament upon local authorities can be regarded as merely a question of accounting. They note that, when it was decided that the Ministry of Transport should undertake the duty of constructing trunk roads, provision was made for the change in the Trunk Roads Act, 1936. In their opinion it was requisite that the fact that arrangements had been made for the Ministry of Works, in the place of the local education authorities, to provide buildings for school meals should have been specifically brought to notice when the Estimates were presented.

VOTE OF CREDIT.

SERVICE 13—UNITED KINGDOM COMMERCIAL CORPORATION.

Para. 8 of
C. & A.G.'s
Vote of
Credit
Report.
Qs. 5644-
5665.
App. 4.

41. Your Committee were furnished with the accounts of the United Kingdom Commercial Corporation, Limited, and of its subsidiary companies up to 31st March, 1945, and also a memorandum by the Comptroller and Auditor General which is printed as Appendix No. 4. The Corporation has ceased to undertake new operations of major importance and considerable progress has been made towards winding up.

With one exception the subsidiary companies have been put into liquidation, but the liquidation of the main company will depend on the progress made with that of the principal subsidiary, the English and Scottish Commercial Corporation Limited. The stock in hand of the United Kingdom Commercial Corporation has been reduced to £4,000, and the debts remaining to be collected are no more than about £1,250,000, all believed to be good. The stocks of the English and Scottish Commercial Corporation have also fallen to relatively small proportions, but there are substantial debts due to this company which are unlikely to be collected in full.

In paragraph 20 of their First Report Your Committee referred to their doubts about the utility of the accounting calculations, etc., necessitated by the fact that operations on behalf of Government Departments were being undertaken by the Corporation on a commercial basis. In view of the fact that the Corporation has been entirely financed by the Treasury out of Votes of Credit Your Committee trust that arrangements will be considered with a view to ensuring that unnecessary expenses are not incurred in the formal liquidation of the Corporation as if it were a normal commercial company.

SERVICE 63—MINISTRY OF AIRCRAFT PRODUCTION.

Control Price of Aluminium.

Para. 26 of
C. & A.G.'s
Vote of
Credit
Report.
Qs. 5453-
5472.

42. The Ministry of Aircraft Production reduced the control selling price of virgin aluminium, with effect from 1st March, 1945, from £110 per ton, the price operative since November, 1939, to £85 per ton. The revised price was based on the contract price of aluminium purchased by the Ministry from Canada for delivery in 1945, with an addition to cover freight, insurance, etc.

In reporting this reduction the Comptroller and Auditor General pointed out that the sale of aluminium at £85 per ton involved a loss to the Exchequer since it was less than the cost to the Ministry of stocks purchased under earlier arrangements and of that portion of current supplies purchased from British sources. The loss has since been increased, as Your Committee were informed that the control selling price had been further reduced to £67 per ton from 10th April, 1946.

The Ministry explained that the war came to an end with very large stocks of aluminium accumulated in this country and the world generally. The price at which new aluminium could be purchased was falling and the Ministry considered it to be more advantageous to proceed with an orderly liquidation of surplus stocks early, rather than to retain them with the probability of making a larger loss later on. While the price at which they were selling was not below that at which aluminium was being imported it was considerably below the price they were paying for home produced aluminium. In these circumstances the Ministry agreed that the prices being paid to home producers contained an element of subsidy but stated that the whole position in regard to home producers is under active consideration at the present moment.

43. Your Committee see no reason to dissent from the Ministry's view that it was necessary to proceed with an early liquidation of surplus stocks. They trust, however, that before a decision is taken on the general question of home produced aluminium, the fact that the present arrangements involve a substantial subsidy to home producers will receive the fullest consideration.

RETIREMENT OF SIR GILBERT UPCOTT, K.C.B.

44. It is with deep regret that Your Committee learn of the forthcoming retirement of Sir Gilbert Upcott, K.C.B., from the office of Comptroller and Auditor General, to which he was appointed in 1931. During the years of war Sir Gilbert has had to face, with his trained staff greatly diminished, a period of very difficult financial and accounting conditions. The creation of new Ministries and the great expansion of Government expenditure has placed an increasing burden on his Department which has been successfully discharged. His high sense of public duty has induced him to postpone his retirement until the present time.

Your Committee wish to put on record their appreciation of the invaluable service which he has at all times rendered to the Committee and to the House of Commons, and he carries with him their best wishes for happy enjoyment of many years of well earned leisure.

 PROCEEDINGS OF THE COMMITTEE

THURSDAY, 23RD AUGUST, THURSDAY, 11TH, TUESDAY, 16TH,
THURSDAY, 18TH, AND TUESDAY, 23RD OCTOBER, 1945.

Proceedings of the Committee attached to the First Report.

THURSDAY, 25TH OCTOBER, 1945.

Proceedings of the Committee attached to the First and Second Reports.

TUESDAY, 30TH OCTOBER, THURSDAY, 1ST NOVEMBER, AND
TUESDAY, 11TH DECEMBER, 1945.

Proceedings of the Committee attached to the First Report.

TUESDAY, 18TH DECEMBER, 1945.

Members present:

Mr. Benson.
Mr. Haworth.
Mr. McAllister.

Sir Frank Sanderson.
Mr. Thurtle.

In the absence of the Chairman, Mr. Benson was called to the Chair.
The Committee deliberated.

[Adjourned till Thursday, 24th January, 1946, at half-past two o'clock.

THURSDAY, 24TH JANUARY, AND TUESDAY, 5TH FEBRUARY, 1946.

Proceedings of the Committee attached to the Second Report.

TUESDAY 26TH FEBRUARY, 1946.

Members present:

Mr. PEAKE in the Chair.

Mr. Benson.
Lt.-Col. Alan Dower.
Sir John Mellor.
Sir Frank Sanderson.

Mr. Thurtle.
Mr. Maurice Webb.
Mr. Williamson.

The Revenue Departments Appropriation Accounts, 1944: Vote 2, Inland Revenue, were considered.

Sir Cornelius Gregg, K.C.B., K.B.E., Chairman, Board of Inland Revenue, was called in and examined.

The Revenue Departments Appropriation Accounts, 1944: Vote 3, Post Office; the Post Office Savings Banks Account, 1944; the Savings Banks and Friendly Societies Accounts, 1944, were considered.

Sir Raymond Birchall, K.B.E., C.B., Director-General, and Mr. G. Ismay, C.B., Assistant Director General (Finance), General Post Office, were called in and examined.

Sir Gilbert Upcott, K.C.B., Comptroller and Auditor General, Sir Herbert Brittain, K.B.E., C.B., and Mr. C. E. I. Jones, Treasury Officers of Accounts, were called in and were also examined on the Accounts considered.

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

TUESDAY, 5TH MARCH, 1946.

Members present:

Mr. PEAKE in the Chair.

Mr. Benson.
Mr. Haworth.
Mr. Hector Hughes.
Mr. McAllister.
Sir John Mellor.

Mr. Pickthorn.
Sir Frank Sanderson.
Mr. Thurtle.
Mr. Maurice Webb.
Mr. Williamson.

The Revenue Departments Appropriation Accounts, 1944: Vote 1, Customs and Excise; the Civil Appropriation Accounts, 1944: Class V, Vote 6, Old Age Pensions, were considered.

Sir Archibald Carter, K.C.B., K.C.I.E., Chairman, and Mr. R. J. Lloyd, Accountant and Comptroller General, Board of Customs and Excise, were called in and examined.

Sir Gilbert Upcott, K.C.B., Sir Herbert Brittain, K.B.E., C.B., and Mr. C. E. I. Jones were called in and were also examined on the Accounts considered.

The Committee deliberated.

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

TUESDAY 12TH MARCH, 1946.

Members present:

Mr. PEAKE in the Chair.

Mr. Benson.
Mr. Douglas.
Lt.-Col. Alan Dower.
Mr. Hector Hughes.
Sir John Mellor.

Mr. Pickthorn.
Sir Frank Sanderson.
Mr. Thurtle.
Mr. Maurice Webb.
Mr. Williamson.

The House of Commons Members' Fund Account, 1944-45, was considered.

Sir Charles MacAndrew, T.D., a Member of the House and Chairman of the Trustees, was examined. Mr. R. R. Whitty, C.B.E., Public Trustee, and Mr. A. J. Moyes, O.B.E., Accountant, House of Commons, were called in and examined.

The Civil Appropriation Accounts, 1944: Class I, Vote 2, House of Commons, were considered.

Sir Gilbert Campion, K.C.B., Clerk of the House, and Mr. A. J. Moyes, O.B.E., Accountant, House of Commons, were called in and examined.

The Exchange Equalisation Account was considered.

Sir Wilfrid Eady, K.C.B., K.B.E., C.M.G., Second Secretary, Treasury, was called in and examined.

Statement by the Treasury on the Form of Estimates for Works Services was considered.

Sir Herbert Brittain, K.B.E., C.B., and Mr. D. F. C. Blunt, Under-Secretary, Treasury, were called in and examined.

The Civil Appropriation Accounts, 1944: Class IV, Vote 1, Ministry of Education, were considered.

Mr. J. P. R. Maud, C.B.E., Permanent Secretary, and Mr. B. L. Pearson, D.S.O., M.C., Accountant-General, Ministry of Education, were called in and examined.

Sir Gilbert Upcott, K.C.B., Sir Herbert Brittain, K.B.E., C.B., and Mr. C. E. I. Jones were called in and were also examined on the Accounts considered.

[Adjourned till Tuesday next at three o'clock.

TUESDAY, 19TH MARCH, 1946.

Members present:

Mr. PEAKE in the Chair.

Mr. Benson.	Sir Frank Sanderson.
Mr. Douglas.	Mr. Thurtle.
Mr. Haworth.	Mr. Wadsworth.
Sir John Mellor.	Mr. Maurice Webb.
Mr. Pickthorn.	Mr. Williamson.

The Civil Appropriation Accounts, 1944: Class II, Vote 12, Imperial War Graves Commission, were considered.

Mr. F. C. Sillar, Assistant Secretary (Finance), Imperial War Graves Commission, was called in and examined.

The Civil Appropriation Accounts, 1944: Class II, Vote 4, Dominions Office; the Trading Accounts and Balance Sheets, 1944: Dominions Office, British Phosphate Commission; the Civil Appropriation Accounts, 1944: Class II, Vote 5, Dominion Services, Vote 6, Oversea Settlement, Vote 10, Development and Welfare (South African High Commission Territories), were considered.

Sir Eric Machtig, K.C.B., K.C.M.G., O.B.E., Permanent Under-Secretary, Dominions Office, and Sir Arthur Gaye, C.B., O.B.E., past United Kingdom Commissioner, British Phosphate Commission, were called in and examined.

The Civil Appropriation Accounts, 1944: Class I, Vote 1, House of Lords Offices, Vote 5, Privy Council Office; the Cinematograph Fund Account, 1944; the Civil Appropriation Accounts, 1944: Class I, Vote 7, Charity Commission, Vote 8, Civil Service Commission, Vote 10, Friendly Societies' Deficiency, Vote 11, Government Actuary, Vote 12, Government Chemist, Vote 15, National Debt Office; the Local Loans Fund Accounts, 1944; the Sinking Funds, 1944; the Civil Appropriation Accounts, 1944: Class I, Vote 16, National Savings Committee, Vote 17, Public Record Office, Vote 18, Public Works Loan Commission, Vote 23, Tithe Redemption Commission, Vote 24, Ministry of Town and Country Planning, Vote 25, Scottish Home Department, were considered.

Sir Gilbert Upcott, K.C.B., Sir Herbert Brittain, K.B.E., C.B., and Mr. C. E. I. Jones, were called in and were also examined on the Accounts considered.

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

THURSDAY, 21ST MARCH, 1946.

Proceedings of the Committee attached to the Second Report.

TUESDAY, 26TH MARCH, 1946.

Members present:

Mr. PEAKE in the Chair.

Mr. Benson.

Mr. Haworth.

Sir John Mellor.

Sir Frank Sanderson.

Mr. Thurtle.

Mr. Wadsworth.

The Civil Appropriation Accounts, 1944: Class V, Vote 11, Assistance Board, Vote 14, Supplementary Pensions, were considered.

Mr. G. Stuart King, C.B., M.C., Secretary, Assistance Board, was called in and examined.

The Civil Appropriation Accounts, 1944: Class VI, Vote 5, Office of Commissioners of Crown Lands; the Crown Lands Abstract Accounts, 1944, were considered.

Mr. O. S. Cleverly, C.B., C.V.O., Permanent Commissioner and Secretary, and Mr. T. R. Oswin, Office of Commissioners of Crown Lands, were called in and examined.

The Civil Appropriation Accounts, 1944: Class I, Vote 14, the Mint, were considered.

Sir John H. McC. Craig, C.B., Deputy Master and Comptroller, Royal Mint, was called in and examined.

The Civil Appropriation Accounts, 1944: Class III, Vote 2, Broadmoor Criminal Lunatic Asylum, Vote 4, Prisons, England and Wales, Vote 6, Supreme Court of Judicature, etc.; the Supreme Court of Judicature Account, 1944; the Supreme Court: Prize, etc., Deposit Account, 1944-45; the Civil Appropriation Accounts, 1944: Class III, Vote 7, County Courts; the County Courts Funds Accounts, 1944; the Civil Appropriation Accounts, 1944: Class III, Vote 8, Land Registry, Vote 9, Public Trustee, Vote 10, Law Charges, were considered.

Sir Gilbert Upcott, K.C.F., Sir Herbert Brittain, K.B.E., C.B., and Mr. C. E. I. Jones, were called in and were also examined on the Accounts considered.

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

TUESDAY, 2ND APRIL, 1946.

Members present:

Mr. PEAKE in the Chair.

Mr. Benson.

Mr. Douglas.

Mr. Haworth.

Sir Frank Sanderson.

Mr. Thurtle.

The Civil Appropriation Accounts, 1944: Class II, Vote 1, Foreign Office, Vote 2, Diplomatic and Consular Establishments, etc., Vote 3, League of Nations, were considered.

Sir Orme Sargent, K.C.M.G., C.B., Permanent Under-Secretary of State, Mr. J. I. C. Crombie, Assistant Under-Secretary of State, and Mr. L. R. Sherwood, O.B.E., Head of Finance Department, Foreign Office, and Mr. A. J. S. White, O.B.E., and Mr. R. Davies, the British Council, were called in and examined.

Sir Gilbert Upcott, K.C.B., Sir Herbert Brittain, K.B.E., C.B., and Mr. C. E. I. Jones, were called in and were also examined on the Accounts considered.

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

THURSDAY, 4TH APRIL, 1946.

Members present:

Mr. PEAKE in the Chair.

Mr. Benson.
Mr. Haworth.
Mr. Thurtle.

Mr. Wadsworth.
Mr. Williamson.

The Air Services Appropriation Account, 1944, was considered.

Sir William Brown, K.C.B., K.C.M.G., C.B.E., Permanent Under-Secretary of State, and Mr. L. J. Banford, Deputy Director of Contracts, Air Ministry, and Mr. C. W. Evans, Assistant Secretary, Ministry of Civil Aviation, were called in and examined.

The Civil Appropriation Accounts, 1944: Class III, Vote 12, Police, Scotland, Vote 13, Prisons, Scotland, Vote 14, Approved Schools, etc., Scotland, Vote 15, Scottish Land Court, Vote 16, Law Charges and Courts of Law, Scotland, Vote 17, Register House, Edinburgh, Vote 19, Supreme Court of Judicature, etc., Northern Ireland, Vote 20, Irish Land Purchase Services; the Land Purchase Account, 1944, of the Supreme Court of Judicature, Northern Ireland; the Irish Land Purchase Fund Accounts, 1944; the Civil Appropriation Accounts, 1944: Class IV, Vote 2, British Museum, Vote 3, British Museum (Natural History), Vote 4, Imperial War Museum, Vote 5, London Museum, Vote 6, National Gallery, Vote 7, National Maritime Museum, Vote 8, National Portrait Gallery, Vote 9, Wallace Collection, Vote 13, Public Education, Scotland, Vote 14, National Galleries, Scotland, Vote 15, National Library, Scotland; Class V, Vote 2, Board of Control, Vote 3, Registrar-General's Office, Vote 4, National Insurance Audit Department, Vote 5, Friendly Societies' Registry, Vote 16, Board of Control for Scotland, and Vote 17, Registrar-General's Office, Scotland, were considered.

Sir Gilbert Upcott, K.C.B., Mr. D. F. C. Blunt and Mr. C. E. I. Jones were called in and were also examined on the Accounts considered.

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

THURSDAY, 11TH APRIL, 1946.

Members present:

Mr. PEAKE in the Chair.

Mr. Benson.
Mr. Cuthbert.
Lt.-Col. Alan Dower.
Mr. Haworth.

Mr. Hector Hughes.
Mr. Wadsworth.
Mr. Williamson.

Statement of Excess, 1944; the Army Appropriation Account, 1944, were considered.

Sir Eric Speed, K.C.B., K.B.E., M.C., Permanent Under-Secretary of State, War Office, was called in and examined.

Sir Gilbert Upcott, K.C.B., Mr. D. F. C. Blunt and Mr. C. E. I. Jones were called in and were also examined on the Accounts considered.

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

TUESDAY, 16TH APRIL, 1946.

Members present:

Mr. PEAKE in the Chair.

Mr. Benson.
Mr. Cuthbert.
Mr. Douglas.

Sir John Mellor.
Sir Frank Sanderson.
Mr. Thurtle.

The Army Appropriation Account, 1944, was further considered.

Sir Eric Speed, K.C.B., K.B.E., M.C., Permanent Under-Secretary of State, War Office, was called in and further examined.

Mr. D. F. C. Blunt, Under-Secretary, Treasury, was called in and was also examined on the Account considered.

The Civil Appropriation Accounts, 1944: Class I, Vote 9, Exchequer and Audit Department, were considered.

Sir Gilbert Upcott, K.C.B., Comptroller and Auditor General, was called in and examined.

The Royal Hospital, Chelsea, Account, 1944; the Civil Appropriation Accounts, 1944: Class V, Vote 18, Commissioner for Special Areas (Scotland); Class VI, Vote 3, Department of Overseas Trade, Vote 7, Surveys of Great Britain, Vote 13, Department of Scientific and Industrial Research, Vote 15, Clearing Offices; the Debts Clearing Offices and Import Restrictions Act, 1934, Accounts, 1944; the Civil Appropriation Accounts, 1944: Class VI, Vote 17, Fisheries, Scotland; the Herring Industry Acts, 1935 and 1938, Accounts, 1944, were considered.

Sir Gilbert Upcott, K.C.B., and Mr. C. E. I. Jones were called in and were also examined on the Accounts considered.

[Adjourned till Tuesday, 30th April, at half-past two o'clock.

TUESDAY, 30TH APRIL, 1946.

Members present:

Mr. PEAKE in the Chair.

Mr. Benson.
Mr. Cuthbert.
Mr. Douglas.
Mr. Haworth.

Sir John Mellor.
Sir Frank Sanderson.
Mr Thurtle.
Mr. Williamson.

The Greenwich Hospital and Travers Foundation Accounts, 1944, were considered.

Sir Henry V. Markham, K.C.B., M.C., Permanent Secretary, Admiralty, and Sir Sidney Barnes, K.B.E., Director of Greenwich Hospital, were called in and examined.

The Navy Appropriation Account, 1944, was considered.

Sir Henry V. Markham, K.C.B., M.C., Permanent Secretary, Mr. C. B. Coxwell, C.B., O.B.E., Principal Under-Secretary for Finance and Material and Mr. E. C. Jubb, C.B., O.B.E., Director of Contracts, Admiralty, were called in and examined.

Sir Gilbert Upcott, K.C.B., Mr. D. F. C. Blunt and Mr. C. E. I. Jones were called in and were also examined on the Accounts considered.

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

THURSDAY, 2ND MAY, 1946.

Members present:

Mr. PEAKE in the Chair.

Mr. Cuthbert.
Mr. Douglas.
Mr. Haworth.
Sir John Mellor.

Sir Frank Sanderson.
Mr Thurtle.
Mr. Williamson.

The Civil Appropriation Accounts, 1944: Class VI, Vote 6, Ministry of Agriculture and Fisheries; the Trading Accounts and Balance Sheets, 1944: National Stud, Gillingham, Dorset; the Sugar Industry (Research and Education) Fund Account, 1944; the Land Fertility (Research) Fund Account, 1944; the Civil Appropriation Accounts (War Services), 1944: Class X, Vote 1, Ministry of Agriculture and Fisheries (War Services) were considered.

Sir Donald Vandeppeer, K.C.B., K.B.E., Permanent Secretary, Ministry of Agriculture and Fisheries, was called in and examined.

The Civil Appropriation Accounts, 1944: Class VI, Vote 16, Department of Agriculture for Scotland; the Civil Appropriation Accounts (War Services), 1944: Class X, Vote 17, Department of Agriculture for Scotland (War Services), were considered.

Sir Patrick Laird, C.B., F.R.S.E., Secretary, Department of Agriculture for Scotland, was called in and examined.

The Civil Appropriation Accounts, 1944: Class VIII, Vote 3, Royal Irish Constabulary, Pensions, etc., Vote 4, Superannuation and Retired Allowances were considered.

Mr. R. C. S. Taylor, O.B.E., Assistant Paymaster General, was called in and examined.

The Wheat Fund Accounts, 1944-45; the Civil Appropriation Accounts (War Services), 1944: Class X, Vote 3, Ministry of Economic Warfare, Vote 10, Postal and Telegraph Censorship Department, Vote 11, Ministry of Production, Vote 19, Scottish Home Department, War Services, were considered.

Sir Gilbert Upcott, K.C.B., Sir Herbert Brittain, K.B.E., C.B., and Mr. C. E. I. Jones, were called in and were also examined on the Accounts considered.

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

TUESDAY, 7TH MAY, 1946.

Members present:

Mr. PEAKE in the Chair.

Mr. Benson.
Mr. Cuthbert.
Mr. Hector Hughes.

Sir John Mellor.
Sir Frank Sanderson.
Mr. Thurtle.

The Civil Appropriation Accounts (War Services), 1944: Class X, Vote 6, Ministry of Health (War Services); the Civil Appropriation Accounts, 1944: Class V, Vote 1, Ministry of Health; Class IX, Vote 1, Exchequer contributions to Local Revenues, England and Wales, were considered.

Sir William Douglas, K.C.B., K.B.E., Secretary, and Mr. H. H. George, C.B., M.C., Under-Secretary for Finance and Accountant-General, Ministry of Health, were called in and examined.

The Civil Appropriation Accounts (War Services), 1944: Class X, Vote 18, Department of Health for Scotland (War Services); the Civil Appropriation Accounts, 1944: Class V, Vote 15, Department of Health for Scotland; the Housing Act, 1914, Account, 1944, were considered.

Mr. G. H. Henderson, C.B., Secretary, Department of Health for Scotland, was called in and examined.

The Civil Appropriation Accounts, 1944: Class VI, Vote 4, Export Credits; the Trading Accounts and Balance Sheets, 1944: Export Credits Guarantee Department Credit Insurance Scheme; the Vote of Credit Appropriation Account, 1944: Service 59, Administered by the Export Credits Guarantee Department, were considered.

Mr. E. C. Adams, C.B.E., Comptroller-General, Export Credits Guarantee Department, was called in and examined.

The Civil Appropriation Accounts, 1944: Class VII, Vote 10, Stationery and Printing; Class IX, Vote 2, Exchequer Contributions to Local Revenues, Scotland, were considered.

Sir Gilbert Upcott, K.C.B., Sir Herbert Brittain, K.B.E., C.B., and Mr. C. E. I. Jones were called in and were also examined on the Accounts considered.

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

THURSDAY, 9TH MAY, 1946.

Members present:

Mr. PEAKE in the Chair.

Mr. Benson.	Sir John Mellor.
Mr. Cuthbert.	Mr. Thurtle.
Mr. Hector Hughes.	Mr. Wadsworth.

The Civil Appropriation Accounts (War Services) 1944: Class X, Vote 16, Ministry of Works (War Services); the Housing (Temporary Accommodation) Act, 1944, Account, 1944; the Civil Appropriation Accounts, 1944: Class VII, Vote 1, Houses of Parliament Buildings, Vote 2, Miscellaneous Legal Buildings, Great Britain, Vote 3, Osborne, Vote 4, Ministry of Works, Vote 5, Miscellaneous Works Services, Vote 6, Public Buildings Overseas, Vote 7, Royal Palaces, Vote 8, Royal Parks and Pleasure Gardens, Vote 12, Works and Buildings in Ireland, were considered.

Sir Percival Robinson, K.C.B., Permanent Secretary, and Mr. E. N. de Normann, C.B., Deputy Secretary, Ministry of Works, Mr. A. R. McBain, C.B., O.B.E., Under-Secretary, Ministry of Supply, and Mr. B. L. Pearson, D.S.O., M.C., Accountant-General, Ministry of Education, were called in and examined.

Sir Gilbert Upcott, K.C.B., Sir Herbert Brittain, K.B.E., C.B., and Mr. C. E. I. Jones were called in and were also examined on the Accounts considered.

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

TUESDAY, 14TH MAY, 1946.

Members present:

Mr. PEAKE in the Chair.

Mr. Benson.	Sir John Mellor.
Mr. Cuthbert.	Mr. Thurtle.
Mr. Douglas.	Mr. Wadsworth.
Mr. Haworth.	Mr. Williamson.
Mr. Hector Hughes.	

The Navy Appropriation Account, 1944, was further considered.

The Civil Appropriation Accounts, 1944: Class VII, Vote 11, Peterhead Harbour, were considered.

Sir Henry V. Markham, K.C.B., M.C., Permanent Secretary, Mr. C. B. Coxwell, C.B., O.B.E., Principal Under-Secretary for Finance and Material, and Mr. E. C. Jubb, C.B., O.B.E., Director of Contracts, Admiralty were called in and further examined.

Mr. D. F. C. Blunt was called in and was also examined on these Accounts.

The Civil Appropriation Accounts (War Services) 1944: Class X, Vote 9, Ministry of Labour and National Service (War Services); the Civil Appropriation Accounts, 1944: Class V, Vote 8, Ministry of Labour and National Service, Vote 9, Grants in Respect of Employment Schemes, Vote 10, Commissioner for Special Areas (England and Wales) were considered.

Sir Godfrey Ince, K.C.B., K.B.E., Secretary of the Ministry of Labour and Mr. T. W. F. Dalton, Accountant-General, were called in and examined.

Sir Herbert Brittain, K.B.E., C.B., was called in and was also examined on these Accounts.

Sir Gilbert Upcott, K.C.B., and Mr. C. E. I. Jones were called in and were also examined on the Accounts considered.

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

THURSDAY, 16TH MAY, 1946.

Members present:

Mr. Benson.	Mr. Thurtle.
Mr. Cuthbert.	Mr. Wadsworth.
Mr. Haworth.	Mr. Williamson.
Sir Frank Sanderson.	

In the absence of the Chairman Mr. Benson was called to the Chair.

The Civil Appropriation Accounts, 1944: Class III, Vote 1, Home Office, Vote 3, Police, England and Wales, Vote 5, Approved Schools etc., England and Wales, Vote 18, Northern Ireland Services; Class VI, Vote 14, State Management Districts; the Trading Accounts and Balance Sheets, 1944: State Management Districts (Licensing Act, 1921); the Civil Appropriation Accounts (War Services) 1944: Class X, Vote 7, Ministry of Home Security; the Vote of Credit Appropriation Account, 1944: Services 45-50, Administered by the Home Office, were considered.

Sir Alexander Maxwell, G.C.B., K.B.E., Permanent Under-Secretary of State, Home Office, Mr. F. C. Johnson, Acting Receiver for the Metropolitan Police District, Mr. P. R. Higgins, Secretary, State Management Districts, and Mr. O. C. Allen, C.B., C.B.E., lately an Under-Secretary, Ministry of Home Security, were called in and examined.

Sir Gilbert Upcott, K.C.B., Sir Herbert Brittain, K.B.E., C.B., and Mr. C. E. I. Jones were called in and were also examined on the Accounts considered.

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

TUESDAY, 21ST MAY, 1946.

Members present:

Mr. PEAKE in the Chair.

Mr. Cuthbert.
Mr. Hector Hughes.
Sir Frank Sanderson.

Mr. Thurtle.
Mr. Wadsworth.

The Civil Appropriation Accounts, 1944: Class VI, Vote 2, Mercantile Marine Services, Vote 9, Roads, etc.; the Road Fund Accounts, 1944; the Civil Appropriation Accounts, 1944: Class VI, Vote 10, Miscellaneous Transport Services; Class VIII, Vote 1, Merchant Seamen's War Pensions; the Civil Appropriation Accounts (War Services) 1944: Class X, Vote 15, Ministry of War Transport; the War Risks (Marine) Insurance Fund Account, 1944; the Vote of Credit Appropriation Account, 1944: Service 71, Administered by the Electricity Commission; the British Shipping (Assistance) Act, 1935, Account, 1944; the Cunard Insurance Fund Account, 1944, were considered.

Sir Cyril Hurcomb, G.C.B., K.B.E., Secretary, Ministry of Transport, was called in and examined.

Sir Gilbert Upcott, K.C.B., Sir Herbert Brittain, K.B.E., C.B., and Mr. C. E. I. Jones, were called in and were also examined on the Accounts considered.

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

THURSDAY, 23RD MAY, 1946.

Members present:

Mr. PEAKE in the Chair.

Mr. Benson.
Mr. Cuthbert.
Sir John Mellor.
Sir Frank Sanderson.

Mr. Thurtle.
Mr. Wadsworth.
Mr. Williamson.

The Civil Appropriation Accounts, 1944: Class II, Vote 11, India and Burma Services; the Vote of Credit Appropriation Account, 1944: Service 44, Administered by the India and Burma Office, were considered.

Sir David Montearth, K.C.B., K.C.M.G., C.V.O., O.B.E., Permanent Under-Secretary, India and Burma Office, was called in and examined.

Mr. L. Petch, Principal, Treasury, was called in and was also examined on these Accounts.

The Civil Appropriation Accounts, 1944: Class II, Vote 7, Colonial Office, Vote 8, Colonial and Middle Eastern Services, Vote 9, Development and Welfare (Colonies, etc.); the Vote of Credit Appropriation Account, 1944: Services 34-43, Administered by the Colonial Office, were considered.

Sir George Gater, G.C.M.G., K.C.B., D.S.O., Permanent Under-Secretary, Colonial Office, was called in and examined.

Mr. A. D. J. Winniffrith, Assistant Secretary, Treasury, was called in and was also examined on these Accounts.

Sir Gilbert Upcott, K.C.B., Sir Herbert Brittain, K.B.E., C.B., and Mr. C. E. I. Jones, were called in and were also examined on the Accounts considered.

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

TUESDAY, 28TH MAY, 1946.

Members present:

Mr. PEAKE in the Chair.

Mr. Benson.	|	Sir John Mellor.
Mr. Cuthbert.	|	Mr. Thurtle.
Mr. Haworth.	|	Mr. Wadsworth.

The Civil Appropriation Accounts, 1944: Class V, Vote 14A, Ministry of National Insurance; the National Health Insurance Fund Accounts, 1944; the Widows', Orphans' and Old Age Contributory Pensions Acts, Accounts, 1944; the Unemployment Fund Accounts, 1944, were considered.

Sir Thomas Phillips, K.C.B., K.B.E., Permanent Secretary, and Mr. O. M. Smith, Under-Secretary for Finance and Accountant General, Ministry of National Insurance, were called in and examined.

The Civil Appropriation Accounts (War Services) 1944: Class X, Vote 14, War Damage Commission, was considered.

Sir Robert Fraser, K.B.E., C.B., Secretary, War Damage Commission, was called in and examined.

The Civil Appropriation Accounts (War Services) 1944: Class X, Vote 8, Ministry of Information; the Civil Appropriation Accounts, 1944: Class IV, Vote 12, Broadcasting, were considered.

Sir Eric Bamford, K.B.E., C.B., C.M.G., Director-General, Central Office of Information, was called in and examined.

Sir Gilbert Upcott, K.C.B., Sir Herbert Brittain, K.B.E., C.B., and Mr. C. E. I. Jones were called in and were also examined on the Accounts considered.

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

THURSDAY, 30TH MAY, 1946.

Members present:

Mr. PEAKE in the Chair.

Mr. Benson.	|	Sir John Mellor.
Mr. Haworth	|	Sir Frank Sanderson.
Mr. Hector Hughes.	|	Mr. Thurtle.

The Vote of Credit Appropriation Account, 1944: Service 64, Administered by the Ministry of Food; the Civil Appropriation Accounts (War Services) 1944: Class X, Vote 4, Ministry of Food, were considered.

Sir Frank Tribe, K.C.B., K.B.E., Secretary, and Mr. R. Leach, C.B.E., Deputy Financial Secretary, Ministry of Food, were called in and examined.

Sir Gilbert Upcott, K.C.B., Sir Herbert Brittain, K.B.E., C.B., and Mr. C. E. I. Jones were called in and were also examined on the Accounts considered.

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

TUESDAY, 4TH JUNE, 1946.

Members present:

Mr. PEAKE in the Chair.

Lt.-Col. Alan Dower.
Mr. Haworth.
Mr. Hector Hughes.

Sir John Mellor.
Mr. Thurtle.
Mr. Wadsworth.

The Coal Commission Accounts, 1944, were considered.

Sir Ernest Gowers, G.B.E., K.C.B., Chairman, and Mr. H. W. Naish, M.B.E., Coal Commission, were called in and examined.

The Civil Appropriation Accounts (War Services) 1944: Class X, Vote 5, Ministry of Fuel and Power; the Vote of Credit Appropriation Account, 1944: Services 60-61, Administered by the Ministry of Fuel and Power, were considered.

Sir Donald Fergusson, K.C.B., Permanent Secretary, and Mr. A. E. Watson, C.B., C.B.E., Principal Assistant Secretary, Ministry of Fuel and Power, were called in and examined.

The Civil Appropriation Accounts, 1944: Class VI, Vote 1, Board of Trade; the Vote of Credit Appropriation Account, 1944: Services 51-58, Administered by the Board of Trade; the Civil Appropriation Accounts (War Services) 1944: Class X, Vote 13, War Damage (Business and Private Chattels), were considered.

Sir John Woods, K.C.B., M.V.O., Permanent Secretary, and Sir Edward Hodgson, K.B.E., C.B., Principal Finance Officer, Board of Trade, and Mr. Leslie, Council of Industrial Design, were called in and examined.

Sir Gilbert Upcott, K.C.B., Sir Herbert Brittain, K.B.E., C.B., and Mr. C. E. I. Jones were called in and were also examined on the Accounts considered.

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

THURSDAY, 6TH JUNE, 1946.

Members present:

Mr. PEAKE in the Chair.

Lt.-Col. Alan Dower.
Mr. Hector Hughes.
Sir Frank Sanderson.

Mr. Thurtle.
Mr. Wadsworth.

The Civil Appropriation Accounts (War Services) 1944: Class X, Vote 2, Ministry of Aircraft Production; the Vote of Credit Appropriation Account, 1944: Service 63, Administered by the Ministry of Aircraft Production, were considered.

Mr. O. S. Franks, C.B.E., Permanent Secretary, Mr. E. L. Pickles, C.B., O.B.E., Under-Secretary, Mr. A. C. Boddis, C.M.G., Director of Contracts (Air), and Mr. H. P. Bruckshaw, O.B.E., Accountant General, Ministry of Supply, were called in and examined.

Sir Gilbert Upcott, K.C.B., Mr. D. F. C. Blunt and Mr. C. E. I. Jones were called in and were also examined on the Accounts considered.

[Adjourned till Tuesday, 18th June, at half-past two o'clock.

TUESDAY, 18TH JUNE, 1946.

Members present:

Mr. PEAKE in the Chair.

Mr. Benson.

Mr. Thurtle.

Mr. Hector Hughes.

Five Members not being present, the Chairman adjourned the Committee till Thursday at half-past two o'clock.

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

THURSDAY, 20TH JUNE, 1946.

Members present:

Mr. PEAKE in the Chair.

Mr. Benson.

Mr. Wadsworth.

Mr. Thurtle.

Five Members not being present, the Chairman adjourned the Committee till Tuesday next at half-past two o'clock.

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

TUESDAY, 25TH JUNE, 1946.

Members present:

Mr. PEAKE in the Chair.

Mr. Benson.

Mr. Lever.

Lt.-Col. Alan Dower.

Sir John Mellor.

Lt.-Col. Hamilton.

Sir Frank Sanderson.

Mr. Holmes.

Mr. Thurtle.

Draft Third Report, proposed by the Chairman, agreed to.

The Civil Appropriation Accounts (War Services) 1944: Class X, Vote 12, Ministry of Supply; the Vote of Credit Appropriation Account, 1944: Services 65-67, Administered by the Ministry of Supply, were considered.

Sir Oliver Franks, K.C.B., C.B.E., Permanent Secretary, and Mr. L. B. Hutchinson, Mr. E. L. Pickles, C.B., O.B.E., Mr. H. C. Gordon, C.B., Under-Secretaries, and Mr. A. W. McKenzie, Assistant Secretary, Ministry of Supply, were called in and examined.

Mr. F. N. Harby, C.B.E., Secretary, Exchequer and Audit Department, Mr. D. F. C. Blunt and Mr. C. E. I. Jones were called in and were also examined on the Accounts considered.

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

THURSDAY, 27TH JUNE, 1946.

Members present:

Mr. Benson.

Mr. Holmes.

Mr. Cuthbert.

Sir Frank Sanderson.

Lt.-Col. Hamilton.

Mr. Thurtle.

In the absence of the Chairman Mr. Benson was called to the Chair.

The Vote of Credit Appropriation Account, 1944: Service 13, Administered by the Treasury, was considered.

Sir Wilfrid Eady, K.C.B., K.B.E., C.M.G., Second Secretary, Treasury, Sir Francis L'E. Joseph, Bt., K.B.E., J.P., D.L., and Sir Leonard Paton, C.B.E., M.C., United Kingdom Commercial Corporation, were called in and examined.

The Vote of Credit Appropriation Account, 1944: Services 1-12 and 14-17, Administered by the Treasury; the Public Income and Expenditure Account, 1944; the Consolidated Fund Abstract Account, 1944, were considered.

Treasury Memorandum, proposing that the wartime omissions from the Finance Accounts, with the exception of the Statement of Contingent and Nominal liabilities, be continued in future Accounts, considered and approved.

Sir Wilfrid Eady, K.C.B., K.B.E., C.M.G., Second Secretary, Treasury, was examined.

The Vote of Credit Appropriation Account, 1944: Service 70, Administered by the Cotton Buying Commission, was considered.

Mr. C. E. I. Jones, Treasury Officer of Accounts, was examined.

The Civil Appropriation Accounts, 1944: Class VI, Vote 8, Forestry Commission; the Trading Accounts and Balance Sheets, 1944: Forestry Commission Accounts; the Civil Appropriation Accounts, 1944: Class VIII, Vote 2, Ministry of Pensions; the Vote of Credit Appropriation Account, 1944: Service 62, Administered by the Ministry of Pensions, were considered.

Mr. F. N. Harby, C.B.E., Sir Herbert Brittain, K.B.E., C.B., and Mr. C. E. I. Jones were called in and were also examined on the Accounts considered.

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

TUESDAY, 2ND JULY, 1946.

Members present:

Mr. PEAKE in the Chair.

Mr. Benson.

Mr. Cuthbert.

Lt.-Col. Hamilton.

Mr. Haworth.

Mr. Holmes.

Mr. Kirby.

Mr. Lever.

Sir John Mellor.

Sir Frank Sanderson.

Mr. Thurtle.

The Vote of Credit Appropriation Account, 1944: Services 18-27, Administered by the Foreign Office, were considered.

Mr. L. R. Sherwood, O.B.E., Head of Finance Department, Foreign Office, was called in and examined.

The National Debt—Funds left in Trust for the Reduction of the National Debt, Position as at 31st March, 1946; the Civil Appropriation Accounts: Class I, Vote 3, Registration of Electors, Vote 4, Treasury and Subordinate Departments, Vote 6, Privy Seal Office, Vote 13, Government Hospitality, Vote 19, Repayments to Local Loans Fund, Vote 20, Royal Commissions, etc., Vote 21, Miscellaneous Expenses, Vote 22, Secret Service, Vote 26, Repayments to the Civil Contingencies Fund; Class II, Vote 13, Chinese Currency Stabilisation Fund; 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, Vote 12, Special Areas Fund, Vote 13, Financial Assistance in Special and other Areas; Class VI, Vote 11, Development Fund, Vote 12, Development Grants; Class VII, Vote 9, Rates on Government Property; the Treasury Chest Fund Account, 1944; the Civil Contingencies Fund Accounts, 1944; the Development Fund Accounts, 1944; the Czecho-Slovak Financial Claims Fund and Czecho-Slovak Refugee Fund Accounts, 1944; the Tithe Act, 1936, Accounts, 1944, were considered.

Sir Herbert Brittain, K.B.E., C.B., Treasury Officer of Accounts, was called in and examined.

Sir Gilbert Upcott, K.C.B., Sir Herbert Brittain, K.B.E., C.B. and Mr. C. E. I. Jones were called in and were also examined on the Accounts considered.

[Adjourned till Tuesday, 30th July, at half-past two o'clock.]

TUESDAY, 30TH JULY, 1946.

Members present:

Mr. PEAKE in the Chair.

Mr. Benson.
Lt.-Col. Hamilton.
Mr. Haworth.

Mr. Holmes.
Sir John Mellor.
Mr. Thurtle.

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

Ordered, That the Draft Report be read a second time paragraph by paragraph. Paragraphs 1 to 43 amended and agreed to.

A paragraph brought up and read the first and second time and added.

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

Ordered, That the papers forwarded on the 16th October, 1945, the 20th and 22nd February and the 22nd June, 1946, by H.M. Treasury; on the 10th July, 1946, by the Admiralty; on the 28th June, 1946, by the Colonial Office; on the 17th June, 1946, by the Exchequer and Audit Department; on the 3rd July, 1946, by the Ministry of Food; on the 8th July, 1946, by the Ministry of Health; on the 10th July, 1946, by the Ministry of Supply; on the 2nd July, 1946, by the Board of Trade, and on the 4th July, 1946, by the War Office be printed as Appendices to the Minutes of Evidence taken before the Committee.

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

LIST OF WITNESSES

Tuesday, 26th February, 1946

	<i>Page</i>
Sir Cornelius Gregg, K.C.B., K.B.E.	1
Sir Raymond Birchall, K.B.E., C.B., and Mr. G. Ismay, C.B.	14

Tuesday, 5th March, 1946

Sir Archibald Carter, K.C.B., K.C.I.E., and Mr. R. J. Lloyd	22
--------------------------------------------------------------------	----

Tuesday, 12th March, 1946

Sir Charles MacAndrew, T.D., M.P., Mr. R. R. Whitty, C.B.E., and Mr. A. J. Moyes, O.B.E.	33
Sir Gilbert Campion, K.C.B., and Mr. A. J. Moyes, O.B.E.	37
Sir Herbert Brittain, K.B.E., C.B.	39
Mr. J. P. R. Maud, C.B.E., and Mr. B. L. Pearson, D.S.O., M.C.	41

Tuesday, 19th March, 1946

Mr. F. C. Sillar	45
Sir Eric Machtig, K.C.B., K.C.M.G., O.B.E., and Sir Arthur Gaye, C.B., O.B.E.	48
Sir Eric Machtig, K.C.B., K.C.M.G., O.B.E.	55

Tuesday, 26th March, 1946

Mr. G. Stuart King, C.B., M.C.	60
Mr. O. S. Cleverly, C.B., C.V.O., and Mr. T. R. Oswin	64
Sir John H. McC. Craig, C.B.	71

Tuesday, 2nd April, 1946

Sir Orme Sargent, K.C.M.G., C.B., Mr. J. I. C. Crombie and Mr. L. R. Sherwood, O.B.E.	76
Sir Orme Sargent, K.C.M.G., C.B., Mr. A. J. S. White, O.B.E., and Mr. R. Davies	82
Sir Orme Sargent, K.C.M.G., C.B., Mr. J. I. C. Crombie, and Mr. L. K. Sherwood	94

Thursday, 4th April, 1946

Sir William Brown, K.C.B., K.C.M.G., C.B.E.	95
Sir William Brown, K.C.B., K.C.M.G., C.B.E., and Mr. C. W. Evans	99
Sir William Brown, K.C.B., K.C.M.G., C.B.E.	102
Sir William Brown, K.C.B., K.C.M.G., C.B.E., and Mr. L. J. Banford... ..	108

Thursday, 11th April, 1946

Sir Eric Speed, K.C.B., K.B.E., M.C.	111
---------------------------------------------	-----

	<i>Page</i>
<i>Tuesday, 16th April, 1946</i>	
Sir Eric Speed, K.C.B., K.B.E., M.C.	127
Sir Gilbert Upcott, K.C.B.	137
<i>Tuesday, 30th April, 1946</i>	
Sir Henry V. Markham, K.C.B., M.C., and Sir Sydney Barnes, K.B.E.	141
Sir Henry V. Markham, K.C.B., M.C., Mr. C. B. Coxwell, C.B., O.B.E., and Mr. E. C. Jubb, C.B., O.B.E.	143
<i>Thursday, 2nd May, 1946</i>	
Sir Donald Vandeppeer, K.C.B., K.B.E.	156
Sir Patrick Laird, C.B.	165
Mr. R. C. S. Taylor, O.B.E.	167
<i>Tuesday, 7th May, 1946</i>	
Sir William Douglas, K.C.B., K.B.E., and Mr. H. H. George, C.B., M.C.	170
Mr. G. H. Henderson, C.B.	181
Mr. E. C. Adams, C.B.E.	184
<i>Thursday, 9th May, 1946</i>	
Sir Percival Robinson K.C.B., and Mr. B. L. Pearson, D.S.O., M.C. ...	190
Sir Percival Robinson, K.C.B.	194
Sir Percival Robinson, K.C.B., and Mr. A. R. McBain, C.B., O.B.E. ...	202
Sir Percival Robinson, K.C.B., and Mr. E. N. de Normann, C.B. ...	206
<i>Tuesday, 14th May, 1946</i>	
Sir Henry V. Markham, K.C.B., M.C., Mr. C. B. Coxwell, C.B., O.B.E., and Mr. E. C. Jubb, C.B., O.B.E.	209
Sir Godfrey Ince, K.C.B., K.B.E., and Mr. T. W. F. Dalton	222
<i>Thursday, 16th May, 1946</i>	
Sir Alexander Maxwell, G.C.B., K.B.E., and Mr. F. C. Johnson ...	227
Sir Alexander Maxwell, G.C.B., K.B.E.	229
Sir Alexander Maxwell, G.C.B., K.B.E., and Mr. P. R. Higgins ...	231
Sir Alexander Maxwell, G.C.B., K.B.E., and Mr. Oswald Allen, C.B., C.B.E.	235
<i>Tuesday, 21st May, 1946</i>	
Sir Cyril Hurcomb, G.C.B., K.B.E.	235
<i>Thursday, 23rd May, 1946</i>	
Sir David Monteath, K.C.B., K.C.M.G., C.V.O., O.B.E.	251
Sir George Gater, G.C.M.G., K.C.B., D.S.O.	256

	<i>Page</i>
<i>Tuesday, 28th May, 1946</i>	
Sir Thomas Phillips, K.C.B., K.B.E., and Mr. O. M. Smith	272
Sir Robert Fraser, K.B.E., C.B.	274
Sir Eric Bamford, K.B.E., C.B., C.M.G.	279
<i>Thursday, 30th May, 1946</i>	
Sir Frank Tribe, K.C.B., K.B.E., and Mr. Leach, C.B.E.	285
<i>Tuesday, 4th June, 1946</i>	
Sir Ernest Gowers, G.B.E., K.C.B., and Mr. H. W. Naish, M.B.E. ...	306
Sir Donald Fergusson, K.C.B., and Mr. A. E. Watson, C.B., C.B.E. ...	310
Sir Donald Fergusson, K.C.B.	313
Sir John Woods, K.C.B., M.V.O., Sir Edward Hodgson, K.B.E., C.B., and Mr. Leslie	315
Sir John Woods, K.C.B., M.V.O., and Sir Edward Hodgson, K.B.E., C.B.	316
<i>Thursday, 6th June, 1946</i>	
Mr. O. S. Franks, C.B.E., and Mr. E. L. Pickles, C.B., O.B.E.	320
Mr. O. S. Franks, C.B.E., Mr. E. L. Pickles, C.B., O.B.E., and Mr. A. C. Boddis, C.M.G.	328
Mr. O. S. Franks, C.B.E., Mr. E. L. Pickles, C.B., O.B.E., and Mr. H. P. Bruckshaw, O.B.E.	329
<i>Tuesday, 25th June, 1946</i>	
Sir Oliver Franks, K.C.B., C.B.E., and Mr. L. B. Hutchinson	332
Sir Oliver Franks, K.C.B., C.B.E., and Mr. E. L. Pickles, C.B., O.B.E. ...	334
Sir Oliver Franks, K.C.B., C.B.E., and Mr. H. C. Gordon, C.B.	338
Sir Oliver Franks, K.C.B., C.B.E., and Mr. A. W. McKenzie	339
<i>Thursday, 27th June, 1946</i>	
Sir Wilfrid Eady, K.C.B., K.B.E., C.M.G., Sir Francis L'E. Joseph, Bt., K.B.E., J.P., D.L., and Sir Leonard Paton, C.B.E., M.C.	346
Sir Wilfrid Eady, K.C.B., K.B.E., C.M.G.	349
Mr. C. E. I. Jones	356
<i>Tuesday, 2nd July, 1946</i>	
Mr. L. B. Sherwood, O.B.E.	358
Sir Herbert Brittain, K.B.E., C.B.	361

HOUSE OF COMMONS
THE COMMITTEE OF PUBLIC ACCOUNTS

Thursday, 11th, Tuesday, 16th, Thursday, 18th, and Tuesday, 23rd October, 1945.

Minutes of Evidence attached to the First Report.

Thursday, 25th October, 1945

Minutes of Evidence attached to the First Report, except that part relating to Paragraph 17 of the Comptroller and Auditor General's Report on the Civil Appropriation Accounts (War Services) 1943, which was attached to the Second Report.

Tuesday, 30th October, and Thursday, 1st November, 1945.

Minutes of Evidence attached to the First Report.

Thursday, 24th January, and Tuesday, 5th February, 1946.

Minutes of Evidence attached to the Second Report.

HOUSE OF COMMONS

THE COMMITTEE OF PUBLIC ACCOUNTS

TUESDAY, 26TH FEBRUARY, 1946.

Members present:

Mr. PEAKE in the Chair.

Mr. Benson.
Lieut.-Colonel Alan Dower.
Sir John Mellor.
Sir Frank Sanderson.

Mr. Thurtle.
Mr. Maurice Webb.
Mr. Williamson.

Sir GILBERT UPCOTT, K.C.B., Sir HERBERT BRITAIN, K.B.E., C.B., and Mr. C. E. I. JONES called in and examined.

REVENUE DEPARTMENTS APPROPRIATION ACCOUNTS, 1944.

VOTE 2.

INLAND REVENUE.

Sir CORNELIUS GREGG, K.C.B., K.B.E., called in and examined.

Chairman.

1657. We take first this afternoon the Revenue Department's Appropriation Accounts, 1944. Would Members turn to page v, paragraph 7, of the Report of the Comptroller and Auditor General, which contains Balance Accounts in the same form as, I believe, in previous years?—(Sir Cornelius Gregg.) Yes.

1658. The table at the top shows the arrears in the collection of Income Tax locally, I think, and at the end of the year 1943 the total arrears were about £174,000,000. Am I right?—Yes.

1659. They had increased by the end of 1944 to approximately £198,000,000?—Yes.

1660. I believe on previous occasions you have compared the total arrears with the charge raised in the year. Is that right?—Yes. (Sir Gilbert Upcott.) Or, rather, with the total amount collectible.

1661. With the total amount collectible?—(Sir Cornelius Gregg.) The £198,000,000 is the arrear left at September, 1944. This account covers the local tax under Schedules A, B and D, but does not cover the local tax under Pay-as-you-earn and tax deduction Schedule E. It covers Schedule A, property, Schedule B, farmers, and Schedule D, all business profits. The total arrear at the end of the year of £197.8 million was out of a total charge of £968,000,000, which consisted of £794.6 million new charge, and the carry forward from the previous year of £174,000,000. That total arrear left out of the total charge is 20.4 per cent. of the total, and that compares with 19.7 per cent., the similar figure at September, 1943, and 17.6 per cent., the similar figure at September, 1942.

1662. What was the figure for 1942?—17.6 per cent.

1663. There has been a steady growth in the proportion of arrears?—Yes, and as I explained to the Public Accounts Committee in the early days of the war that was a certainty, because with high rates of

war taxation and with the difficulty of settling assessments there were certain to be larger assessments waiting adjustments. It is the difficulty of assessing and collecting, especially with high rates, and the circumstances of wartime which may be manifold; there may be the difficulty of getting accounts and assessments held open until the accounts are produced to adjust them. As a matter of fact, although the percentage has gone up from 17.6 per cent. in 1942 to 19.7 per cent. in 1943, and to 20.4 per cent. in 1944, there is actually a slight improvement this year in the percentage, if you look at the current charge only. The figures we are dealing with up to the present are the arrear left out of the total charge, the current plus the carry-forward from previous years. If you take the figures opposite 1944 you will see the current charge is £794.6 million, out of which there is left an arrear of £102.5 million. That £102.5 million is 12.9 per cent. of the £794,000,000. The corresponding percentages in 1943 and 1942 were 14.2 per cent. in 1943 and 13.9 per cent. in 1942. So the position is that on the current charge the percentage left in arrear has fallen. We have improved. But on the total charge, namely, the current plus the carry-forward from previous years, our percentage is worse, showing that the root of the trouble is in the arrears carried forward from previous years. The point I wish to make is that on the current charge created in 1944 we have improved this year over the two previous years, whereas over the whole field we are still slipping down.

1664. So that you do not regard the position as unsatisfactory?—No, and I anticipated that all these percentages would run against us during the war. That was the experience of the last war. It is inevitable with war conditions and high rates of taxation.

1665. Does the same thing apply to surtax, at the foot of the page?—Yes. To take surtax at the foot of the page, again

MINUTES OF EVIDENCE TAKEN BEFORE

26 February, 1946.] Sir CORNELIUS GREGG, K.C.B., K.B.E.

[Continued.]

I will start with the total figure. The total charge was £114.9 million, built up of £86.5 million current and £28.3 million carried forward. Those figures are in the first column. Of the £114.9 million, consisting of the current charge plus the carry-forward, the balance left to be carried forward was £31.4 million. That is 27.4 per cent. The corresponding percentage in the previous year was 25.1 per cent., and the year before that 24.8 per cent. There is a growth in the arrear: 24.8 per cent. left over in 1942; 25.1 per cent. left over in 1943 and 27.4 per cent. left over in this year we are now considering to June, 1945. Again, behind those percentages for the total charge and total arrear the position is a bit better for the current. The current figure in that total is £86.5 million new charge created in the year 1944, of which there is left over £12.6 million. That £12.6 million is 14.6 per cent. of the £86.5 million. It is only about half the percentage for the total. The corresponding percentages to the 14.6 per cent. were 13.5 per cent. in the previous year, 1944, and 14.8 per cent. for the year 1943. So looking at the current tax, in 1943 we collected 14.8 per cent.; in 1944 we collected 13.5 per cent. and in this year to June, 1945, we collected 14.6 per cent.—not collected, we left in arrear.

1666. That is what you did not collect?—Yes.

1667. Those are the percentages you failed to collect?—Yes. There, again, in the surtax you have a higher arrear from previous years. You would expect it with the high rates of surtax in wartime, the fluctuation of income and the difficulty of paying.

1668. Could you tell the Committee a little about what you do about people who fall into arrear and do not pay?—That, of course, applies to all our taxation. The collection of tax is not a passive operation. It is an active operation. A lot of people pay when they are asked, but, of course, we have to seek our money.

1669. After one has had that red notice headed "Final Payment," if one does not pay, what do you do then?—That is the red light. The odds are that you will receive a threat of a writ.

1670. The next thing is a writ?—It might be—the threat to issue a writ. We only resort to legal proceedings when we think there is the ability to pay and no reasonable excuse is afforded to us for not paying. Very often in the collection of tax there may be good reason for giving time. We always give time for payment where there is a reasonable cause for it. It happens with all kinds of taxes. It happens with the taxation of business, with excess profits tax, and it might even happen with surtax. You give time for payment if there is a reasonable cause for non-payment. But if there is no cause we have

to put pressure on, and the pressure takes the form of legal proceedings, either in the form of a writ, or it might be in certain cases, in the recovery of Schedule A, by way of distraint. We have the power to recover by distraint for certain taxes like Schedule A, and we have the general power of proceedings for a Crown debt in the Courts.

1671. It appears from these figures that there is a bigger proportion of surtax in arrear than there is of Income Tax under the various Schedules we have been discussing at the top of the page. 27½ per cent. of your collectible surtax is in arrear, whereas it is only 20½ per cent. of the Income Tax?—The surtax and the Income Tax differ in certain respects. One respect is this, that the Income Tax is assessed more or less in one fell swoop. To take the assessment of business concerns, of trading companies, all the assessments are made in the autumn and tax is payable on the 1st January for a company, or in instalments on the 1st January and the 1st July for the individual. My point is that the assessments are made in one season. The surtax assessing machine is running throughout the year. If you take the figure of charge given for the year 1944, you will see there is £86,591,000 new charge to surtax created for the year to 30th June, 1945. That will include assessments made month by month throughout that year right up to May or June, 1945.

1672. In order to fall within the £86,000,000 shown here, a man has to have been assessed as due to pay tax on the 1st January, and to have failed to pay by the following 30th June. Is not that right?—In the case of surtax a lot of the assessments are made by the 1st January, but there is a certain percentage of them still remaining to be made which will be made in January and February—late assessments.

1673. The work of assessment is behind-hand in certain cases?—Hazarding a figure, I should say by the end of December in any year we should have assessed probably three-quarters of the surtax due on the 1st January. That is the sort of figure—70 or 80 per cent. There will be still another 20 per cent. remaining to be assessed, and that may be assessed late and may have been assessed only two or three months before June. The surtax, especially at war rates, is a more difficult thing to pay. If your income is over £25,000 the rate climbs up with income tax to 19s. 6d. in the pound. It is not so easy to collect a high surtax as a medium one.

1674. We will take paragraphs 7, 8, 9 and 10 together; those are all dealing with the Balance Accounts. I want to ask a question or two on paragraph 9. Paragraph 9 is concerned with Schedule E. The Comptroller and Auditor General states: "For Schedule E and half-yearly tax collectible locally, special summaries relating

26 February, 1946.]

Sir CORNELIUS GREGG, K.C.B., K.B.E.

[Continued.]

mainly to tax payable in the year ended 31st October, 1943, in the case of yearly assessments and in the year ended 31st January, 1944, in the case of half-yearly assessments—the last full year in each case before the introduction of the Pay-as-you-earn system—were prepared as at 30th September, 1944, by a procedure similar to the special procedure referred to in paragraph 7 of my last Report.” Could you tell us a little more about what the special procedure for obtaining a Balance Account is in these cases?—Formerly, this Schedule E tax was subject to a Balance Account exactly the same as the Balance Account we have been looking at. In fact it used to be included in the first one, Income Tax for local collection. The essence of the Balance Account was this. A certain charge is created and the Revenue has to account for that charge either by showing the money collected or the amount of a discharge for one reason or another, and the arrear. It became impossible in wartime to continue that procedure for Schedule E, and particularly when Schedule E became deductible as it did on payment of wages. I speak now of pre-Pay-as-you-earn. This is all before Pay-as-you-earn; that did not come in until 1944. We are speaking now of the two or three years before that, when the tax was charged in the ordinary way by an assessment and became collectible by being deducted subsequently from the pay of a subsequent period. It became impossible to carry out that Balancing Account to show the relation between the charge created and the money received, for a variety of reasons. The governing reason was our shortage of staff. It would mean taking out in each district a complete account of the tax charged under any particular assessment book and checking that tax up against the collector’s lodgments in respect of that assessment book, checking it up against the various discharges, and checking it up against the various Head Office records. We could not do it, first because we had not staff (this is what I explained last year), and, secondly, because of the difficulty in wartime of the transfer of labour. We had a huge number of cases of people being transferred, by direction very often of the Ministry of Labour, from one part of the country to another. They passed out of one place of employment to another employer who started deducting tax and handed it over to a different collector. It became impossible to keep track of it. So proper scientific accounting, relating to a particular charge the receipt of the money, could not be done, and the best we could do was to secure these summaries. We summarised in every district the total tax charged in that district, and related it to all the payments made, without distinguishing whether the payments related to this book or that book, the point being that in any year to 1944 you had two sets of tax coming in. You had tax coming in

49852

under weekly deduction schemes for two six-monthly periods and you could not disentangle the tax paid in by the collector to show which particular period it belonged to. So we simply kept summaries of the total tax, the total in charge and the total tax paid in by the collector to show to which particular period it belonged, and dealt with it, so to speak, in the aggregate; and for audit purposes, instead of the balancing system we instituted an audit system. We audited the collectors. We descended on them and picked out particular books and checked up and had a sample audit of the correctness of their accounts.

1675. The result of taking these special summaries at the 30th September, 1944, appears in the last sentence of paragraph 9, that arrears of tax, exclusive of £48,000,000 transferred to Inspectors of Taxes for clearance under the Pay-as-you-earn system, amounted to £12,000,000?—Yes.

1676. That is on a total charge of £500,000,000. Is that right?—Yes.

1677. So that seems reasonably satisfactory?—Yes.

1678. But I am not clear as to the explanation of the £48,000,000 which is excluded from the computation, which is described as “transferred to Inspectors of Taxes for clearance under the Pay-as-you-earn system”?—Under the Pay-as-you-earn system you collect not merely the tax which is due on the wages or salaries coming under it, but you collect tax on other income. For example, if a man owns his house, we code that in so as to collect the tax from his pay. Similarly, if there were an arrear of tax due (even under Pay-as-you-earn itself there will be a balance, a plus or minus at the end of the year) that arrear is carried forward into the following Pay-as-you-earn year. When we started Pay-as-you-earn, if there was a tax arrear which did not fall to be cancelled it would be carried into Pay-as-you-earn and would affect his code, and we would recover it in subsequent years. This £48,000,000 was notified to the Inspectors of Taxes as arrears to be coded into Pay-as-you-earn.

1679. Which was the first year of Pay-as-you-earn?—The year commencing 6th April, 1944. That £48,000,000 did not get into the coding for that year, but it would have got into the coding for the year 1945-46, for the current year, and existing Pay-as-you-earn for this year is grinding out not merely the tax on the current year but so much of these arrears as have been coded in.

1680. May I ask one question which is rather related to that? In respect of the first Pay-as-you-earn year, of course you

B 4

26 February, 1946.] Sir CORNELIUS GREGG, K.C.B., K.B.E.

[Continued.]

received a great deal of information from employers which you never had before as to the earnings of their employees?—No. We do not get the information from the employers. We do not get any fuller information from employers than we always got, because every employer had to return the names and remuneration of everyone who was receiving income in excess of the exemption limit.

1681. Before Pay-as-you-earn was introduced?—Yes. Every employer had to do that. He had to make a statutory return annually. For the wage-earners, you got a six monthly return from the employer of the wage-earners in his employment, with the amount of wages paid in the six months to each one, but he did not include in that the people whose total payment was below the exemption limit.

1682. I wondered whether the £48,000,000 shown here included a great deal of Income Tax liability which you discovered, as the result of information which came to you under the Pay-as-you-earn system, in respect of previous years?—No. It was the existing arrear, not being an arrear that fell to be cancelled under the Pay-as-you-earn cancellation provisions. It was not any new information. The Pay-as-you-earn did not so much give us new information (I do not want to anticipate Pay-as-you-earn which we are coming on to) as bring new liabilities to us. The automatic deduction of tax from everyone brought a lot of people into paying tax who hitherto had escaped for one reason or another. Perhaps the employer did not return them; the individual may have changed his employment. Pay-as-you-earn came down automatically on everyone in employment. Tax had to be deducted, and many people who had escaped under the old system were caught under Pay-as-you-earn. If you remember, the Chancellor of the Exchequer in his Budget Speech last year, in 1945, giving an account of the first year's working of Pay-as-you-earn, mentioned that some figure (I cannot remember the exact figure) of the order of £20,000,000 extra tax had been gathered in under Pay-as-you-earn; that was through that very factor of sweeping into the net people who should have been in the net but had not been caught. It is far more effective for ensuring the charge than the old system was.

Chairman.] Are there any questions on those paragraphs 7, 8 and 9?

Lieut.-Colonel Alan Dower.

1683. I should like to ask a question, first of all with reference to Schedule A. Payment of tax under Schedule A is demanded on 1st January? Am I not right?—Yes.

1684. And it is demanded on the income between the previous 5th April to the following 5th April. Therefore you are in

fact demanding an amount which may or may not be due?—Schedule A is based upon the annual value of the property.

1685. But the property might be empty the day after January the 1st, for instance. You are demanding what is due up till the following April the 5th?—The point is this. Schedule A is normally fixed for a quinquennium. You will find in our Income Tax Acts a provision saying there is to be a new valuation of property for Schedule A—

Lieut.-Colonel Alan Dower.] That is not the point.

Chairman.] I think your complaint is, if anything, not with the collection of tax but with the law which prescribes that Schedule A is payable on the 1st January.

Lieut.-Colonel Alan Dower.] No, I beg to differ. The point which I am going to arrive at, if you will be good enough to wait, is that this is a very relevant consideration when it comes to collection.

Mr. Benson.

1686. The tax is due on January 1st, but is not only 50 per cent. collected on January 1st?—No, the whole of it.

Lieut.-Colonel Alan Dower.

1687. The whole of it is collected. If I may proceed, you are in fact collecting what is due from the previous April to the following April?—Yes.

1688. That leads to a considerable amount of confusion sometimes, because in certain cases you have what is known as an in-and-out return, do you not? On a split-up of property—flats, offices or whatever they are—you have to render an income and an expense return upon which the assessment is made. Otherwise you are collecting on January 1st on an assessment which in fact it is not possible to make?—The assessment is struck on the annual value which is fixed at the beginning of the quinquennium for each year of that quinquennium, and for any one year there is a certain property which is assessed at the annual value of £X. Schedule A and tax is payable on that £X. There are various things that may happen of the kind which I think you are suggesting. The rent may cease. We give relief on that.

1689. You mean in the nature of a refund?—We repay the tax. We are coming to that on remissions.

1690. I am convinced that in a vast number of cases collection of tax is delayed because you demand the full amount on January 1st, whereas in fact one-quarter of that income on which the assessment to tax is based may never come in?—Normally, of course, we collect the tax from the occupier. There is a special pro-

26 February, 1946.] Sir CORNELIUS GREGG, K.C.B., K.B.E.

[Continued.]

vision for small property. The general rule of Schedule A is that you collect the tax from the occupier. If he is the owner-occupier, that is the end of it. If he is a tenant the tax which he pays us on the 1st January he is entitled by law to deduct on payment of his rent to his landlord.

1691. That is entirely apart from my point. The point is that delay in the collection, I suggest, is due to the fact that you are demanding more than is due, and in fact more than ever may be due. Therefore that leads to considerable delay in the payment of it?—I can only answer by saying that the law says that for the purposes of income from property we are to take the annual value as the income of that year. What you say may happen; the tenant may leave in January, and the property might be void. In that case, if the whole tax had been paid and deducted from the rental we should give relief for void or lost rent for three months.

1692. I am not thinking of the landlord, but of the occupier himself. He may have in mind that he is going to leave on January 7th, so why pay his tax up to the following 5th April?—If we knew the property was going to be void we should wait for it. It is an exceptional case.

1693. It is one with which I have come into contact, and there is a considerable amount of delay because the tax is being demanded upon an income which may in fact never accrue, and the payer of the tax has it at the back of his mind that he may have considerable difficulty and that there may be delay in getting a refund. I am not backing that statement, but I know what is in their minds; that is, they feel they will have difficulty in obtaining a refund, having paid tax which was not in fact due?—There are many million properties in this country and they result in about 9 million properties coming under charge to tax. It is a very big problem, the mere making of assessments and the issuing of demands for Schedule A. You will double that problem if you provide that the tax shall be divided into two parts, for nine months to the 1st January, and then that we should have to come at the end of March to collect the other three months. There are about 9 million cases where we collect money and give receipts. We should have to do it twice.

1694. If you inquire, I think you will find the vast majority of people who do not pay their tax, whether they are owner-occupiers or tenants, do not pay it because tax is being demanded from them which they may not be due to pay?—The bulk of Schedule A is well paid. It has its arrear like all these other taxes. The table we were on in paragraph 7 of the Report of the Comptroller and Auditor General includes Schedule A as well as Schedules B and D.

Chairman.

1695. You have not separate figures for Schedule A?—No, but from general knowledge I should expect Schedule A not to be worse. It is a steady payment.

1696. Could you furnish us with separate figures?—Yes. I can give estimates of it.*

Chairman.] We should like to see that.

Lieut.-Colonel Alan Dower.

1697. Yes. My second point—and I am trying to be helpful here—is this. I think you will find the confusion, because it is a confusion, which takes place in the granting of allowances due on 1st January is because in one year they may be set off against income, and the next year may be by direct repayment, and very often it is changed according to the whim of the office concerned. There, again, I think you will find it leads to a delay in the payment of tax on income, because people who have paid find out afterwards that their allowances were going to be set off against the tax and there was no need for them to have paid it at all. I know of 60 or 70 cases myself of that?—Are you speaking now of personal allowances?

1698. Of personal allowances?—The personal allowances are normally allowed against the earned income coming under assessment.

1699. I am still speaking of Schedule A?—Yes. I am assuming the owner might have earned income. If he has, he will normally have his personal allowances allowed against his earned income. If he has no earned income then the personal allowances have to be allowed against investment income, Schedule A, or whatever it may be. It may lead to a repayment; or you might allow it against his house and diminish the Schedule A assessment. But the bulk of the taxpayers have an earned income assessment of some kind, and you will always find personal allowances loaded against that and not being made the subject of repayment against Schedule A.

1700. I would suggest from such working experience as I have seen of this particular thing that it would be worthy of making some inquiry, because I know many cases where the payment of tax has been held up, due to the fact that they were not certain how they were going to receive their allowances. They receive their allowances from one office; their tax is collected by another office, and you have not always perfect harmony between the various offices because of the vast amount of work they have to do?—That is a war affair. That is normally their first duty, to explain to the taxpayer where he is getting allowances, especially as the payment of tax is

* Information furnished by the witness shewed that, for the year to Sept., 1944, the rate of collection of Income Tax, Schedule A, was better than the rate of collection for Schedules A, B and D.

26 February, 1946.] Sir CORNELIUS GREGG, K.C.B., K.B.E.

[Continued.]

contingent on that. During the war we have been working under very heavy pressure and a lot of the work has suffered as the result of it. It may well be that in cases such as you are referring to we have not been as prompt as we used to be.

1707. I have had a considerable number of cases brought to my notice. The third and last question I would like to ask is this. I know it is a very difficult problem indeed, but one of the bugbears in the settlement of taxes is when the assessors and the collectors individually change offices. In other services—for example, in the Army—the same thing is noticeable. You may have settled the question of tax with one officer. You ring up on the following Wednesday and find that Mr. Smith has arrived in place of Mr. Brown, and Mr. Smith is not *au fait* with all the details. He cannot be *au fait* with all the details. I would like to ask you this question. I do not understand the way in which you distribute your officers round the various branches of the country, but it is undesirable, surely, in the case of assessors (I can see a reason now what might make it desirable; I think you follow what has suddenly come to my mind) to change them frequently, provided you make sure that the work is being carried out honourably?—You mean Inspectors when you say assessors?

1702. Yes?—It used to be our general policy in peace-time. We could not keep Inspectors for all their career in any one district, because the various tax offices in the country are graded, so to speak, in quality. For instance, an agricultural tax district is of very different quality from one in the city dealing with companies. There is a hierarchy in the quality, and with that goes a hierarchy in the quality of Inspectors to deal with it. The easier districts the younger ones get in, and after so many years they graduate. That fluidity is always there. On the other hand, to gain efficiency in running a district you cannot change a man overnight. He is left there for some years. There has been no worsening of that position in wartime. On the contrary, war conditions have tended to slow up the movement, because if you move a man he has to change his house from one place to another. We were loth to do that during the war. It was not easy to do it. There has been no acceleration of transfers of our staff from one district to another during the war. There may have been transfers necessitated by urgent pressure of work, but not with the desire merely of moving a man. But movement there must be sooner or later. You could not leave a man in one district all his life.

1703. I ask this question in the light of very definite knowledge which I have received. The last question I would like to put is this. Will you please, when considering this question of transfer of staff,

make certain that the relevant agreements and arrangements which have been made by the previous tax collector or assessor are left in such a form so that a new officer coming in is able to pick it up with a complete knowledge of what it embraces?—That is the duty of any civil servant.

1704. Secondly, that the previous officer in that office will be available to be able check up on the agreements which were made between himself personally and the person whose tax is being collected?—If a man is moved from district A to district B his successor can always consult him; but it would be asking too much to say that he must always consult him.

1705. Otherwise it will lead to delay?—It ought to be unnecessary. Normally, in all this tax work there are papers, assessments, documents, and there is the correspondence; there are notes of interviews. The new man coming on is a man trained in Income Tax. He has all these papers. Any of us in head office can see the whole history of the case by reading the papers. There is no necessity to bring the previous man back to hold your hand for the purpose. The previous man would be consulted if there were an allegation that there was an agreement and it was not found to be recorded. To do it as a matter of course would rather slow up the machine and make it cumbrous and unnecessary. In 99 cases out of 100 such a course is not necessary.

Lieut.-Colonel *Alan Dower*.] I am pleased to have that assurance, but my experience is the reverse. In order to facilitate the collection of tax, which is the object of this Committee meeting, it does seem to me that in cases where there is a difference of opinion between a new officer who was not there himself and another officer whose place he has taken, it would be very helpful, and would expedite the collection of tax if it could be possible to bring in the previous officer who had negotiated the whole question of the assessment.

Mr. *Williamson*.

1706. Are these decisions minuted in a file after negotiations with a client?—They normally would be. Cases have happened where one Revenue officer was working on one basis and he was wrong. A case has actually happened and went to the Courts. His successor found the thing was legally wrong, that it was not in accordance with the rule of law. In a case like that we should have to rectify it. I remember one case going to the Courts where one Inspector had made a mistake and a subsequent Inspector found the mistake out. What were we to do—to leave the mistake in perpetuity or correct it? We corrected it, because the fact that a man makes a mistake is no reason why the mistake should be continued

26 February, 1946.]

Sir CORNELIUS GREGG, K.C.B., K.B.E.

[Continued.]

Lieut.-Colonel *Alan Dower*.

1707. That is not the point I am trying to make?—You said he might have negotiated an assessment. I thought at first you were merely speaking of the arrangements for collection. If any of our collecting officers had made an arrangement, say, with a business man who pleaded that he wanted time to pay, and the collecting officer said: "You may pay in instalments" that agreement would be automatically honoured in the event of a change of personnel. That sort of business arrangement would be recorded on our papers and would continue.

Mr. *Benson*.] Is the reference in paragraph 9 to £500,000,000, the aggregate of 1943 and 1944? I could not quite trace it in the figures on page v.

Chairman.] Those figures in paragraph 9 are not included in the table on page v. These are Schedule E figures in paragraph 9 which are excluded from the tables.

Mr. *Benson*.

1708. Schedule E is Income Tax of other classes?—It is the 1942-43 tax. (Sir *Gilbert Upcott*.) The top table on page v does not include Schedule E. There is mentioned in the first sentence of paragraph 9 what is included in the £500,000,000.

1709. Income Tax of other classes amounting to £225,000,000, is not Schedule E?—(Sir *Cornelius Gregg*.) No. That is tax on foreign dividends, railways and so on.

1710. With regard to the question of the collection of Schedule A from the tenant, that is a habit which is localised, is it not? In certain areas Schedule A is collected almost entirely from the landlord?—In the case of small properties.

1711. And large properties?—Not usually large properties.

1712. To take Manchester, how many of the warehouse tenants and office tenants is the tax collected from?—In the case of blocks of flats and in the case of blocks of offices in one building the tax would be paid by the landlord. If you had one building parts of which were let out to different tenants, you might have the tax there payable by the landlord, but in the case of the private house, one occupier occupying the whole of it, it is payable by the tenant.

1713. Payable—but is it usually collected from him?—Yes, and deducted by him from the rent, unless it is a very small property of very small annual value—cottage property—in which case we collect the whole lot from the landlord.

Sir *Frank Sanderson*.

1714. One point in regard to the figures on page v. Is it not a fact that surtax is assessed in the first instance, and at a later date there are supplementary demands made? Are the amounts of those supplementary demands shown in the

specific years when those demands are made, or for the period in respect of which they are in fact assessed? As an illustration, one may receive an assessment for surtax for, say, the year 1943, and subsequently one will receive a supplementary assessment for a further surtax charge for, say, the year 1939. Would the amount of the increased assessment be shown here for the year 1939 or the year of the assessment, 1943?—It would be shown for the year 1943. The figure shown there for 1944 is the figure for the year in which it is made and not the year in respect of which it was made. Where we raise an additional assessment, it is included for accounting purposes in the year in which it is made. These are all the new assessments, regardless of what year they are for.

1715. One further point. In regard to the figures of arrears of Income Tax shown, to take the year 1939, there are arrears for years going a considerable way back?—Yes.

1716. Are the accumulated arrears shown under the heading of the year 1939?—1939 and prior is a block total. At one time we used to give the whole of the arrears for back years in one total. The Comptroller and Auditor General some years ago arranged that we should show each year separately. We started with this block total for 1939 and previous years, and we give every other year afterwards separately.—(Sir *Gilbert Upcott*.) That was to meet the wish of the Committee that they should have it broken up a little bit, as far as practicable, in about five year periods; but the first entry related to 1939 and prior years.

Sir *Frank Sanderson*.] And prior years. That is the whole point.

Mr. *Benson*.

1717. Will next year's accounts show 1940 and prior years? Is it moving along?—(Sir *Cornelius Gregg*.) Yes.

Chairman.

1718. We pass to the next three paragraphs which deal with Pay-as-you-earn. The Comptroller and Auditor General tells us in paragraph 11 of your difficulties with regard to staff, and so forth. You have adopted various simplifications and relaxations with a view to obtaining some relief for the overburdened staff?—Yes.

1719. I do not think we need go into that in any detail. We are all conscious, I think, of the difficulties there. In the second sub-paragraph of paragraph 11 the Comptroller and Auditor General indicates that it is impossible to give precise figures of arrears of Pay-as-your-earn, but he ends up by saying: "In lieu of balancing, I understand that later there may be some test of individual cases"?—That paragraph does not refer to Pay-as-you-earn arrears. We had undertaken with the

25 February, 1946.]

Sir CORNELIUS GREGG, K.C.B., K.B.E.

[Continued.]

Comptroller and Auditor General to give him a balancing statement as at September, 1945, of the position in regard to all the pre-Pay-as-you-earn tax. You will remember that before Pay-as-you-earn came in tax had been deductible for some years, and it was to clean up the balancing for all that tax—

1720. It was under the Income Tax Employments Act, 1943? Is that right?—No. This deduction I am speaking of was before Pay-as-you-earn. Pay-as-you-earn was brought in by two Acts, the Act of 1943 and the Act of 1944, but the deduction of tax at the source was in being from 1941 under the Finance (No. 2) Act, 1940.

1721. Paragraph 11 deals with the arrears of tax under Schedule E for the years before Pay-as-you-earn?—For the years before the institution of Pay-as-you-earn.

1722. Can you tell us if those tests of which the Comptroller and Auditor General speaks in the last sentence of the second sub-paragraph of paragraph 11 are in progress?—They are commencing. It was agreed that to produce summaries as at that date, similar to the summaries referred to in paragraph 9, might give statistics but would not give accurate accounting, and we are going to do it by an audit test of sampling particular districts and checking up.

1723. Have you anything to say on paragraph 11, Sir Gilbert?—(Sir Gilbert Upcott.) The Accounting Officer consulted me about the position last autumn, and I felt, as he says, that any attempt to produce a balance or so-called Balance Account would be merely statistics and not, as he said just now, a scientific record which would be an effective accounting check. Therefore, I felt, as he does, that sample tests of individual cases would be much more effective, from the point of view of protection of the Revenue.

1724. In paragraph 12 the Comptroller and Auditor General states: "In paragraph 7 of my last Report I referred to the fact that arrangements for a scheme of departmental audit involving the inspection of employers' records by officers of the Inland Revenue were in preparation but had not reached a point at which they could be put into operation."?—(Sir Cornelius Gregg.) This is pure Pay-as-you-earn.

1725. Can you give us any information about the work in progress referred to in the last part of the sentence?—Yes. We have set up a small staff of picked men for this job and they have already started operations. They have gone down to particular districts and picked out particular employers in a district. They have gone to the employer's office and seen all the pay records, checked up for every man in the place, practically, whether the tax deduction or the amount which ought to have been deducted corresponded with the pay as recorded in the employer's books,

and checked up on our own machine whether the tax so collected had been paid over by the employer. We have had the first report of their investigations. It covers 3,400 cases. In 3,200 everything was perfect. There were 120 cases where mistakes had been made which we think were mainly attributable to ignorance, to some oversight.

1726. Oversight on the part of the employer?—*Bona fide* mistakes on the part of the employer. There were 3,200 cases more or less all right. There were 120 cases which were varying from oversight to neglect. There were five cases which gave the suspicion that the thing was deliberate and that we might be losing tax. They have been looked at, and I understand the result of consideration at Head Office is to reject any idea of fraud. There was no evidence to justify a charge of fraud. In those cases, of course, the tax at stake will have to be made good by the employer, because if an employer pays remuneration he is required by law to deduct the tax from it, and normally he remains responsible to us for that tax in fact, whether he deducts it or not. Where it is a mere oversight or something of that kind we might collect it from the employee, but in some of these cases we may make the employer pay it. The Revenue does not lose anyway. We get the tax either from the employer or the employee.

Chairman.] I have no further questions on paragraphs 11, 12 or 13. Has any Member of the Committee any questions on those paragraphs?

Sir Frank Sanderson.

1727. In paragraph 11 the Comptroller and Auditor General states: "Serious accumulations of work have occurred in Tax Offices owing to the magnitude of the task of introducing the Pay-as-you-earn system", etc. What I would like to ask is this: With a view to easing the pressure still further, is there any reason why the practice of demanding cards to be filled in by employers who have employees who are not liable for the Income Tax should not be discontinued? Would it not considerably ease the pressure of the work if it were not necessary to send any forms for employees who are not liable for Income Tax, which are demanded at the present time in certain cases?—We have to send to every employer a card at the beginning of the year for every employee, coding him and showing what tax is to be deducted if his remuneration proves to be a certain figure. You do not know at the beginning of the year what a man's remuneration will be. The very essence of Pay-as-you-earn is to relate the tax to the current remuneration. When you give the card to the employer in March you have to give him a card which would enable him to deduct the tax from any remuneration due to that indi-

26 February, 1946.]

Sir CORNELIUS GREGG, K.C.B., K.B.E.

[Continued.]

vidual. In March he may be earning an income which is below, but in the year to come his remuneration might rise above.

1728. That is my point. In the meantime, countless numbers of cards are having to be filled in and sent to you and you in turn have to deal with the necessary book-keeping in regard to these innumerable cards for which you are not entitled to and do not receive any Income Tax?—From which we did not receive any Income Tax in the past year, but we might receive it in the coming year.

1729. In point of fact we know it will be exactly the contrary. Since allowances are being increased and taxation is being reduced there will be a still increasing number who will not be liable for payment of Income Tax in the future. Therefore it strengthens my point, not weakens it. I maintain that there is an incalculable amount of work being done at all the subsidiary offices throughout the country today which is totally and wholly unnecessary?—I do not know whether it is as bad as that. We have normally 13 million paying tax and we code in, probably, 15 million or 16 million, including the people you are talking about, who are not liable to tax, but the remuneration of an individual who this year is not liable may rise next year.

1730. If his remuneration were to rise, with increased allowances he would still not be liable. I do not press the point, Mr. Chairman, but I do think it is a point of substance and is one which should be considered by the Commissioners of Income Tax as a means of saving a considerable amount of labour in all their subsidiary offices throughout the land. I merely throw that out as a suggestion?—If a man is exempt the employer still has to put his name on the card. We have to determine what that man's code is. We write the code number down and send it to the employer. Your point is that he never comes under deduction of tax at all?

Sir *Frank Sanderson*.] Where the employer has to fill in the cards, not only does it involve work for him, but he in turn has to supply those cards to the Collector of Income Tax who in turn has to deal with them, dealing with innumerable numbers of people who are not liable nor are likely to be liable, so far as one can humanly see, in the near future. Surely, the time to fill in the cards would be when those people became liable, and the employer knows when they do, and is responsible to see that the necessary tax is paid. The employer is responsible. You make him responsible, and quite rightly so.

Mr. *Maurice Webb*.

1731. You said there were 3,000 undertakings investigated. That is separate undertakings?—Separate employers.

1732. Can you give us any idea of the number of taxpayers involved? Were they large undertakings or small undertakings?—There was a mixture. They tended to be the large.

1733. It would be true to say that it was a sort of cross-section, a typical sample?—I said a moment ago that they were mainly large. I should have said mainly small. Over the whole population there would be more proportionately with under 50 employees than there would be with over.

1734. It would not be regarded as a typical sample of the country for the purposes of calculation?—No, and certainly not if you did it by reference to employees, in which case you would have to bring in quite a number of big concerns.

1735. You did say that of the 3,400 cases there were 5 cases that did come under suspicion?—There were 5 cases reported for special investigation.

1736. If you had to investigate every concern, would you say that percentage would be roughly about the same?—That is a nice question of statistics as to what constitutes a reasonable sample for the whole. It is a very small sample. There are something like 750,000 employers in this country, big and small, and the 3,200 is less than $\frac{1}{2}$ per cent. I should like to have a bigger sample than $\frac{1}{2}$ per cent. to claim it was representative of the whole. We are building up. Our trouble is to get the trained staff to do it. Our whole trouble with Pay-as-you-earn is that we have far more work than we have staff.

1737. Is it intended ultimately to have this kind of survey of every undertaking?—Ultimately this thing will get much wider than a mere sample like this. The ideal ultimately would be to have it in each district. This is a special audit staff. At present it is more or less itinerant over the country. I should like a more detailed watch than that kept.

1738. The Comptroller and Auditor General refers in paragraph 11 to the difficulties in this new system of Pay-as-you-earn. Could you tell us how it is working now it has been going a little longer than when this paragraph was written?—The first thing with Pay-as-you-earn was to launch it successfully, which we did, and then to get the employers accustomed to it. Now you have the end of the war and demobilisation, and men are coming back and coming in, and that is added work to us. You have all those post-war credit calculations and so on. There is no sign at the moment of any relief. The position with us is very acute.

1739. What I wanted to get, if it is possible to get it, is what is your view on how far this system is administratively sound?—Our view is that the system has proved itself as administratively sound. Our troubles at the moment are not through

26 February, 1946.]

Sir CORNELIUS GREGG, K.C.B., K.B.E.

[Continued.]

inherent defects in it from the administrative point of view, but by reason of the fact that we have not sufficient staff to work it properly.

Lt.-Col. *Alan Dower*.

1740. There is one question I should like to ask on Pay-as-you-earn. The staff problem is a mutual one between the employers and the Income Tax collectors. The only other question I want to ask is with regard to these five doubtful cases. What inducement would there be to an employer to send in a fraudulent return?—I cannot go into these five cases, but you might have a conspiracy between the employer and the employee to let the employee get his remuneration without payment of tax.

1741. That is the only one?—No, I am not saying it is the only one. It is one of the things you have to fear, that there might be an arrangement made with certain workers: "I will pay you this and I will not include it in the return and tax it"—in other words, to offer the inducement of getting your remuneration tax free. That has cropped up in one of these cases.

1742. The employer himself would not avoid tax on his own business profits by sending in a wrong return of his employees' emoluments in this respect, because he would be writing them down as less than they actually were.—He might make a payment under deduction of tax and put it into his accounts not as a payment of remuneration but as a payment of expenses for raw materials or something like that. It might be linked up with an Income Tax fraud of a general character. £1,000 might be paid out as remuneration. He might deduct the tax but charge the £1,000 up as payment for raw materials. We should not get our tax. I am telling you what might happen, which is what I understood you asked me.

Mr. *Thurtle*.

1743. In connection with this inspection of employers' accounts, do you make a practice of notifying all the firms in the area concerned that they are liable to have this inspection?—No, we do not.

1744. Would not that be putting the fear of God into them and making them realise that if they were doing anything wrong there was the liability of detection?—We do not notify them when our audit staff goes down, but every employer knows that he is liable to produce his books to us and prove to us the truth of his returns. That is under the statutory regulations. Every employer is alive to that. I thought your point was when we send the audit staff down do we publish a notice saying that they are there? We do not do that.

Chairman.

1745. Paragraph 14 is rather a complex subject. In sub-paragraph 2 the Comptroller and Auditor General states that in

view of the shortage of man-power the Board have decided as an administrative arrangement that, as regard taxpayers who are known to have been in the Armed Forces . . . on or about the 6th April, 1944, any arrears of tax under Schedule E not exceeding £50 in amount for 1942-43 or earlier years are normally to be cancelled." Would you explain that? It is rather difficult for us to follow?—That is a statutory provision—Section 6 of the Act of 1944. If you remember, when Pay-as-you-earn came in you had the overlapping payments, under the old system of deduction and the new deductions under Pay-as-you-earn, and as part of the general introduction of Pay-as-you-earn all these overlapping payments were cancelled. That was for the ordinary case of a worker passing from one deduction system to another. You had also cases of people who had gone into the Forces, and they had tax falling due after they went into the Forces. A man might be in employment and be called into the Forces, and leave his employment after paying, say, only one week's deduction of tax from his pay, leaving all the other weeks still to be collected. Of course, after he went into the Forces we could not collect it. Section 6 provided, in cases like that, that if the tax had not been paid by 1944 that tax should be discharged so as to give parity of treatment to what that person would have got if he had not been in the Forces but had remained on under tax deduction and then had come under Pay-as-you-earn. That is the basis of the statutory cancellation. The point to which the Comptroller and Auditor General draws particular attention here—

1746. He says: "I understand that similar treatment is to be applied to taxpayers in other Crown employment or in railway employment."?—Yes, but the point is the treating of all arrears under £50 as if they were within Section 6, within the statutory provision.

Sir *Frank Sanderson*.

1747. May I ask one point on that? Is it not a fact that it is not cancelled? It is merely offset against your post-war credits. In other words, they receive less from their post-war credits than the amount which they have already to their credit to the extent to which you cancel it. You do not make a present to anyone?—(Sir *Gilbert Upcott*.) It is not so simple as that, Sir *Frank*. (Sir *Cornelius Gregg*.) No. Supposing the arrears were £40, it might well be that a strict calculation on Section 6 would have resulted in the cancellation of only £30. The point to which the Comptroller and Auditor General draws attention is that instead of calculating £30 and cancelling only the £30 and leaving the £10 to be collected, we have struck out the whole £40. Our reason for doing it is this. Supposing we did cancel the £30 and leave the £10, then your point comes in. The

26 February, 1946.]

Sir CORNELIUS GREGG, K.C.B., K.B.E.

[Continued.]

point would be this, that when that man comes out of the Forces we should never collect the £10. You could not descend on people coming out of the Army now to pay £10 due for years before they entered. But supposing we did then your point comes in: we should collect it with one hand to hand it out as post-war credit with the other. (Sir Gilbert Upcott.) It is possible that there may be amounts which would not qualify for post-war credits. (Sir Cornelius Gregg.) Before 1941.

Chairman.

1748. Has the Treasury any observations to make on this paragraph?—(Sir Herbert Brittain.) This scheme was not submitted to the departmental Treasury but we fully understand the Inland Revenue's difficulties and we have no objection to raise to it at all.

1749. Are there any further questions on paragraph 14? We pass to paragraph 15: "Remissions and Amounts Irrecoverable." Close on £6,000,000 falls under this heading and that, I understand from lower down, is £2,000,000 more than in the previous year?—(Sir Cornelius Gregg.) Yes.

1750. Would you say a word about that?—On the growth?

1751. Yes?—If you will look at the heading: "Remissions—On grounds of poverty; on grounds of equity" and so on, the poverty remissions in this year were £412,000. The poverty remissions the previous year were £217,000. That is a growth of roughly £200,000. With regard to equity cases the remissions this year were £1,390,000 and in the previous year £947,000.

1752. That is, in the main, remissions of Schedule A tax?—On lost rents.

1753. On houses which for some reason or other have not brought in any rent?—Where the rent was reduced. Then "Miscellaneous: mainly hardship on enlistment in the Forces"—in this year the figure was £1,847,000 and in the previous year it was £834,000. There is £1,000,000 difference there. The bulk are those three items. The remissions in respect of poverty have gone up by £200,000. The figure of remissions on grounds of equity, which is mainly the lost rents, has gone up by £400,000, and remissions on grounds of hardship have gone up by £1,000,000. I will say this about that £1,000,000. That is the very thing which is the subject, in a way, of Section 6. Before Section 6 came into being, providing for the statutory discharge of arrears of tax due from Members of the Forces, we were engaged in writing it off as dead wood. The people who joined the Forces in 1940 and 1941 left their tax district with an arrear behind them. There was no means of getting it from them. We

knew they were privates in the Army and had no other income, and the money was lying there uncollectible, and we had already started writing it off on the grounds of hardship. That is the reason for the growth of this £1,000,000. This £1,000,000 growth is entirely remissions by the Inland Revenue before Parliament brought in the statutory provision for writing off arrears. It is mainly cases of people in the Army who could not pay the tax, and there was no use in keeping it on our books in the hope that when they came out they would pay it.

1754. We are concerned here mainly with the smaller taxpayers?—Yes.

1755. There are not any exceptionally large cases which you think you ought to mention?—Not in the Forces, no. I could mention, if you wish, the largest cases of remissions on grounds of poverty and equity.

1756. If you please. Just give us an example?—The largest case of a remission on the ground of poverty was the case of a man who had been a deck hand and became part owner of a trawler—rather an extraordinary case. He was the part owner of this trawler for a period of seven months, during which time he earned something like £2,200. Then the trawler was torpedoed and he lost his life. Our assessment, of course, did not arise until after that event. We then found the widow. She had £1,000 in the bank at his death and out of that £1,000 (they had been living in furnished rooms) she had bought a house for £900. She had £300 still in cash due from the boat and she bought Savings Certificates for the children. There was £750 tax to pay on this £2,200, and we remitted the whole lot because she could not pay except by selling the house, and she had ten children, two of them in the Navy, and was receiving a pension of £350 odd for herself and the eight children. We felt it was utterly, impossible for the Revenue to turn her out of the house, so we wrote off the whole £750 off on the ground that there was poverty—no ability to pay. That was the biggest poverty case. The biggest equity case was a block of buildings in the West End, the upper floors of which had been built mainly for service flats, and there was a heavy rent payable. The war came and this company running the service flats got into difficulties, because they could not get tenants for them, and in the end the rent which had been of the order of £50,000 a year was reduced to £40,000. This is a case where the Schedule A annual value of that building had been on the basis of £50,000. The rent was reduced to £40,000 and arrears of rent were written off, and under the general point of lost rents or rents reduced under war conditions we reduced the Schedule A down to the level of the new reduced rent. We got all the tax on the rent paid, but that

26 February, 1946.] Sir CORNELIUS GREGG, K.C.B., K.B.E.

[Continued.]

reduction of the Schedule A tax on the annual value down to the rent is technically an act of remission, because the Income Tax law (it was a point raised last year by the Public Accounts Committee) has no express provision for the purpose. That was the biggest case in equity. Nearly all the increase in equity is due to reducing the Schedule A charge to correspond with a loss of rent or a fall in rent.

1757. It was probably only in the year 1943 or in 1944 that people became alive to the fact that they could get this extra-statutory remission?—No. That is well known. The actual fall in the rent only took place during the war.

1758. Yes, but people did not become at once aware that they could get the remission. Is not that right?—Once they got the reduction of rent they would go straight to the Tax Office. People with property understand well that where you have blocks of flats the Schedule A is always kept by us in touch with the actual rent. There was no delay in our giving it.

1759. I was not suggesting delay at your end, but delay on the part of the taxpayer in claiming the remission.—The tax follows the actual rent payment on these blocks of flats.

Lt.-Col. *Alan Dower*.

1760. Is the remission of tax due to lost rent a right or a title in equity?—It is a remission, not a discharge.

Lt.-Col. *Alan Dower*.] I do not think I made myself clear. If a loss of rent occurs is there a right to the sufferer who has lost the rent to a remission, or is it a case of an optional grant in equity by the tax assessor?

Chairman.

1761. I think the answer to that is contained in the first line of paragraph 15: "Schedules of Income Tax and other duties remitted extra-statutorily or written off as irrecoverable."—A remission is an extra-statutory giving up of taxation as distinct from a discharge, which is statutory. There is no statutory right, but it is a practice since long before the war.

1762. It is custom?—Yes, going back to the middle of the nineteenth century. (Sir *Gilbert Upcott*.) Subject to report to this Committee.

Lt.-Col. *Alan Dower*.

1763. The only other question is in regard to bankruptcy. Are these bankruptcies caused by action of the Inland Revenue or are they due to other causes?—(Sir *Cornelius Gregg*.) They are generally bankruptcies arising out of their own affairs. Very rarely we would bankrupt a concern for our tax.

Mr. Benson.

1764. With regard to liabilities not enforceable, are there any large items there, and how did the liability accrue if it was not enforceable?—That would be where the person had gone abroad. That is the simplest of all those cases. If a person has a tax liability here and goes abroad and leaves no assets here which we could distrain upon, our only hope is when he comes back. We have to write off quite a lot of tax on that ground.

Mr. Benson.] Is there any case of deliberate evasion?

Chairman.] We are coming to a paragraph about evasion in a moment, paragraph 18.

Mr. Benson.] That is as to investigation into fraud and evasion. If they have gone abroad you cannot investigate. It is slightly different. But it is not a point I press.

Chairman.

1765. We pass to paragraph 16. That shows figures which are not in any way unexpected or unusual, does it not, in regard to the National Defence Contribution and Excess Profits Tax?—Yes.

1766. In paragraph 18 the Comptroller and Auditor General says: "I have been furnished with statistics relating to investigations at Head Office into fraud and evasion. The statistics show that investigations brought to completion in the year to 31st March, 1945, resulted in settlements in 1,297 cases for a total of £2,661,168." I should like to know what the distinction is between fraud and evasion. I know what tax avoidance is; that is when you are doing something that is within the law. Presumably evasion means you are doing something that is without the law, and that surely amounts to fraud?—These figures do not cover legal avoidance at all. Evasion covers fraud for this purpose. These cases do not cover any of those legal arrangements by which a taxpayer within the law can reduce his liability, to which we give the name "legal avoidance". They do not cover that. (Sir *Gilbert Upcott*.) I think the expression is probably introduced to cover cases which are black, fraud, and rather grey, which are evasion. (Sir *Cornelius Gregg*.) These figures would cover cases, and they are the overwhelming majority of cases usually, where we settle on the payment of duty and payment of penalties, but then there comes a bad case of deliberate fraud, where it is done on a deliberate scale, where we prosecute and take criminal proceedings. We take proceedings in the Courts, because in the case of cold, calculated, deliberate fraud carried through with false books and false invoices, we are more concerned with stopping the fraud than with getting the revenue. We would

26 February, 1946.] Sir CORNELIUS GREGG, K.C.B., K.B.E.

[Continued.]

take proceedings and not settle by way of any kind of compromise pecuniary settlement. We have power under the law to make a pecuniary settlement, but we should not use that power in the case of a bad fraud. We should insist on criminal proceedings.

1767. Do these figures show any increase in fraudulent practices under the tax law?—No, and in wartime, of course, we were not cultivating this margin as carefully as we would in peacetime, because we have not the staff for it. This work is done by our Inspectors of Taxes, and we are carrying on with some 200 Inspectors of Taxes below the pre-war strength. We have not the people. You want highly skilled people.

1768. You cannot draw any deduction from these figures?—No.

Mr. Thurtle.

1769. These are really only the cases you have found out?—Precisely; the cases we have found out.

Chairman.] Are there any questions on paragraph 18? We pass to paragraph 19. I do not think we need ask you anything on that.

Lieut.-Colonel Alan Dower.

1770. I should like to ask one question on paragraph 19. Can we have—or is it not relevant—the amount of war damage contributions that have not been collected? What percentage of war damage contributions have not been collected? The war damage contributions scheme is over now, and I wanted to get a rough idea of what the position was?—This is the position as at July, 1914.

Chairman.

1771. This table shows about £14,000,000 of arrears carried forward at September, 1944, does it not?—I gather the honourable Member was asking for the relation between this £13.9 million and the total war contribution for all years.

Lt.-Col. Alan Dower.

1772. Yes?—(Sir *Herbert Brittain.*) The whole contribution is about £200,000,000—five times £40,000,000. £14,000,000 will be 7 per cent. (Sir *Cornelius Gregg.*) This is £14,000,000 for all four instalments of the contributions. (Sir *Herbert Brittain.*) I think some of this represents also contribution which is standing over until a value payment is made in respect of damaged properties.

1773. Are you telling me that only £14,000,000 of war damage contributions out of £200,000,000 is still outstanding?—(Sir *Cornelius Gregg.*) There is £14,000,000 at that date outstanding out of £160,000,000. Of that £14,000,000 there is

a certain amount standing over not collectible at all, because where there is a war damage contribution payable on a house that has been completely destroyed or is subject to a value payment, the contribution is not collectible. The £14,000,000 includes items of that kind. (Sir *Gilbert Upcott.*) There is £6,000,000 of that. (Sir *Cornelius Gregg.*) Yes.

Chairman.

1774. Now I think we can pass to the account, on which I have only one question, and that is on page 9. You will see half way down the page the details of receipts. These are the appropriations in aid, totalling £146,000 estimated. The last item, miscellaneous receipts, you estimated a receipt of £6,495 and realised £59,000. It seems a very much bigger figure than the estimated receipts and it is only described as "miscellaneous." I should rather like to be informed as to the details of it?—The bulk of that is due to excess sums lying in our hands which we have not repaid to the taxpayer because we do not know where he is. This point cropped up also last year. There is quite an amount of tax owing to the transfer of people, people who have left employment and gone somewhere else. It is found after they have left that they have paid too much tax. We do not know where they are. You cannot get hold of them. They vary in amounts. There are quite a number of amounts under 1s. You have every figure up to £10 and over all over the country, small sums and big sums. There is a huge number of them. There are over 50,000 of them at least, producing something like £45,000 or £46,000. The average is very nearly £1, so some are well over £1; but some are 1s. They are the fragments of tax which are really due to the taxpayer, but he has gone and we do not know where to find him. We are looking into the bigger cases, and are trying to find the taxpayers. We have succeeded recently in finding some of them.

1775. The point I was really asking was that you estimated that the amount would be £6,000, and in fact it was £59,000 from this source?—I understand the reason is that it is a sort of windfall element and you cannot budget for it. It is brought in here as an appropriation in aid, in effect as a receipt, but, of course, it still remains a debt due to that taxpayer. Anyone who comes to us we shall have to pay. We cannot take it up with the small ones, 1s., 5s., 10s.; it is hopeless, but the larger sums we have picked out, and we are making an inquiry like a solicitor looking for the next of kin, to find out where the man is.

Chairman.] Are there any questions on the account?

26 February, 1946.] Sir CORNELIUS GREGG, K.C.B., K.B.E.

[Continued.]

Mr. Benson.

1776. On page 7 Subhead E is "Assessors, etc., of Taxes: Remuneration and Expenses." The note to Subhead E says: "Due mainly to an excess upon the provision for poundage payable to agents for collection of Income Tax." Assessors have nothing to do with the collection of tax, have they?—No, the assessors are simply one item in this. This would cover the poundage payable. There is poundage in certain cases paid on collection. The agent for foreign dividends who deducts tax on foreign dividends is given a poundage, and there are other odds and ends of cases where a poundage is given. This money is not payable to the assessors. It is the odds and ends of these poundage payments.

1777. Are you steadily succeeding in reducing the number of individual assessors, assessors who are not merely nominal assessors but real ones?—There is a very small number of them, in areas like Liverpool, where you have the genuine assessor who actually does the assessing. They are still doing it.

1778. Do they actually do the assessment or are they fifth wheels to the coach?—The claim in cases like Liverpool is that they are not merely the fifth wheel filling in a figure which somebody else has found, but they are themselves filling in a figure—and I think that is true.

1779. In the cases now left?—Yes.

(Sir Cornelius Gregg withdrew.)

TREASURY MINUTE ON PARAGRAPHS 4 AND 5 OF THE REPORT OF THE COMMITTEE OF PUBLIC ACCOUNTS, 1945.

Sir RAYMOND BIRCHALL, K.B.E., C.B., and Mr. G. ISMAY, C.B., called in and examined.

Chairman.

1784. You have only recently become Accounting Officer of the Post Office, I believe?—(Sir Raymond Birchall.) Yes, since the beginning of this year.

1785. I do not think you signed the account which we are going to discuss?—No. Sir Thomas Gardiner signed that.

1786. But you accept responsibility?—Yes.

1787. Will you turn first of all to the Treasury Minute on paragraphs 4 and 5 of the Report of the Committee of Public Accounts, 1945. This is dealing with the airgraph service. This is a long story. It is the story of a contract which turned out rather unfortunately for the photography work in respect of the airgraphs.—Yes. As regards the first year it was based on a fixed price. The subsequent years were based on cost investigation.

1788. In the last sentence of the Treasury Minute it says: "Their Lordships have been informed of the settlement made by the Postmaster General with the contractor for 1943 and They have no comments to offer on the terms which have been agreed."

1780. And in Edinburgh?—I would not say it is universally true that the work done is original work, but I know in cases like Liverpool it has been done.

1781. Wherever possible you have made the assessor a purely nominal appointment. Are you still trying to amalgamate the assessment with the collection?—We are considering that very question as to whether we should not go a further step and get one service, which is what I think you have in mind.

1782. You are considering that?—We are considering that at the very moment. The city of London was another step in the same direction—a homogeneous service.

Sir Frank Sanderson.

1783. On page 11, in the last paragraph of the notes it states: "Expenditure of £192,557 11s. 10d., less Appropriations in Aid of £1,726 17s., for the administration of reserved services, Northern Ireland, has been charged to this Vote," and that sum of £192,000 odd has been reported to the Treasury with a view to deduction from the Northern Ireland share of reserved taxes. Has that money been recovered?—Presumably it has. (Sir Herbert Brittain.) Yes. It is automatically recovered.

Chairman.] Are there any further questions on the account? May I take it that the account is approved? (Agreed.) Thank you, Sir Cornelius.

You obtained some voluntary rebate from the company concerned?—That was for 1942. The contract was based on a fixed price for 1942 and then for subsequent years it was to be on the basis of cost which had been ascertained. In 1943 (I think the figures were mentioned last year) the basis was that Kodaks were paid 12½ per cent. on their costs, the agents in different parts of the world were paid 12½ per cent. on theirs, and Kodaks were paid 5 per cent. on their agents' costs. That particular year 1943 was the heaviest year for the airgraph service. The traffic was about 11 million a month, and there were some considerable differences between the provisional rate at which Kodaks had been paid and the rate which emerged from the cost. That involved a repayment of about £378,000. There had been a voluntary repayment of £130,000 the year before.

1789. For 1942?—Yes. That was purely voluntary on Kodaks' part. The £378,000 was simply worked out under the contract. The United Kingdom proportion of those repayments of roughly £500,000 is credited really against G.6 you will find later in the account. In the following year 1944

26 February, 1946.]

Sir RAYMOND BIRCHALL, K.B.E., C.B.,
and Mr. G. ISMAY, C.B.

[Continued.]

the traffic dropped to about 8 million a month, and then in 1945 it tailed off very rapidly and the service was closed down in July, 1945. We have agreed with the company that we shall make one settlement to cover 1944, and the period up to July, 1945, and that is now being worked out by the accountants.

1790. You mean in effect the terms of the contract have not yet been settled for 1944 and the first half of 1945?—Yes. The contract was simply a fixed price for the first year 1942 and then prices for subsequent years were to be determined by the actual ascertained costs of working. The fixed price applied only to the first year, when nobody knew what the position would be at all.

1791. It was on a cost-plus basis for subsequent years?—Approximately a cost-plus basis, yes.

1792. Sir Herbert, have you anything to add to this Treasury Minute or any comment to make on the facts as disclosed for the subsequent years?—(Sir Herbert Brittain.) No, Sir, except that for the subsequent years after 1942 I think we should regard the general arrangements as pretty

reasonable. It is a difficult case, owing to the ups and downs of the traffic.

Mr. Thurtle.

1793. What would be the percentage of profit on this cost basis? There would be some agreed percentage, I take it?—(Sir Raymond Birchall.) No. That was to be determined by agreement. It was to be a reasonable basis to be determined from the experience of the working of the contract. It was a very novel type of contract altogether. It was entered into when time was the essence of the thing. We had to get it going quickly to get mails out to the troops, and it was completely new. It had not been tried before. We fixed what we thought was a reasonable price just for the first year, and then left the subsequent years to be determined simply on a reasonable basis of profit after the cost had been worked out.

1794. By negotiation?—Yes, by negotiation. The figure we did agree was, as I said, 12½ per cent. on their cost and 5 per cent. on their agents' costs.

Chairman.] Are there any further questions on the Treasury Minute?

REVENUE DEPARTMENTS APPROPRIATION ACCOUNTS, 1944.

VOTE 3.

POST OFFICE.

Chairman.

1795. We turn now to the Revenue Departments' Appropriation Accounts 1943, Vote 3, the Post Office. Will Members turn first to page xi, paragraph 20 of the Report of the Comptroller and Auditor General. Sir Gilbert states: "The Accounts of the Post Office Savings Bank for the year ended 31 December 1944 have been subjected to usual test examination with satisfactory results. In paragraph 12 of my Report for 1941, I referred to the reduction of the internal checks at the Bank arising from shortage of staff." He speaks of further reductions in checks and also arrears in normal accounting processes. Can you give us a few details of those reductions in checks and arrears in accounting processes?—(Sir Raymond Birchall.) Yes, I will try. There are about 18,000 Post Offices transacting Savings Bank business, and each of these offices sends up to the Headquarters of the Savings Bank at West Kensington a daily statement of its accounts, withdrawals and deposits. Those amount now to 400,000 a day. Those are received at the Savings Bank Headquarters, checked daily and agreed by the Savings Bank against cash accounts which the Post Offices send up to the Accountant-General's Department. That agreement is made monthly. That really establishes that these summaries of accounts, vouchers which have been sent up, are correct. The Savings Bank then has to take those items and sort them so as to be able to post them to the

ledgers. The ordinary Savings Bank accounts for customers now amount to over 20 million. There are 20 million cards, each card being a depositor's account in that ledger. All these 400,000 transactions a day have to be sorted and posted to these ledgers. The posting is done by machinery. It is typed on to each card, and the machine keeps a total of what it is doing. At the end of the day they are able to strike a daily balance of what they have posted to these ledgers.

1796. Is that the process which has been curtailed?—That is the first part of the process and that still remains. That has been modified, but in essence it still remains. The second part of the process was an annual check of blocks of accounts. The first part, this daily posting, merely shows that all the vouchers and statements which have been received by the Bank have been posted to ledgers, but it does not show that you have posted it to the right card. Although the posting has been done it may have been to the wrong card, and that you can only check on receipt of the Savings Bank book, but our normal practice pre-war was to split these 20 million accounts into blocks, take out the amounts of the deposits and the withdrawals, interest credits, and so on, and balance them in sections. A full balance on that basis had been abandoned even before the war in 1936. About the time the war came we were trying to spread it over several years.

26 February, 1946.]

Sir RAYMOND BIRCHALL, K.B.E., C.B.,
and Mr. G. ISMAY, C.B.

[Continued.]

Then since the war we have tried various devices—sampling and so on—until in 1943, I think it was, when we had to abandon any attempt at all to deal with this annual balancing in blocks of accounts. We still retain the daily balance and also the check against the subscriber's book, which is the real check when that comes up for examination. This is really an internal check which enabled us to clear earlier a good many erroneous entries.

1797. Will you try to resume your pre-war practice when staff conditions permit?—One would like to, but it would be a tremendous business restoring it. For one thing, the business has grown so enormously. There are now, as I say, over 20 million ordinary Savings Bank depositors. There were about 11 million pre-war. On top of that we have all the Services gratuities and so on. There are about 2 million of those already. There are further problems coming to us with the Income Tax credits and so on, which means a good many more millions. It is not simply a question of staff shortage. A very serious problem is accommodation shortage. The whole of the work used to be done at Blythe Road, which was the Headquarters of the Savings Bank: That has now had to be split up, and some is up at Hamrogate, some of it is at Manchester; some of it is scattered about different parts of London—at Epsom and so on—and if we could ever get the whole of the work back into one office again, which I do not think is ever likely, and we have sufficient staff, then we would like to set up something, probably not exactly what we did pre-war, because we have learned a good deal from various sampling processes instead of full balancing, I think, by war devices we have adopted. We should have to consider the whole of that ground and what our experience had taught us, really, before restoring all the very elaborate pre-war balancing. The staffing position, of course, at present makes it quite impossible to do anything. There are about 1,500 staff short at present in the Savings Bank. There are a good many processes which are hopelessly behindhand.

1798. Out of how many staff before the war?—Before the war about 6,000, but that has grown to about 13,000 now, scattered about these different places. The work generally has got very badly in arrears. For instance, at the end of 1945, the calculation of interest on accounts for 1944 had not started on over 6,000,000 accounts.

1799. What happens if any subscriber sends up his book and asks for the interest to be calculated?—Then you have to calculate it specially. It is dealt with specifically and somebody else suffers. It is simply so much in arrears. The same thing applies to books which subscribers are sending in. We are trying to discourage that as much as we can. We do not automatically

supply an envelope at the Post Office to send a book in now. We are still getting 20,000 a day, many from people sending them in their own envelopes.

1800. Are you overtaking arrears?—We have been hanging on by our eyelashes, with a little bit of improvement occasionally. It has gone back in the last week or two because of influenza. There were 1,800 girls away for some weeks with influenza. The gratuities work is growing. On the whole I do not think they are much more than holding their own.

Chairman.] Are there any questions on paragraph 20 of the Report of the Comptroller and Auditor General?

Sir Frank Sanderson.

1801. Are there many complaints from depositors at the Post Office about their accounts being incorrect?—I should not have thought so. (*Mr. Ismay.*) It is very difficult to get a statistic of that nature. There are far more complaints of one sort and another than we like to have, naturally. The mere fact that the books are in delay does bring forth complaints. There are a certain number—but I could not hazard a guess of the number—of complaints of inaccuracies in the books, and it was this balancing process of which Sir Raymond was speaking which helped us to eliminate some of those errors without requiring the book. That is to say we would trace certain errors and we could also ask for the book. That has gone by the board, so frequently it is the depositor who finds the mistake first. We heartily dislike having complaints, and giving cause for complaints. At the same time my own appreciation of the situation would be that the public have been extremely long suffering. The volume of complaints we are getting seems to be extremely small in relation to these 20 million accounts.

1802. What I had in mind was this, that you would agree it would be fairly reasonable to assume that a complaint is only lodged when the correct amount of interest has not been added to the account, and it would be reasonable to assume, therefore, that there would be an equal number of accounts where the interest added was in excess of the amount which should in fact be credited to those accounts?—That is possible. I do not know whether I accept it as a mathematical certainty, but it is possible.

1803. More or less?—Yes. (*Sir Raymond Birchell.*) We did have some checks back in 1937 to see what modified balancing meant. I think the result of this rather pointed to a posting error occurring about once in 10,000 postings.

1804. Have you any method of checking the total amount of interest which accrues to the Post Office Savings Bank Account,

26 February, 1946.]

Sir RAYMOND BIRCHALL, K.B.E., C.B.,
and Mr. G. ISMAY, C.B.

[Continued.]

so as to know in the aggregate the amount of interest which is being credited to the account is not in excess of the amount which it should in fact be?—(Mr. Ismay.) Yes; that is done over the whole block of accounts, and a reasonable margin of error can be established. Again, I would not like to guess what it is on that volume, having regard to the fact that the interest accrues on complete pounds for complete months; it can be quite a substantial tolerance, but it is looked at from that angle.

Chairman.

1805. Are there any further questions on paragraph 20? We pass to the account which is at pages 12 to 24. I would like to ask you a question on page 15, Subhead E.5 "Conveyance of Mails by Air". The expenditure exceeded the grant by £748,000. The explanatory note says: "Due in part to air letter traffic being greater than anticipated and in part to an unexpected increase in the payment to the Air Ministry as the result of rebates allowed by a contractor under Subhead G.6." If you look at Subhead G.6 on the next page one sees a grant of £400,000, and the expenditure is nil. Could you explain that?—(Sir Raymond Birchall.) That is the airgraph rebates from Kodaks which I mentioned. While the total amount of the rebates is about £500,000 the United Kingdom share comes to about £400,000. When we received it the Treasury directed that we should pay it over to the Air Ministry as part of the contribution towards the cost of conveyance of air mails.

1806. The Air Ministry took credit for the rebates you obtained from Kodak Limited?—As regards air mails we pay over to the Air Ministry all the revenue we get, less our costs of handling, really.

1807. We will take the whole of the account together, it is rather compendious. At the bottom of page 17, amongst the items of losses, there is an item: "Adjustment of net bookkeeping discrepancy", a figure of £17,000. That is a somewhat cryptic indication?—That is really the Accountant-General's Department. It has relation to the checking of the cash accounts which come in from Postmasters. In order to save staff again they have cut down the amount of checking that is done on these cash accounts. It is not a percentage over the whole thing. They treat the different items differently. If it is a question of cash, of stock, of items on which fraud is reasonably possible, they still maintain their full check, but on a good many other items where fraud is unlikely they have cut down their check to, I think, it is one week in twenty-six now—two weeks really in the year—and apart from actually cutting down the amount of work in checking, they do not carry their inquiries as far as they did. Instead of carrying a discrepancy to the

state of clearing it up with the Postmaster, once they are satisfied it is more or less a bookkeeping entry, that it has been entered in the wrong account under the wrong heading, they then pass it to a suspense account instead of pursuing the inquiry—once they are satisfied there is no chance of fraud. This £17,000 is a write-off of the amount which those discrepancies had reached. I think it was rather less than £18,000. It was £17,500. If there is a write-off of £17,000 of that it works out at just about 2½d. per cash account.

1808. But this item appears year by year in the Appropriation Accounts?—It will do, so long as this system is maintained. This is something quite new. I think it is the first time it has appeared in the accounts. (Mr. Ismay.) It is the first time, and so long as we are maintaining these reduced checks there will be a discrepancy figure of this nature. It may, of course, go either way. We may have a charge or we may have a credit for the following year. Next year, when we come to it, it will be in fact a further charge of slightly less than this amount.

Chairman.] Are there any questions on the account?

Lt.-Col. Alan Dower.] Is it possible to discuss now the question of losses of expenditure on the telephone service?

Chairman.] We shall come to that when we take the commercial accounts.

Mr. Benson.

1809. There is one point I should like to ask the Accountant-General. On page 18, in the details of losses is an item: "Loss on exchange of foreign and counterfeit coins". What method do you adopt in exchanging your counterfeit coins to reduce your loss?—These are simply cases in which counter clerks have accepted coin which they ought not to have accepted.

1810. You say: "exchange of foreign and counterfeit coins". I wanted to know how you exchange a counterfeit coin?—I do not want to give you the advice to try it at a particular Post Office, but it might come off, and in that event we shall have a charge here in due course.

Chairman.] It is the foreign coin that is exchanged, not the counterfeit one.

Mr. Benson.

1811. It is the Post Office who exchange the counterfeit one, apparently?—It is loss on exchange of foreign coins.

1812. It should be loss on counterfeit coins and loss on exchange of foreign coins. That might be better?—This is a generic heading which has gone on from year to year, and whether there is in fact any loss in exchange on this particular item this year I do not know. It may be entirely

26 February, 1946.] Sir RAYMOND BIRCHALL, K.B.E., C.B.,
and Mr. G. ISMAY, C.B.

[Continued.]

on discs and counterfeit coins. (Sir Raymond Birchall.) Coin boxes is one way.

Mr. Benson.] I know how you get them, but I wanted to know how you exchanged your counterfeit coins.

Sir Frank Sanderson.

1813. The last note at the bottom of page 16 is: "The value of vehicles and accessories received from the Ministry of Supply without payment was £795,000." Could you explain how it comes about that the Ministry of Supply is in a position to make a present of £795,000 to another Department?—That is merely suspension of Governmental accounting between Departments during the war. There was no cash accounting between us and the Ministry of Supply for motor vehicles of any sort.

1814. Probably this will be on similar lines, but on page 20 I see in the notes: "Stores to the value of £209,000 were received free of charge from other Government Departments, etc. Freight services to the extent of £22,000 were provided without payment by the Ministry of War Transport". I take it that is merely a question of bookkeeping?—It is exactly the same—the suspension of cash accounting. We were not getting cash for telephone and telegraph services as we did pre-war. There is some lend-lease there. About £98,000 worth of stores came under lend-lease terms.

Chairman.

1815. I should have asked you one question, Sir Raymond, on H.1, a figure of £73,900. That is a great deal in excess of what the figure used to be for the years before the war, is it not?—Yes. It was about £17,000 to £18,000 pre-war, and it is very disturbing, in a way.

1816. What does it consist of?—Incorrect receipts, payments of money for stamps or whatever the transactions are at the counter.

1817. It is the public getting the better of the Post Office staff, or is it the Post Office staff getting the better of the public?—These are losses. It is rather difficult to say. The transactions are very large. The

transactions this year were £2,560,000,000. It works out at rather over 6d. per £1,000.

1818. You cannot say whether this money or stamps or whatever it may be which cannot be accounted for has gone into the pockets of the public or into the pockets of the staff?—We cannot establish the facts, no.

1819. The figure is four times what it was before the war, but your turnover is about 2½ times what it was before the war?—Yes. It is partly the fact of inexperience of the staff and the very difficult working conditions—the black-out, damaged premises, air raids and so on; also I think it was very largely due to paper rationing, the bad quality of the paper and small forms. Figures are much more difficult to read. That all tends to an error by a counter clerk when she is making a payment out or taking a payment.

1820. But you are not seriously disturbed about this figure?—Oh, no. I think, compared with any other sort of business, they would be very pleased if their loss was down to 6d. per £1,000 on any sort of counter business. It is merely the very large turnover which makes it look a serious figure.

1821. Unlike Woolworths, you do not put your goods on the counter?—No.

Chairman.

1822. Are there any further questions on the account? Is there any question on the Appendix? We turn to the last page, to the Post Office Loan Expenditure Account. The £303,000,000 shown there really is the capital which you have received from the Exchequer?—Yes.

1823. Some of it has been redeemed, I take it, because you borrow some of your money from the Exchequer on the annuity basis?—Yes. Under Subhead M, I think it is, on the Vote, there are repayments of annuities.

1824. So the £303,000,000 is not your outstanding capital now—or perhaps it is?—No. That would not be the outstanding figure. £284,000,000, according to the commercial accounts, is about the capital outstanding on telephones.

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

POST OFFICE SAVINGS BANKS ACCOUNTS, 1944.

Chairman.

1825. We turn now to the Post Office Savings Banks Accounts, 1944. The most interesting feature of that is that on the back page it shows your deposits increased during the year 1944 by over £220,000,000?—£412,000,000, and £192,000,000 withdrawals.

Chairman.] Are there any questions on this Account?

Sir Frank Sanderson.

1826. I have one question. On pages 2 and 3 the Account sets out the nature and amounts of securities held. I take it the amounts shown are the amounts at cost price. Is any figure shown of the securities at the market price, the market value?—(Sir Raymond Birchall.) That is a Treasury question. That is the National Debt Office part of the statement. These are nominal amounts, I believe.

26 February, 1946.] Sir RAYMOND BIRCHALL, K.B.E., C.B.,
and Mr. G. ISMAY, C.B.

[Continued.]

1827. They are nominal amounts, whether they were purchased below par or above par. Is not that right?—I believe so; but it is really a Treasury question.

1828. The total does not necessarily represent the value to-day?—No. (Sir *Herbert Brittain*.) I am not sure that we publish that. I do not know whether the Comptroller and Auditor remembers, but I do not think we publish the market value. (Sir *Gilbert Upcott*.) I have always understood that this is carefully designed not to be an account. It states the liabilities and it states that certain assets are held against them, but I think the Treasury have always been careful not to present any kind of balance sheet.

Chairman.

1829. These are the nominal values of the stocks in the right hand column? (Sir *Herbert Brittain*.) Yes, these are nominal.

Sir *Frank Sanderson*.

1830. Surely the point does arise that many of these securities mature from time to time?—Yes.

1831. They will mature at a price in excess of the price at which they were purchased. Therefore to that extent there

would be profits accruing upon those securities. How is the profit appropriated? Is it credited against the interest that accrues?—Such profits go to capital. On the other hand there are certain stocks which are bought at a premium and we make a deduction for those against the interest.

1832. It is not a Treasury principle to buy at a premium?—Yes, quite a number have been bought at a premium in the past, and that figure is set aside, and it is the resulting figure which is available after expenses have been met for transfer to the Exchequer.

1833. Any profit would accrue to the account of the Post Office?—No, it goes to the Exchequer. The profit goes to the Exchequer just as the Exchequer guarantees the $2\frac{1}{2}$ per cent.

1834. It would be credited to the Treasury?—Yes.

1835. And not to the Post Office?—Yes. (Sir *Gilbert Upcott*.) I think the Treasury will agree with me that the point is that these securities are not the depositors' security. The depositors' security is the credit of the United Kingdom, not these securities.

Chairman.] Are there any further questions? May I take it that the Account is approved? (*Agreed*.)

SAVINGS BANKS AND FRIENDLY SOCIETIES ACCOUNTS, 1944.

Chairman.

1836. We turn now to the Savings Banks and Friendly Societies Accounts 1944. This shows on the right hand side interest paid and credited to depositors, Post Office Savings Bank Fund, just over £33,000,000 in the year. Then excess of interest accrued to the Post Office Savings Bank funds, £2,305,000. That is the surplus of which Sir *Frank Sanderson* was speaking just now, I think, is it not?—(Sir *Herbert Brittain*.) The £2,305,000 is the excess transferred to the Treasury.

1837. That goes to the Treasury?—Yes. (Sir *Gilbert Upcott*.) The excess interest, but not the surplus of capital. (Sir *Herbert Brittain*.) No.

1838. That shows the extent to which your securities are invested at a higher rate than $2\frac{1}{2}$ per cent., which is what you pay your depositors?—On the average it is about 3 per cent. (Mr. *Ismay*.) And ours is slightly below $2\frac{1}{2}$ per cent. because of the fractions of pounds and fractions of months.

Chairman.] Are there any further questions on this Account? May I take it the Account is approved? (*Agreed*.)

POST OFFICE COMMERCIAL ACCOUNTS, 1944-45.

(Paper circulated for the information of the Committee.)

Chairman.

1839. You stopped publishing the Commercial Accounts in their ordinary form on the outbreak of war?—(Sir *Raymond Birchall*.) In 1939-40 we published them. We are hoping to resume with the 1947-48 account. That is what we are aiming at.

1840. The account for 1947-48?—Yes.

1841. When will that be ready—about June, 1948?—Yes.

1842. That is rather more than two years?—Yes. (Sir *Gilbert Upcott*.) It will be considered by the Public Accounts Committee in the year 1949.

1843. You think it is impossible to get the accounts for 1946-47 in the ordinary form?—(Sir *Raymond Birchall*.) Fully audited and everything, yes, I think so. It means restoring so many statistical processes and so on which have been abandoned, and I do not think we could possibly get it ready in a suitable form for the Auditor before then.

1844. These are the only accounts, are they not, which show the shareholders—that is to say, the taxpayers—the extent to which their concern is being used for taxing themselves?—Yes.

1845. You cannot get that from the Estimates or the Appropriation Accounts?—

26 February, 1946.]

Sir RAYMOND BIRCHALL, K.B.E., C.B.,
and Mr. G. ISMAY, C.B.

[Continued.]

You cannot get that from the cash accounts or the Budget.

1846. These accounts show a surplus of £40,000,000?—Yes, £40,000,000 plus £7,000,000 odd for interest.

1847. Plus £7,000,000 or less £7,000,000?—Plus £7,000,000. Interest is deducted before this balance is struck, so it really amounts to about £47,000,000. (Sir Gilbert Upcott.) You said "taxing", but, of course, the payment of interest is hardly fairly described as taxation.

1848. The payment of interest on capital, so to speak, has been charged before arriving at the figure?—(Sir Raymond Birchall.) It has been charged before we strike this balance, yes.

1849. May I turn to the very last paragraph of that statement: "Post Office capital expenditure financed out of money borrowed amounted to £6½ million." That is in the year 1944-45, I take it. In addition, certain services rendered free by other Government Departments raised the total to £6,650,000, as compared with a very much bigger figure for 1938-39. In brackets there is a note: "(These figures do not include the cost of abnormal construction for the War Ministries which is charged to voted moneys)". You have undertaken a great deal of capital expenditure during the war which has been charged to voted moneys?—Yes. That figure really shows the extent to which the normal business of the Post Office in providing plant for telephone subscribers and so on was closed down during the war. It was very much cut down, but the actual amount of work of that type done by the Post Office was much about the same; it was rather larger than in pre-war days, mostly on defence purposes which was charged to the Vote of Credit and not to Post Office capital.

1850. There will be a very substantial sum after the war has gone on for four or five years of capital expenditure on an undertaking which is not shown in these accounts at all?—It is not Post Office plant. The question still remains, whether that plant should be taken over by the Post Office or not. Some of it probably would be useful to the Post Office. Some of it would not be. Aerodromes and so on completely away from any reasonable spot—the plant and cables there are never likely to be of any use to the Post Office. That type of plant we should not want to take over.

1851. You will have to adjust your figures?—For any plant we do take over.

1852. In respect of plant taken over?—At a rough guess it would be something like 50 per cent. of the plant which was constructed for war purposes we should regard as being likely to be of use to the Post Office.

1853. Can you give the Committee a figure of the amount of capital expenditure charged to voted moneys?—Yes, about £37,000,000.

1854. That includes all these deep underground lines and so on?—Yes. That type of plant. A fair amount of defence capital was actually charged to Post Office capital in the ordinary way, i.e. where it was in the Post Office cables, private wires for the Services, and so on.

Lt.-Col. Alan Dower.] Are we dealing with the explanatory memorandum of the Commercial Account?

Chairman.] Yes.

Lt.-Col. Alan Dower.] Does this embrace the telephone service?

Chairman.] Yes.

Lt.-Col. Alan Dower.

1855. I have only one question. I do not know whether it is in order or not. Are you satisfied that you are recovering all the charges for trunk calls?—We are not paid in cash by Government Departments and so on. You mean charges from the public?

1856. Yes?—Our bad debts are an extremely low figure. Whether a call may actually get into the accounting system or not is, I suppose, possibly a doubtful question. If a girl does put a call through and does not make out a ticket, then it does not come into the accounting system, and you cannot tell, apart from it being spotted by a supervisor or some other check—there is no means of the accounting system throwing up that that money is not brought to account.

1857. I am asking whether you think your checking up system is efficient?—I think it is reasonably efficient. It certainly is in the larger centres. In a large exchange, where you may have two or three hundred operators at work you have a supervisor standing behind say every seven operators. I do not think there is any question there, where you are handling the bulk of the business, that it must go through properly; but when you are coming to a very small exchange or at night time, where you have an operator on her own or only one or two operators, you may get some of these cases. I think there is no question about it. They do come to notice from time to time.

Lt.-Col. Alan Dower.] It would be outside the scope of our inquiry to discuss the question of the recovery of charges for trunk calls from the public?

Chairman.] The recovery of payment?

Lt.-Col. Alan Dower.] Yes.

Chairman.] I do not think so.

26 February, 1946.]

Sir RAYMOND BIRCHALL, K.B.E., C.B.,
and Mr. G. ISMAY, C.B.

[Continued.]

Lt.-Col. Alan Dower.

1858. With regard to the public who are making trunk calls, is there any check as to who is making a trunk call?—You are on a very difficult question there.

1859. I know I am.—There are cases where there can be no check. Of course, in a large number of cases there is a definite check, but with some of your automatic systems, undoubtedly, where you have distant control, the check does depend on good faith, very largely.

1860. Of the person who is making the trunk call?—Yes, and the call is charged up to a number. If it is charged up to the wrong number, that subscriber will spot it, and you can merely tell from your percentage of complaints, and so on.

Chairman.] It is charged up to the number which the caller gives. That is the risk you run.

Lt.-Col. Alan Dower.

1861. That is the point I am trying to make?—On a delayed trunk call you are perfectly all right, because if you give the wrong number you do not get the call. It is merely where the call is being put through straight away where the possibility does arise of its being charged up to some other number.

1862. Would it not be possible for the person making the call to be told to put his receiver down, and for them to ring back?—I am afraid, when you are working the automatic system, the putting of the receiver down starts operating certain relays, and the call will be cut off.

Chairman.

1863. I think what Colonel Dower means is: could not the trunk operator say: "I will call you back"?—That would slow down the service enormously and would send up the cost enormously. 84 or 85 per cent. of your trunk traffic is handled on demand.

Lt.-Col. Alan Dower.

1864. It is difficult to imagine roguery or fraud with 3d. or 6d. or 1s., but supposing the trunk call is £1?—That is very

rare. The maximum is 3s. 6d., and that is for three minutes, and until recently the maximum time allowed was six minutes. So you could not get a trunk call of more than 7s. 6d.

1865. If you will forgive me, I examined my own trunk calls a few days ago, and there were several at 9s.?—You can now; the six minutes limit has been waived recently. The only check we have really on the extent of the wrong charging is that we do know what the percentage of calls charged up to spare numbers is. That is really the only line one can get on the amount of it. We do know that figure. We watch that figure carefully, and the charge to the wrong subscriber is presumably something larger than that.

Sir Frank Sanderson.

1866. The general accounts show the charge for interest on capital. That applies also to the telegraph service and to the general account, but in the telephone service it shows an item: "Interest on capital plant". Is there any significance in that? Does it mean that they charge interest upon the plant but not upon buildings?—There is a separate buildings account, and each of the three services, postal, telegraph and telephone, is charged on a rental basis for the buildings which it occupies from that separate buildings account.

1867. Why should the telephone service show the interest set out in a different form from any other service?—There is no postal capital account at all. That, as a matter of fact, comes into the postal buildings through the accommodation account. There is a separate capital account for telephone plant, and there is also for telegraphs.

1868. Can you tell me what rate of interest is charged to the accounts?—That depends on the rate at which the money was raised over the periods of years, but it approximates to the local loan rate, approximately rather over 3 per cent.

Chairman.] Thank you. I am sorry we kept you waiting so long, but we were delayed earlier in the afternoon.

*(The Witnesses withdrew.)**(Adjourned till Tuesday next at 3 p.m.)*

TUESDAY, 5TH MARCH, 1946.

Members present:

Mr. PEAKE in the Chair.

Mr. Benson.
Mr. Haworth.
Mr. Hector Hughes.
Mr. McAllister.
Sir John Mellor.

Mr. Pickthorn.
Sir Frank Sanderson
Mr. Thurtle.
Mr. Maurice Webb.
Mr. Williamson.

Sir GILBERT UPCOTT, K.C.B., Sir HERBERT BRITAIN, K.B.E., C.B., and
Mr. C. E. I. JONES called in and examined.

REVENUE DEPARTMENTS APPROPRIATION ACCOUNTS, 1944.

VOTE 1.

CUSTOMS AND EXCISE.

Sir ARCHIBALD CARTER, K.C.B., K.C.I.E., and Mr. R. J. LLOYD called in and examined.

Chairman.

1869. We take first the Revenue Departments Appropriation Accounts, 1944, Vote 1, Customs and Excise. Will Members turn to pages iii and iv, paragraphs 1 to 4, of the Report of the Comptroller and Auditor General. We will take the first four paragraphs, which are largely formal, together. In paragraph 4 the Comptroller and Auditor General states: "A test examination of the Revenue Accounts of the three Departments has been carried out in London and at various provincial centres, with satisfactory results." Could you tell us what the Customs revenue was for the year in question, the year 1944?—(Sir Archibald Carter.) Yes, £1,075,000,000.

1870. That has been collected at a gross cost of about £6,000,000, am I right in saying?—It is a little under, actually, but that, if I may say so, is a very crude picture indeed, for this reason, that we carry on a lot of work that is not revenue collecting. Perhaps the biggest item is what you will come to in the next account, Old Age Pensions. On that our administrative costs are of the order of a quarter of a million. That is an instance in which we have made an estimate. But there are a good many other jobs that we do for Government Departments. For instance, on behalf of the Board of Trade we police all the import and export prohibitions and restrictions during the war. That is not collection of revenue. It is naturally very efficiently done by the Customs officers, but there is no revenue in it, and part of the cost of our Customs staff is that. Then we do a lot of miscellaneous odd jobs. For instance, we do some jobs for the Board of Trade in connection with paying undue hardship claims under the Private Chattels Scheme for War Damage, and there are a good many others for which I do not think we have an accurate figure. I am corrected by the Accountant General, Mr. Lloyd,

Apparently, we have an estimate. It totals about half a million. That is the cost of non-revenue work.

Chairman.] Are there any questions on paragraphs 1 to 4 of the Report of the Comptroller and Auditor General?

Mr. Benson.

1871. Could you split the cost of the two major factors, beer and tobacco, from the cost of administration and general customs?—I think with a good deal of trouble and labour we probably could on the Excise side, because it so happens that, taking our people who are in the field, we have a rather elaborate system for checking the time they take on their jobs. We could, I think, for the Excise duties—probably anyhow for the basic work in the field—give you, with a little calculation, the figure. On the Customs side it would be far more difficult. The men may be examining tobacco one day and sugar the next, and I do not think you could split it up. At least, I suppose, if you liked, we could make a wild guess at it, but on the Customs side it would be nothing more. Even if we come back to the Excise side, where I think we could give you an approximate figure for the people in the field, there is always the contentious question how you are going to split the Head Office overheads. If the Committee wanted it I think we could do it for the Excise Duties, but for anything that touches the Customs side it would be guesswork.

1872. Your major sources of revenue are drink and tobacco, which are rather the bulk supplies, and are very economical things to deal with?—That is true.

1873. I was wondering what the cost of your general customs for the smaller matters was?—It is an interesting problem, and I think we could produce some sort

5 March, 1946.]

Sir ARCHIBALD CARTER, K.C.B., K.C.I.E.,
and Mr. R. J. LLOYD.

[Continued.]

of estimates; but there the very one you touch on, tobacco, is mainly collected in the shape of Customs. We should have to make many notional assumptions to separate out what was the Customs work on tobacco from the Customs work on the ordinary miscellaneous imports coming in.

Mr. Benson.] I do not think it is worth it, thank you.

Chairman.

1874. Are there any further questions on paragraphs 1 to 4? We pass to paragraph 5, which deals with remissions of duty, which amount to a very small figure, if I may say so—£2,686. Have you that paragraph in front of you?—Yes.

1875. The Comptroller and Auditor General states that he is kept informed by your Department of wartime extra-statutory concessions in regard to duty. Would you just inform the Committee what are the most important of those wartime extra-statutory concessions?—Some of them are rather big and represent, anyhow theoretically, a good deal of money. I think one may divide them into two classes. There is the class in which we know fairly accurately what the cost is, and there is the second class, in which we really do not know how much the concession did involve. I will read through, if I may, some of the very big items in the list of those where we do know what the cost is. The first one is nearly £1,000,000, which was a concession approved by the Chancellor of the Exchequer in 1940 for the duty on tobacco, drink and playing cards imported as gifts from abroad and delivered to approved charitable organisations, or, rather, through them to an accredited list of hospitals. That is not quite the biggest but very nearly the biggest. There is an analogous one for, again, duty on tobacco and drink, not on gifts from abroad but purchases in this country by the Red Cross for distribution to Service casualties in accredited hospitals. That is estimated to have cost £637,000.

1876. Does that mean to say—?—That if the Chancellor of the Exchequer had not approved the concession we should have collected that amount in duty—subject to this consideration, that it may be that, if they had had to pay the duty as well, the Red Cross would not have been able to afford to buy so much, so we might not have got the duty, and equally, when the gifts were coming in from abroad, if people had found they had to pay this very heavy duty, or somebody had to pay for them, some of the gifts might not have flowed in such quantities. So it is to some extent a notional loss of revenue.

1877. Are you speaking of gifts of tobacco now?—Yes, tobacco and drink.

1878. Am I right in saying that the Service casualties get their tobacco, so long as they are in hospital, duty free?—I think there was probably a certain Service ration, but how far this kept everybody completely happy and supplied in hospitals I am afraid I do not know.

1879. Those are the two main ones, the cost of which you know?—Those are the two very big ones the cost of which we know that is to say, gifts from abroad which went to the hospitals, and purchases in this country by the Red Cross for hospitals. There is another very big one of a rather different nature—again, of about £1,000,000, but in a sense it is rather formal. It is duty on tobacco and cigarettes which went through the Canadian Military Postal Depot for Canadian troops in this country. It was not a case of a quite direct importation by the Canadian Government; it passed through another channel which would have made it liable, but it was obviously a case where we could not possibly collect duty on the stuff coming from Canada for the Canadian troops. In theory, we have waived duty on that, with Treasury approval, of course, and that is just about £1,000,000.

1880. Am I right in thinking that the imports of petrol for the American Air Force bore duty?—No, not for the Americans. We regarded them as, so to speak, extra-territorial, and there was not even a notional waiver of duty in their case. It was as if they were, so to speak, living in territory of their own, and we never calculated what it would cost.

1881. But the petrol for our own and Dominion Air Forces bore duty?—I am not sure about petrol for the Dominion Air Forces, but for our own, yes, simply for the reason that it was so mixed up with commercial supplies that the disentangling of it would have been worse if we had attempted not to charge.

1882. But we can give the lie to the rumours that the Americans had to pay duty on their petrol for the Air Force?—Yes, we can, indeed. I have quoted the three biggest, but the total of those concessions, the cost of which we know, or anyhow the theoretical cost, adds up to £2,746,000. The three big ones I have given you add up to over £2,500,000. There are a fair number of rather smaller ones of not so much interest.

1883. I suppose the main one in the other category is gifts sent home by Service men to their relatives here under the scheme for sending parcels home up to a certain amount per annum?—Yes, that is right. As it so happens, although I said there was a list of those the cost of which we could not give you, and it falls into that second category, we have made a rough

5 March, 1946.] Sir ARCHIBALD CARTER, K.C.B., K.C.I.E.,
and Mr. R. J. LLOYD.

[Continued.]

shot at that, and we think in the year now under consideration the gift scheme probably cost about £1,000,000. There, again, it is subject to the consideration that if they had found that the families here had to pay duty, they might not have sent home so many presents. It is, again, a slightly notional loss. Anyhow, on paper we think the figure would have been about £1,000,000, but it is such a rough shot that we kept it out of the schedule of those the cost of which we know. There is, again, a very big item in the list of cases where we do not know really the cost of duty, viz., duty on parcels sent to individual members of the Dominion Forces in this country, and at a guess that is of the order of £3,000,000.

1884. In this one year?—In this one year. There is also an item for which we have not the faintest idea what the amount would be, and that is the remission of Entertainments Duty on entertainments given by N.A.A.F.I. for the troops in this country. We have not the remotest notion what that would be. I should think probably it would be quite small, because very often the charges were very small and would have attracted either a very low rate of duty or no duty. Anyhow, something in theory has been given away.

1885. Those concessions do not come under the statutory exemption as being partly educational?—Some might have done, but we never tried to apply that test.

Chairman.] I think we will take paragraphs 5 and 6 separately; they deal with rather different subjects. Those are all the questions I have on paragraph 5. Has any member of the Committee any questions on paragraph 5?

Sir John Mellor.

1886. With regard to the remission of duty on parcels coming to this country for Dominion and American troops, there were reciprocal arrangements for remission of duty on parcels going to the Dominions and to the United States for British troops stationed there?—Speaking offhand, and I may be wrong—if I am wrong perhaps I may be allowed to correct it afterwards—as far as the Dominions are concerned I think there was reciprocity, but I am not sure that that is true of the United States; but then we only had, as far as I know, small missions and small parties over there, so it was never such an acute problem. My impression, speaking offhand, is that there was no reciprocal arrangement, but I may be wrong about that, and if you like I will get a note and let you know.*

* *Note by Witness:* This was in fact wrong. Under a joint resolution of Congress of 27th June, 1942, the United States admitted, free of duty, on a reciprocity basis, articles imported into the United States and its territories consigned or addressed to members of the armed forces of the United Nations (other than those of the United States) on duty there, for their personal or official use.

Mr. Thurtle.

1887. I have not any questions. I may be allowed, perhaps, to take this opportunity of expressing my regret that Government Departments, when they mean to say "about," will persist in saying "of the order of."—I am sorry.

Mr. Pickthorn.] They sometimes say "as to" when they mean "about." They say "prior" when they mean "before," but it cannot be helped.

Chairman.] That is the only question you want to put, Mr. Thurtle? Well, it is one of great substance.

Mr. Maurice Webb.

1888. Is this figure of remitted duty the normal figure? Is it about the average?—The £2,686?

1889. Yes. How does it compare with figures for other years?—It apparently is fairly normal. (*Sir Gilbert Upcott.*) I can give you the figure for last year, Mr. Maurice Webb. It was £10,000.

1890. It is much less this year?—(*Sir Archibald Carter.*) I am afraid I have not the figures with me. (*Sir Gilbert Upcott.*) It was £10,786 last year. (*Sir Archibald Carter.*) It is necessarily rather accidental. It depends what is thrown up.

1891. There are no special circumstances this year?—No. If you like I could give you the particulars. There are two which are much bigger than any of the others. I do not know whether you would like to have particulars of the important cases. They are not really of any very great interest. The biggest is £878 and the next £578. But they are not really cases of any great interest.

Chairman.] Mr. Maurice Webb's question prompts me to observe that it might be said of your Department that never was so much collected from so many by so few at such a little cost and so little given back at the end of it all!

Mr. Williamson.

1892. Were these total remissions of duty—not reduced ones?—Certainly in most cases these were I think total remissions. I would not like to swear to that, but in nearly every case it would have been a total remission of duty. If you like I can give you particulars of the biggest case.

Chairman.

1893. The item is so small that I do not think we need be troubled with it. Passing to paragraph 6, in that paragraph the Comptroller and Auditor General speaks of an increase in the number of detected offences. These are mainly smuggling and evasion of purchase tax, I take it?—Those bulk fairly largely, but they are not the only ones. I have a rather more detailed split-up of it here.

5 March, 1946.]

SIR ARCHIBALD CARTER, K.C.B., K.C.I.E.,
and Mr. R. J. LLOYD.

[Continued.]

1894. Have you an analysis of your figure of £124,000?—Yes, if you would like it. Smuggling, other than on the Northern Ireland Land Boundary, £42,000. Shall I give it to you in thousands?

1895. Yes. That is smuggling, excluding the Northern Ireland Land Boundary?—Yes. Then smuggling, Northern Ireland Land Boundary, £26,000. Then there are some miscellaneous minor items. Purchase tax, £38,000. Excise offences, £15,000. Then I think there are one or two small items that add up to about £2,000. But those are the big ones which I have given you.

1896. These are the amounts——?—
Actually realised.

1897. These are the amounts collected from the offenders as fines, are they?—
That is right.

1898. Am I right in saying it is triple the amount of duty due?—It can be. It may be more than triple the amount of the duty due. It may be triple the value of the goods plus duty. But that is the maximum penalty.

1899. This figure which you give us of £124,000 is not the amount to which duty has been evaded? It is the amount collected in fines?—This is the figure of penalties. It is both kinds: it is penalties imposed by the Court and also a certain number of cases in which we have power to compromise and settle without the offender being brought before the Court, which happens sometimes when there is no obvious attempt at fraud. He may have made a wrong declaration of valuation and we think he really did not know he was under- valuing—that sort of thing. So in a fair number of cases where we do not think there is deliberate fraud involved, where it seems reasonable and quicker to settle out of Court and we have legal powers to do that, we do it. It is not merely collecting the duty he ought to have paid, but we compound a sort of penalty as well. Those figures would be included with the major figures where it is a penalty imposed by a Court.

1900. The point I am coming to is this. I think the corresponding figure for the year 1939 was somewhere about £27,000. A great part of the increase between the £27,000 for 1939 and £124,000 for this year is due to two factors—one is the increase in prices generally and secondly the enormous increase in the rates of duties?—That certainly helps to push the figures up, because that pushes up the maximum penalty, and although the Court may not impose the maximum penalty there is a tendency for the penalties to go up, which is right, because the monetary value of the offence obviously goes up as duties go up.

1901. I was wondering whether there was any more reliable indication which you could give us in figures of the increase in

fraudulent and evasive practices since 1939?—I think that really means probably an analysis of the number of cases involved. I have some recent figures. We recently put them into our annual report, but we did it for the first time I think in the report for the year that you are now considering. No doubt if we searched into our records we could produce some figures for the past, but I do not think we have them readily available. That, I suppose, would give a better indication of what you have in mind.

1902. Let me put this quite simple question: Have you the impression that there has been an increase in fraudulent practices as compared with before the war?—The Northern Irish Land Boundary is obviously much worse for this simple reason—not that human nature has got much worse (it may have done for all I know, but not for that reason) but because of the import and export prohibitions, and there is the most appalling temptation to get things across in both directions. Southern Ireland is wanting things that we will not let go and *vice versa*, and there is a terrific temptation to smuggle across that boundary. That is, I think, a very abnormal feature, and presumably will go when these import and export restrictions either vanish or are very much reduced, so the trouble on that land boundary has undoubtedly been increased very much by the war.

1903. We are talking here of the year 1944, but I have no doubt your smuggling problem has very greatly increased since the Continent was liberated, owing to the enormous profits to be made owing to the unsettled state of the exchanges?—Yes, that may get worse, I think, when traffic passes more freely.

1904. You have already had quite a number of cases of smuggling by Service men?—Yes, we have.

1905. There is a steady traffic, is there not? Have you any special checks upon the Services?—We have, but it is not at all easy with the Air Force people until they settle down to more normal conditions, because, for example, they continually change the aerodromes they are using, and quite often we do not know perhaps until they arrive that they are going to that aerodrome at all. They are doing their best to help us, but quite frankly one could not say that under present conditions we have anything like a complete check on what comes in in Service aeroplanes.

1906. You are faced with an almost impossible task?—At the moment we are faced with an almost impossible task, but I think the Air Force authorities do what they can to help us.

1907. You have made an example of a few people?—Certainly.

5 March, 1946.] Sir ARCHIBALD CARTER, K.C.B., K.C.I.E.,
and Mr. R. J. LLOYD.

[Continued.]

1908. Do the Services regard it as a disciplinary offence?—Yes, I think they take it seriously. Not only are the difficulties I have just mentioned much greater in the case of the Air Force, but it is fair to say this, that the Navy have grown up with us for a very long time, and we know their ways and they know ours, and I do not think it is anything like so difficult as with the Air Force, who not only arrive unexpectedly at different places, but are not so used to our ways. But, as I say, I think the Air Force authorities are doing the best they can to meet us. There is no doubt about it that even when these more or less ephemeral troubles are over there are some very big problems in front of us in connection with smuggling by aircraft, which I should think at any rate are partly unsolved.

Chairman.] Are there any questions on paragraph 6?

Sir John Mellor.

1909. I suppose the Northern Ireland Boundary is about as difficult a type of boundary to watch as you could possibly have?—Yes. You cannot imagine anything worse.

1910. Have you any readily available information showing the total cost in manpower or money of watching the boundary?—I have a figure of £102,000. That is including payments to the Ulster Constabulary, who do quite a bit of the work for us.

1911. That involves what sort of number of men?—I do not think I have that figure offhand, but I can easily send you a note of it.

Sir John Mellor.] It does not matter, thank you.

Chairman.

1912. I had intended, before I asked Members to put their questions round the table, to ask the Comptroller and Auditor General whether he has any observations to make on the audit check on the collection of purchase tax?—(*Sir Gilbert Upcott.*) It is not my duty to audit the collection of taxes in detail, but to satisfy myself that there is an adequate procedure on the part of the Revenue Department for effective assessment and collection, and that my officers do in the case of purchase tax by visits to selected collections in the year, examining the records of the Department, and also by a visit to a trader in company with the Customs officer, to see how he does his check of the trader's records. As you know, the Customs have very far-reaching powers to examine traders' books, and my officers ascertain how they exercise that check, and I am prepared to say that in my opinion it is very effective.

1913. I understand, from the earlier paragraph which we were looking at, para-

graph 4, that you are satisfied that the purchase tax which is in fact collectible is collected and is accounted for?—Paragraph 4 does not relate to this process. Paragraph 4 relates to the Revenue Account, which is a different matter, which is the process by which the Revenue is brought to account at Headquarters. What we are speaking of in paragraph 6 is the actual collection of the tax. I think Sir Archibald will agree with me that their methods of check of purchase tax have proved to be quite satisfactory.

1914. Your main difficulty, I suppose, with the purchase tax, Sir Archibald, or one of your main difficulties, is the exemption. Is it £500?—(*Sir Archibald Carter.*) The £500 limit. It does give trouble, undoubtedly. But I think much more than that I would put as our main difficulty, at all events at present, shortage of staff. I should like quite a bit more staff on purchase tax. This year in particular is a very bad year. We are beginning to get people back from the Forces and from other Departments, but there are a lot more still to come, and the work is increasing. So that at the moment I have, frankly, less staff than I should like on purchase tax work, and I should regard that as the worst disability under which we suffer at the moment in the purchase tax field. I should hope that will remedy itself before long. Subject to that, I think on the whole we are reasonably satisfied. There have been undoubtedly, a good many bad cases—we do not know what proportion of them we get to hear of—of what one might call black market offences, using the term rather crudely, and often enough they start not so much with a desire to evade purchase tax but with a desire to avoid the Board of Trade quotas for materials. For instance, a very fruitful field of fraud is toymaking, where, if you can get a few materials, you can make very large profits; and I think a good many of these cases start with the man not being able to get the Board of Trade licence for more than a certain amount of staff for his toys. He scrounges round and gets some material, and he has to conceal the fact that he is making the toys, otherwise the Board of Trade will be down on him. He sells them quietly to some retailer, perhaps not giving an address, or else giving a false address, and purchase tax is also evaded at the same time. I will not say that in some cases it may not be the dominant motive, but very often it is the other that started him on his path of misdeeds. We pick up that sort of case sometimes by examining retailers' books; but what proportion go undetected I should be sorry to say. It worries us. When I say it worries us, it is only a small proportion of the whole immense range covered by purchase tax; it is really negligible if you look at the administration of taxes as a whole. But there are some awkward problems, especially

5 March, 1946.]

Sir ARCHIBALD CARTER, K.C.B., K.C.I.E.,
and Mr. R. J. LLOYD.

[Continued.]

under wartime conditions, which do face us in relation to that tax, which is not true of most of our older and more established taxes.

Mr. Thurtle.

1915. You were talking about staff difficulties just now. I take it you have suffered acutely from this during the war period?—We have, indeed.

1916. Therefore it may be that your defensive arrangements have not been as effective during the war as they were pre-war, and, therefore, the actual increase in the number of these offences may be much greater than is reflected by the figures?—It is possible. I think that is undoubtedly so. We have been shorter of staff than we should have liked.

Sir John Mellor.

1917. I take it that any matters concerning purchase tax are confidential to your Department and are not disclosed to other Departments. What I had in mind was this. I rather thought you suggested that in some cases somebody commits an offence of which the Board of Trade would take cognisance, and then subsequently he commits an offence with regard to purchase tax?—Yes.

1918. He may feel that if he is candid with you on the question of purchase tax he may give himself away in regard to some question of which the Board of Trade would take notice. Am I right in saying that what you hear from a man with regard to purchase tax is kept confidential to your Department in the same way that the Revenue authorities keep Income Tax an entirely confidential matter and do not disclose details to other Departments?—No, that is not the position. We should work in very close conjunction with the Board of Trade. Quite often, if they are on to an offender they may let us know, in case we want to investigate it from the point of view of purchase tax, and contrariwise, if we are on to an offender in relation to purchase tax, we may let them know, if it is a bad case. I do not say that if it were a fairly small case and we were investigating the affairs of a man who had, apparently, put in too small an amount with his return of purchase tax, we should dig into it and see if we could discover a Board of Trade offence, but if in the course of investigating a case it seemed likely that he had also committed Board of Trade offences, we should certainly tell them, and contrariwise. Indeed, in some case, though perhaps less commonly, we should tell the Inland Revenue if we found a man who was trading with no known address or always moving his address, and refused to say who he bought from and who he sold to. If in the end we picked up information about it, that would be a strong presumption that he had been evading Income Tax, too, and we should certainly tell the Inland Revenue.

1919. Unless it comes to a question of prosecution, when the whole thing is public?—That was the kind of case I was talking about, where it was almost certainly going to come to a prosecution.

Sir John Mellor.] The case I had in mind was where there had been discussions about a man's Income Tax, the Inland Revenue would not disclose to you or to anyone else—

Chairman.

1920. I do not think Sir Archibald can answer for what the Inland Revenue can do?—I might or might not be able to do so—obviously, not authoritatively.

Sir John Mellor.

1921. Perhaps the Treasury would answer this question. I take it the Inland Revenue do treat questions of Income Tax, unless the matter comes into open Court, as entirely confidential, and do not disclose to other Departments what they learn?—I think this is true—

1922. I am sorry—but I was asking the Treasury the question.—(*Sir Herbert Brittain.*) There, again, I cannot speak for the Revenue entirely, but my impression is certainly that they are bound by their statutory oath of secrecy and do not convey information to other Departments. That is my impression, but I should have to ask the Revenue to confirm it. (*Sir Archibald Carter.*) I cannot imagine, for example, that if the Inland Revenue, in looking through somebody's Income Tax returns, found that he was making a very big income out of some business which, obviously, covered purchase tax goods, they would write to us and say: "Are you sure you have collected purchase tax from this man?" They would never dream of doing that.

1923. Your Department proceeds on a different principle?—I was only talking here about cases of apparently obvious fraud, and if one Government Department finds out that somebody is committing a fraud, and has apparently committed a fraud on the other Government Department, I cannot conceive that there can be any debar to saying: "We think you had better have a look into this." Again, as *Sir Herbert Brittain* was saying, I could not bind the Inland Revenue, but I should think that is a fair principle for all Government Departments. If you find somebody who is, apparently, an obvious swindler—and that is what we are talking of at the moment—and it seems highly probable he has swindled other Government Departments as well, I cannot imagine you would not tell the other Departments.

1924. I understand the Inland Revenue are bound by statute to secrecy and you are not. Is that right?—I think if we are to go into that perhaps the Inland Revenue ought to answer for themselves. My

5 March, 1946.]

Sir ARCHIBALD CARTER, K.C.B., K.C.I.E.,
and Mr. R. J. LLOYD.

[Continued.]

amateurish notion was that what they were bound to secrecy about was the amount and character of the man's Income Tax returns. I did not know it went beyond that, but I may be wrong. I am afraid I am rather talking at random about this. I could not really answer for the Inland Revenue. But so far as I am aware, none of the information which we are either entitled to get by law or do get are we under any pledge of secrecy about.

Mr. Haworth.

1925. I am rather interested in the question of smuggling by air. I thought there was a slight suggestion of non-co-operation on the part of the Air Ministry. It was put in very guarded Civil Service style, but I thought there was a suggestion that they were not so co-operative as the Royal Navy. Is there any higher authority you could bring in if you felt that the Air Force were not co-operating in assisting in the collection of Customs Duty?—I feel sure the Chancellor would be able to arrange it with the Secretary of State for Air in an amicable fashion—if it got on to that sort of level.

Mr. Williamson.

1926. You mentioned an amount of £38,000 as penalties for purchase tax?—Yes.

1927. Would it be possible to say how many cases, approximately, are involved in that figure?—We have some details in our published review. This is for the year now under consideration—this is the number of types of cases: smuggling, evasion of duty, 1,170; evasion of wartime prohibitions and restrictions, 550; purchase tax, 140; liquor licences, 110; other Excise licences, 120. I am not sure that that is as illuminating as I thought it might be, because the liquor licences and other Excise licences may have a whole heap of little irregularities, small fines, but the purchase tax cases which would be generally fairly substantial affairs are 140.

Chairman.

1928. Are there any further questions on paragraph 6? We turn now to the accounts, at pages 4 and 5. I would like to ask a question on Subhead H: "Law Charges: Costs of Revenue Cases, Rewards, etc.," a figure of expenditure of £42,800. The footnote states: "The expenditure under this subhead includes £25,961 in respect of rewards, of which sum £19,252 was paid to 848 officials of this Department, £5,322 to a number of police and officials of other Departments, and £1,387 to other persons." I should like to know a little more about these rewards. First of all, I should like to know what the scale of them is?—Dealing first with our own personnel, I do not think there is any absolute limit, but we must not give more than £50 in any one case without specific Treasury authority. As a rule they very seldom reach that figure.

1929. Have you given more than £50 in any one case in the year under review?—The Accountant-General thinks there was one in Northern Ireland of more than £50—only one in the year, speaking subject to correction. We have our own sort of internal rule that locally, up to £10 can be awarded to a rummage crew, or up to £5 to a single individual. That can be done by the collector, but if it is above that figure it has to come up to our Headquarters Office. Again, speaking in terms of our own personnel, the people who get the rewards are the Waterguard, the people you see in uniform at the ports. That covers the preventive officers and assistant preventive officers. Also on the subordinate level there are the coast and land preventive men and the various watchers.

1930. Will you tell me this. I am not clear as to what sort of case attracts a reward. If I go through the Customs with some dutiable stuff in my suitcase and do not declare it, and it is found there, does the officer get a reward?—Not necessarily. He may if he has been very clever in spotting something that has some considerable value.

1931. It has to be an exceptional case to attract a reward?—It has to be a rather exceptional case, and the main basis of it, for the Waterguard, is this. I should think, without having looked up the returns, the great majority of these cases arise out of the rummage of a ship. The rummage crew has found something hidden away in the ship and it has been rather clever to discover it. I think the real reason is this. Mind you, there is room for difference of opinion about this, but I think both the present and past Inspectors-General of Waterguards who have had to control this staff would say this about it, and I believe it to be true. It may look a little odd in these days to give a reward to somebody who is only doing his duty for which he is paid. You have to remember this, that very often, when you are rummaging a ship, it is an extremely tiresome and troublesome job. You have to go digging in the "innards" of the ship, in the engines, which is not very easy, and you may get your clothes dirty, and it is so dreadfully easy to say "I have looked over the ship" and not bother, quite apart from any suggestion that anybody had encouraged him not to do it. Successive Inspectors-General of the Waterguard have said: "It pays us, when people have taken a lot of trouble and discovered something."

1932. Let me get this clear. Are these rewards confined to Customs Officers? Does it extend to the Excise and to the purchase tax?—As far as I know there is no limitation, but I should think at a guess probably more than 90 per cent. of it was for the Waterguard. I should rather doubt whether we have any analysis of the figures.

5 March, 1946.]

Sir ARCHIBALD CARTER, K.C.B., K.C.I.E.,
and Mr. R. J. LLOYD.

[Continued.]

1933. As regards scale, is it related to the value of the goods discovered?—To some extent, yes. (If they got a very valuable haul there would be a tendency to put the amount up. The internal rules which I have just quoted give you some idea of the scale of the thing. The maximum amount that can be sanctioned locally, without getting approval at our Headquarters Office is £10 to a rummage crew or £5 to an individual; but those are the maxima, and generally the rewards would be at a lower scale than that.

1934. I recall that during the war there was a gentleman who left this country with £3,000 worth of jewels concealed in the handle of his umbrella. In a case like that, if it were detected, what sort of sum would your officer obtain by way of reward?—I do not know. I should not like to say without looking it up.

1935. There is somebody who can assist you, perhaps?—(Sir Gilbert Upcott.) I should add that this figure includes not only the £10 or so mentioned by Sir Archibald, but it also includes certain regular annual allowances paid to certain Special Duty Officers at annual rates. (Sir Archibald Carter.) There is a sum of £4,000 included for that.

1936. Are you in a position to answer the question I just put to you?—I am afraid I am not. The bulk of these rewards are what one might call the fairly small rewards that are dealt with locally, so to speak, because a rummage crew has discovered something in the bowels of the ship.

1937. You think it is a good system?—I think so, on the whole, and I would take the advice of successive Inspectors-General of Waterguard, and they say that on the whole it would be a pity to do away with it. I agree that in theory it looks a little strange in these days, but the real answer is that it is not an instance in which you deliberately do not do your duty, but it is perhaps a little encouragement to go and do something which is not too obvious. It is so easy to have a casual look round and not absolutely search the ship all over.

1938. There is a possibility that your officers may be open to some counter temptation of a cash character on the other side?—That is so.

Sir John Mellor.

1939. Has this system of rewards been in operation for a very long time?—As far as I know, it goes back into remote antiquity.

1940. Can you tell me offhand whether there is any parallel for it in any of the other services like the Police?—I do not know. I have been talking about the rewards to our own people. We give small rewards to the police who help us. The Accountant-General thinks most of the police forces do have something similar,

but I am afraid I really do not know. As a matter of interest, the postal people who open our parcels for us (we direct whether a parcel should be opened or not, but they do the opening and the repacking for us) get a small fee of 3d. for each package in respect of which a detention is made. I think that is to keep them happy on this rather troublesome job of continually opening and repacking parcels. That would come into these figures.

Sir Frank Sanderson.

1941. Are rewards given to civilians who may give information which proves to be of use? If they are, does this amount include such rewards to civilians?—Yes, it does. For the other persons in my return, the civilians or the outside world, there is a sum of £1,400 for rewards.

Mr. Pickthorn.

1942. Subhead A is: "Salaries," and the amount expended was £648,000 less than the amount granted. It seems rather a high proportion. Was it that it was expected to be able to expand the staff and the man-power problem may have stopped it, or what was the reason?—It really arises out of the Treasury instructions to all Government Departments as to the way in which they should prepare their salary estimates during the war; that is to say, they were to put down the figure which would have been necessary if all their staff that was away fighting had been there; whereas in fact one had only to pay the difference between their military pay and their civil pay, if there were such a difference.

1943. So that for four or five years, in every Department, there was a considerable conscious over-estimate?—In a Department like ours, which was markedly below strength during the war, we knew, every time we prepared the Estimate under these Treasury instructions, that there was bound to be a big saving. Of course, you would not get the same picture in what was the more common case, where the staff of the Department increased very much. But that is done by us under general Treasury instructions.

1944. I am not sure of the propriety of this question. I am not sure whether it is proper to get here an opinion about law charges, as to whether the new arrangements will in fact reduce the amount of law charges in Revenue cases or raise them, whether the new method of paying the Attorney-General and the Solicitor-General saves you money at all, or whether other Counsel who would have to be engaged instead would cost the same sort of amount or more?—I honestly do not know whether in those extremely rare cases, when the Attorney-General appears for us, his fee appears in here or not; but it is only once in a blue moon that we ever reach heights in which the Attorney-General or the

5 March, 1946.]

Sir ARCHIBALD CARTER, K.C.B., K.C.I.E.,
and Mr. R. J. LLOYD.

[Continued.]

Solicitor-General appear. It would be so rare that I do not think it would affect the total of this Vote.

Chairman.] Are there any further questions on the Account? May I take it that the Account is approved? (Agreed.)

CIVIL APPROPRIATION ACCOUNTS, 1944.

CLASS V.

VOTE 6.

OLD AGE PENSIONS.

Chairman.

1945. We now take the Civil Appropriation Accounts, 1944, Class V, Vote 6, Old Age Pensions. Will Members turn to page xi, paragraph 30, of the Report of the Comptroller and Auditor General. Old Age Pensions are, curiously enough, still to some extent administered by the Board of Customs. These pensions I understand are paid through the Post Office, so that you do not actually handle the money, but you deal with questions of assessment?—(Sir Archibald Carter.) There are two different categories which, if you will look at the accounts, are all mixed up together under Subhead A; that is to say, an expenditure of £55,000,000 odd, but, as appears, I think, in the Report of the Comptroller and Auditor General in paragraph 30, two very big things are rolled up together there. Quite why I confess I do not know, but apparently it has gone on for a long time. There is first of all the contributory pensions for people over 70, which accounts for no less than £44,000,000 of this total, and on that we do practically nothing except actually provide the funds out of which the payments are made. We do not administer the thing at all, really. The Accountant-General could tell you exactly what happens about the provision of funds, but we just supply the funds and it is debited to our Vote, I think for historical reasons, because some Act that has not hitherto been changed but will be changed under the new Bill charged it up to our Vote. It is really a pure formality.

1946. As far as these people are concerned, you have no functions at all?—No.

1947. You do not check up anybody's age?—No, we do nothing at all. I am a little vague myself as to exactly what this very small function is. I do not know whether you would like the Accountant-General to explain.

1948. I assume it is a matter of entering the money on one side of your books and taking it out on the other?—(Mr. Lloyd.) We actually transfer the money out of this Vote to the Ministry of Health, who have already transferred it to the Post Office, in order that payments may be made. It is merely a question of bringing it back on to this Vote instead of on the Ministry of Health Pension Fund, which is not the appropriate place for it, of course. (Sir Archibald Carter.) That £44,000,000 is,

as far as we are concerned with this Vote, a pure paper transaction. We have nothing to do with it at all.

1949. Is it contemplated that this procedure will still continue when the new National Insurance Bill is law, assuming that the Bill is passed into law as it stands now?—We have had no final instructions about that. It may be the Treasury would know more than I do about it. We are assuming that when that Bill becomes law this will all come on to the Vote of the new Ministry.

1950. You are assuming that you will cease to handle this £44,000,000?—Yes, that it will vanish altogether from our Vote. That is what we are assuming, but we have not had any formal instructions about it yet.

1951. Sir Herbert, can you say?—(Sir Herbert Brittain.) My impression is that that is so.

1952. As regards the balance for the year 1944 of about £11,500,000, the second sub-paragraph of paragraph 30 informs us that nearly £5,250,000 passes through the hands of the Assistance Board. That is because that money goes to Old Age Pensioners who are getting supplementation from the Assistance Board?—(Sir Archibald Carter.) Yes.

1953. And that leaves, if you deduct that £5,250,000 from the £11,500,000, about £6,250,000, which you seem to be handling directly?—That is right.

1954. In those cases, that is paid to persons of 70 and over under the various Acts, beginning with the first Old Age Pensions Act? I take it there is a means test, here?—Yes.

1955. Which has to be administered?—Yes.

1956. With regard to this £6,250,000, you are the executive authority. You carry out the work?—That is right. (Sir Gilbert Upcott.) They do not make the payments.

1957. No, they do not make the payments, but they do everything else?—(Sir Archibald Carter.) We assess the pensions, again, subject to the powers of the local Pension Committees which, in a sense, are the final determining authorities, but having assessed the pension we make out a pension warrant, but that is actually encashable at a post office, so that the

5 March, 1946.]

Sir ARCHIBALD CARTER, K.C.B., K.C.I.E.,
and Mr. R. J. LLOYD.

[Continued.]

cash is provided by the post office, who presumably will reclaim from us.

1958. This figure which I have arrived at by a process of deduction, of £6,250,000, is a figure that is gradually decreasing year by year now?—I am not sure what the trend is, but, of course, it will go up with the new rates under the new Bill.

1959. It will go up with the 26s. rate in place of the 10s. rate?—Yes, it will.

1960. Will not your means test operate to cut that 26s. down again?—I may be wrong, but speaking from memory, Clause 73 of the Bill provides for regulations to be made by the Treasury under that clause, which I understand will lay down a new scale of means tests appropriate to the increased rates.

1961. Perhaps I ought to have put my question in this way, that the number of pensioners is decreasing year by year who are drawing this money, because there is a greater number every year now of people who are qualified for the contributory pension?—Yes, I think that must be right.

1962. Have you any idea as to how many old age pensioners are covered here by the figure of £6,250,000 which I have mentioned?—Yes—at the end of the year we are now considering, 2,194,000.

1963. Those are pensioners drawing the over-70 pension who do not obtain supplementation, or is that the total of over-70 pensioners?—I am not sure myself.

1964. I think it must be the total?—(Sir Gilbert Upcott.) That is the total.

1965. That is the total of all over-70 pensioners, contributory and non-contributory?—If I may hazard a figure, the figure comprised in the £6,000,000 is about a quarter of a million.

1966. You would agree that figure, Sir Archibald?—(Sir Archibald Carter.) I am sure the Comptroller and Auditor General is right, but I have not at the moment got it. The Accountant-General confirms that that is so.

1967. Can you tell me whether, if the National Insurance Bill becomes law, you will retain your functions in regard to this body of persons?—There is no final decision yet, but I think the intention is that we should continue to run it for approximately two years, and then hand it over to the Assistance Board, but we have had no final decision on that.

1968. We do not want here to get into questions of policy. I wanted to find out whether it was the fact or not that under the Bill as drawn you would retain these functions?—It could not go on for ever. As I understand it, eventually this class of case would be wiped out under the new Bill, though not for some 15 years. We do not expect anyhow at present to be left with it for 15 years, but we are told it is

likely we shall be left with it for a bit longer. It is not much more than a guess at the moment, but people have talked of our doing it for something of the order of another two years.

1969. Have you a specialised staff engaged on doing nothing but this?—We have quite a big staff of what we call women pension officers who are doing nothing else but this. Our ordinary Customs and Excise officers in what we call our general stations, our country stations, also do a certain amount of this.

1970. Sir Herbert, have the Treasury any views about it? I am not suggesting you should comment on the provisions of the National Insurance Bill, but would it not be a good thing for the Board of Customs to come out of this picture for what is in fact social insurance, or is going to be social insurance?—(Sir Herbert Britain.) It is probably a matter of the convenience with which the change-over can be made, from an old system to an entirely new system, I think. It is probably as much a matter of convenience in making that change slowly as in making it very quickly, because it means handing over a lot of local administration. Sir Archibald can tell you more about this, but I think that is largely what it means, and it is probably better to have that gradually, over a short period, than to try to do it all at once.

Chairman.

1971. Are there any questions on paragraph 30 of the Report of the Comptroller and Auditor General? We turn now to the Account, which is on page 207. At the foot of page 207 there is a footnote to Subhead E, which deals with extra-statutory grants, of £3,315. It first of all says: "Grants made on grounds of equity where, owing to causes beyond the pensioners' control, grant of pension was delayed or payment of pension was impracticable within the statutory period." It goes on: "Expenditure of an unascertained amount which is quite small is included under this subhead in respect of pensions at the 1s. rate which were put into payment extra-statutorily to avoid the withdrawal of supplementary pensions in cases where a pensioner has become disentitled to a non-contributory pension but would have been regarded as being in need of a supplementary pension if he had a pension to supplement." Could you explain that to us?—(Sir Archibald Carter.) I regret very much to say that although I signed the document in which that note appears I do not know that I can. I am very sorry. I will get an explanation. Perhaps Mr. Lloyd can explain it.

1972. You have a try, will you, Mr. Lloyd?—(Mr. Lloyd.) I will have a rough shot at it. The circumstances in which relief may be given by the Assistance Board are not necessarily the same as those which would entitle a man to an old-age pension.

5 March, 1946.] Sir ARCHIBALD CARTER, K.C.B., K.C.I.E.,
and Mr. R. J. LLOYD.

[Continued.]

Nevertheless, the Assistance Board, in order to give their supplementary assistance, must obviously have a pension to supplement to fit in with their statutory authority, so they grant him a token old-age pension of 1s. and add their supplementation to it.

1973. You grant them a token pension of 1s. in order to enable the Assistance Board to add something on to it?—Yes. I might say this is a very small item, and I do not think more than about £400 is involved in any one year. It is quite an exceptional set of cases. (Sir Gilbert Upcott.) Perhaps I may put it more crudely like this. It simply means that the two Departments have different means tests. You cannot give a supplementary pension unless there is a pension to supplement. That is basic. But the statutory means test of the Customs is in certain cases stricter than the means test of the supplementary.

1974. I do not understand what are the circumstances in which an over-70 pensioner becomes disentitled to a non-contributory pension?—That is because his means have increased.

1975. That is only upon the grounds of means, is it?—Yes, because his means have increased.

1976. There is no other disentitlement?—(Sir Archibald Carter.) There is, but an increase of means would be the only relevant one, probably.

1977. A man becomes disentitled to the non-contributory here, the over-70 pension, on account of means, and that prohibits him from getting supplementation. Then you give him a pension of 1s. and he goes off to the Assistance Board and is able to get supplementation, and apparently comes out better that way than if he had the non-contributory pension?—I am afraid I must frankly confess I do not know. (Sir Gilbert Upcott.) He would not get anything at all. Unless he gets at least 1s. from the Customs and Excise he cannot get a supplementary pension. If he has private means of I think £1 a week he cannot get the old age pension, and therefore cannot get the supplement. But if he has private means of only 18s. or 19s. he can get one or two shillings from the Customs, and the Assistance Board will give him up to something like another 10s., I think. It is a different means test. The Customs are bound by statutory provisions; the Assistance Board have a certain discretion under their regulations.

1978. One other point on the notes. On page 208, in the last paragraph but one, you say: "The sum of £3,614 3s. was surrendered by 161 pensioners as a contribution to the national finances in the present emergency." That is a very remarkable thing. How do they do that? Do they send in the warrants or do they

say they will go without a pension?—(Sir Archibald Carter.) The Accountant-General tells me that as a rule they have sent back the whole pension book, or something like that. (Mr. Lloyd.) Or the separate orders.

1979. Those will in the main, I take it, be contributory pensioners who have some other means?—(Sir Archibald Carter.) No. These must be, I should think, the non-contributory pensioners; otherwise we should not know anything about it.

1980. These are the poorest old people, who are subject to a means test, sending back money?—(Sir Gilbert Upcott.) There are a certain number mentioned under Subhead A who have not drawn their pensions at all. They may, of course, be contributory pensioners.

Chairman.] Are there any questions on the Account?

Sir John Mellor.

1981. In the note to Subhead E, which is extra-statutory grants, on page 207, it says: "Expenditure of an unascertained amount which is quite small, is included under this subhead . . ." What I cannot understand is how an unascertained amount can be included in the fixed amount which is shown as extra-statutory grants?—(Sir Archibald Carter.) That is an estimate.

1982. It does not say what the estimate is. It merely says that expenditure of an unascertained amount is included, and in a fixed sum, but it does not say how much of that fixed sum is an estimate of that unascertained amount?—Except for the fact that it is quite small I am afraid I do not know; but I could find out and let you know.

1983. The Accountant-General said about £400, I think?—(Mr. Lloyd.) That is so. That I would regard as the maximum.

Sir Frank Sanderson.

1984. On page 207, the note to Subhead A states: "A substantial proportion of the saving is attributable to the apparent non-encashment of pension orders." Could you give an approximate idea of what the amount in fact was?—(Sir Archibald Carter.) About £75,000.

Mr. Williamson.] One question on the point you were discussing, Mr. Chairman, with regard to the 1s. token payment. Do I understand a person who, because of his income of, say, 20s. a week, is disqualified from a non-contributory pension can then be given a token pension of 1s. in order that he can go along and claim a supplementary pension at the same time as he is receiving the payment? Do I understand that?

Chairman.] Yes.

5 March, 1946.]

Sir ARCHIBALD CARTER, K.C.B., K.C.I.E.,
and Mr. R. J. LLOYD.

[Continued.]

Mr. *Pickthorn*.

1985. I am not quite clear about the note to Subhead A with regard to the £75,000 which is saved by not cashing pension orders. There are two things I do not understand. Firstly, does that mean £75,000 out of the £161,000? "A substantial proportion" means in fact nearly half?—Yes.

1986. I do not know why you do not say: "nearly half". My second question is: Is the second sentence in the note to Subhead A explanatory of the first?—No.

1987. It is additional to it?—It is additional to it. There are two different cases.

1988. The number of pensioners was lower because pensioners have died?—Our estimate of what would be the position of the number of pensioners did not work out quite right.

1989. Besides that, there were some pensioners who did not cash their warrants?—Yes.

1990. And that amounted to half of the lot?—Yes.

Chairman.] Are there any further questions on the Account? May I take it that the Account is approved? (*Agreed.*)

Sir Archibald, thank you very much for coming this afternoon.

(*The Witnesses withdrew.*)

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

TUESDAY, 12TH MARCH, 1946.

Members present:

Mr. PEAKE in the Chair.

Mr. Benson.
Mr. Douglas.
Lieut.-Colonel Alan Dcwer.
Mr. Hector Hughes.
Sir John Mellor.

Mr. Pickthorn.
Sir Frank Sanderson.
Mr. Thurtle.
Mr. Maurice Webb.
Mr. Williamson.

Sir GILBERT UPCOTT, K.C.B., Sir HERBERT BRITAIN, K.B.E., C.B., and Mr. C. E. I. JONES called in and examined.

HOUSE OF COMMONS MEMBERS' FUND ACCOUNTS, 1944-45.

Sir CHARLES MACANDREW, T.D., a Member of the House, examined.

Mr. R. R. WHITTY, C.B.E., and Mr. A. J. MOYES, O.B.E., called in and examined.

Chairman.

1991. Sir Charles, you have come before us to answer questions in regard to the House of Commons Members' Fund Accounts?—(*Sir Charles MacAndrew.*) Yes.

1992. You have with you Mr. Whitty?—(*Mr. Whitty.*) Yes.

1993. Who is the Public Trustee, or is of the Public Trustees Office?—I am the Public Trustee.

1994. Will Members turn to the Report of the Comptroller and Auditor General, which is on the back page of the Account. In paragraph 1 Sir Gilbert states: "The income attributable to the year exceeded

the expenditure by £6,196 6s. 11d., and this amount has been carried to capital account, bringing the total of that account to £41,725 2s. 7d. as shown in the Balance Sheet." I think it was stated on a previous occasion, when the Chairman of the Fund appeared before this Committee, that you were building up a capital sum of about £50,000. Is that still your objective?—(*Sir Charles MacAndrew.*) Yes.

1995. What will happen when the capital fund is attained?—I think Mr. Moyes may know about that. As far as I know, we were to carry on building up till we got to £50,000 before any changes were suggested, either in the premiums or the benefits that were paid. (*Mr. Moyes.*) That is so. That was the view the first Committee

12 March, 1946.] Sir CHARLES MACANDREW, T.D., Mr. R. R. WHITTY, C.B.E., and Mr. A. J. MOYES, O.B.E.

[Continued.]

took, to establish a fund of £50,000, and then, as it were, to reconsider the position at that stage.

1996. In paragraph 2 the Comptroller and Auditor General states: "At the date of the Dissolution of Parliament, 15th June, 1945, there were chargeable to the Fund three pensions to ex-Members and nine to widows of Members." The qualifications are, are they not, that before an ex-Member can get a pension he has to be over 60 years of age and to have had 10 years' service in the House?—Yes.

1997. Have you a discretion to waive those requirements?—(Sir Charles MacAndrew.) To some extent. Paragraph 6 of the First Schedule provides: "For the purposes of this Schedule, the income of any person shall be ascertained in such manner and on such principles as the Trustees may determine." So we have a pretty wide power to that extent.

1998. That is as far as the income is concerned. Have you a discretion as to the age or the ten years' service?—We have a certain discretion regarding the service.

1999. Then in paragraph 2 the Comptroller and Auditor General goes on to say: "As the result of claims received following the Dissolution the Trustees awarded to ex-Members eight pensions with effect from 15th June, 1945." The net result appears to be that there are nine awards to ex-Members and ten to widows current at the present time?—Yes.

2000. I think I might ask whether you have had any claims to pension which you have rejected?—Yes, we have.

2001. I am not asking for any names. I am asking whether you have received additional applications?—Recently we have rejected five claims from ex-Members and one from a widow—one of them because of insufficient service, one because of insufficient service and not having attained the age of 60 years, and four because the private income exceeded the maximum laid down by the Act.

2002. What is the maximum laid down by the Act?—£225 for an ex-Member and £125 for a widow.

2003. Perhaps Mr. Moyes could assist us on this question, which is rather a technical one. I wondered whether you had any powers to augment a pension once granted on account of the rise in the cost of living?—(Mr. Moyes.) Not at the moment. The limits are laid down by the Act, and it would require an amendment to that Act to alter the awards.

2004. What I had in mind was whether, having once granted a pension of, let us say, £100 a year, at a subsequent date you could review that pension and increase it or diminish it?—We do review it every twelve months, but that is solely on the

basis of the private income of the person. That is apart from the pension award which we have given him.

2005. I suppose you aim at bringing the income of the individual up to £225 which Sir Charles mentioned?—That is so.

2006. May we now turn to the accounts. The first account is the Income and Expenditure Account of the year ended 30th September, 1945. The second account deals with investments. I see that in the course of last year, in addition to the surplus which you had to invest, you realised about £13,800 of gilt-edged stocks, and your new investments, both of the surplus and of the proceeds of the realisation, have been invested, in the main, in Corporation Stocks?—(Mr. Whitty.) That is so. The reason why that was decided upon was this. It was done actually in May of last year. It was felt at that time that the policy of a future Parliament might perhaps involve dearer money, and that it was desirable, in a fund of this character, to put the investments into short-dated stocks. Consols, of course, have no fixed date of redemption at all, and the Savings Bonds were running from 1960 to 1970. The Trustees felt that there was a possibility of a considerable number of claims following the Dissolution of Parliament, and, if we were called upon to realise investments, it was desirable to have very short-dated ones, so that the risk of depreciation would be less. That is the reason for the changes.

2007. Do the Trustees take your advice on questions of investments, Mr. Whitty, or do they take professional advice from a stockbroker?—They use, I believe, their own knowledge and discretion, but they are entitled to consult me, and in fact they do consult me, and this change had my full knowledge and full support.

2008. It was anticipated that the Dissolution of the last Parliament and the commencement of a new Parliament would result in a considerable increase in the number of applicants for pensions?—It was believed that that was quite a conceivable result.

2009. In fact the increase has not been very substantial?—Not so substantial as might possibly have been expected.

Chairman.] Are there any questions on the Report of the Comptroller and Auditor General, or on the accounts?

Mr. Pickthorn.

2010. I did not quite understand what was the purpose of building up this £50,000?—I think the Government Actuary advised that that was the minimum amount of Fund necessary to ensure the continuance of pensions already granted.

2011. Because the income might stop, or why?—No, because of the impossibility of forecasting the length of life of pensioners, and the capital demands on the

12 March, 1946.] Sir CHARLES MACANDREW, T.D., Mr. R. R. WHITTY, C.B.E., and Mr. A. J. MOYES, O.B.E.

[Continued.]

Fund could be calculated, and it was felt that £50,000 was the minimum reserve which ought to be there.

2012. In spite of the certainty of the income?—Yes, because one could not foretell the number of claims which might be made on the Fund in the future.

2013. One could not be sure of foretelling it right, but one could foretell it?—One could not be sure of foretelling it right.

2014. Unless it is going to be multiplied by a very large X, the income is a great deal more than the cost?—Yes, at the present time. (Sir Gilbert Upcott.) The cost is bound to increase, because the effect of the awards is cumulative.

2015. I gathered that the shift of the investments was as an insurance against higher interest rates. Is that right?—(Mr. Whitty.) Yes. If interest rates went up the value of that large holding of Consols would inevitably go down.

2016. What I was asking was whether I was quite right in thinking that that is what you were ensuring against when the investments were shifted?—I am not sure that "insurance" is exactly the right word.

2017. The investments were shifted upon the calculation that if interest rates went up it would be better that they should be in the new stocks rather than in the old stocks which had been sold?—That is so.

2018. Was it or is it considered proper to make any (if you do not think the word is improper this time) similar insurance against depreciations of the currency?—The depreciation of the currency was not taken into consideration.

2019. What I want to know is whether it is or was or could be considered proper to ensure against that, or whether it merely is a change of interest rate which it is considered proper to ensure against?—I do not think one can take precautions against depreciation of the currency except by altering the whole range of investments, and perhaps choosing ordinary shares.

2020. The question to which I want to know the answer (I am sorry if I am being stupid) is: Is it or is it not considered a proper factor to take into account? I am not asking whether the thing could be done, but is it or is it not a proper thing to try to ensure in such a Fund against changes in the value of money, in the other sense of the "value of money," not in the sense of interest rates but in the value of currency?—I think it would be a proper thing to do if you could do it.

Chairman.

2021. It rather turns on whether you are limited by Statute as to the kind of security in which you can invest?—Yes, as we are.

We are limited to specified investments set out in the Schedule to the Act, so we must choose a fixed interest type.

Lieut.-Colonel Alan Dower.

2022. I think you said that the object was to raise £50,000 to hold more or less in hand to meet future contingencies of the Fund. There is now £41,000, so in about 15 months' time, with any luck, we shall have reached our objective. We are faced with an annual income of £6,947 and disbursements in the way of benefits to needy Members of Parliament or their widows of £1,246. What Mr. Pickthorn said seems to me to be very relevant when it comes to a question of deciding what is the capital sum which should be left in the Fund, because if the value of money depreciates it might be advisable to raise the Fund from £50,000 to £75,000. The first question I would like to ask you is: Have you power to do so, if you so decide?—The £50,000 Fund I think is entirely in the discretion of the managing Trustees of the Fund. No doubt they could consult with the Actuary of the Fund, and if he advised that the reserve should be increased I have no doubt they would not only have power to increase it, but would endeavour to do so.

2023. In practice you should have that power. The second question I want to ask is this. The income then is six or seven times the amount of disbursements, so I presume you will actively consider whether you will not collect so much money from Members, or whether you will increase the benefits, or remove some of the restrictions that apply to those who apply for benefit?—(Sir Charles MacAndrew.) That could not be done without legislation, because the £12 which every Member pays is fixed, and the maximum amount that we may give is also fixed by Statute. So when the £50,000 is reached one of two things would happen—either Parliament would wish to reduce the £12 to whatever it might be or increase the £225 and the £125 to some larger sum.

2024. Then it looks as if in the future, judging from what is occurring now, there will have to be some further Parliamentary action taken?—I think so undoubtedly. My own personal view was that this £50,000 was excessive when our income was absolutely assured.

Mr. Douglas.

2025. The Balance Sheet is merely what one might call a cash account? It takes no regard of the prospective liabilities, does it?—I do not think one could very well assess them.

2026. I see there is an expenditure of £279 for an Actuary's report. Did he attempt to make any assessment of this?—On that particular figure, when I saw it in the original draft of the accounts, I thought it was very high and I wrote to Mr. Moyes

12 March, 1946.] Sir CHARLES MACANDREW, T.D., Mr. R. R. WHITTY, C.B.E., and Mr. A. J. MOYES, O.B.E.

[Continued.]

about it; but I understand it is the charge which is made, taken on the basis of the amount of money, plus 50 per cent. for overheads and the time occupied by clerks.

Chairman.] I do not think Mr. Douglas is complaining about the charge for the Actuary. What he is asking is whether the Actuary did not make some estimate in terms of a capital sum of the liabilities of the Fund. That is what you wanted to know, Mr. Douglas?

Mr. Douglas.

2027. I would not complain about the charge if I were convinced that the Fund had value for it. That is what I want to find out. May we have an indication of what the Actuary did tell the Trustees?—About the £50,000? (*Mr. Moyes.*) The Actuary published a report in 1944 which was probably value for his money. (*Sir Gilbert Upcott.*) It was laid before Parliament.

2028. I am sorry; I have forgotten what the terms of it were. Anyway, did it give the Trustees any guidance in their task?—(*Mr. Moyes.*) If I may answer that I would say yes. The Actuary emphasised on the financial side the report of the Departmental Committee on Pensions to Members, which was published in 1927. That was the summary of his report.

Mr. Maurice Webb.

2029. Are there any Members with conscientious objections to paying this compulsory levy?—(*Sir Charles MacAndrew.*) They have to do it by Act of Parliament, whether they like it or not.

2030. People have to go into the Services by Act of Parliament, but they still have conscientious objections?—I have had no experience of that happening. They themselves do not have to perform any active function. The money is deducted before they get their salary.

2031. If there were such a case what sanctions have you?—It would not be possible for a Member to refuse, because before he gets his salary the money is taken off. He might object.

Mr. Benson.] The point is: has he any sanctions against you?

Mr. Maurice Webb.

2032. I want to know precisely the legal position in relation to this money?—It is in the Act. You will see it in subsection (3) of Section 1: "There shall be deducted from each payment of the salary of a Member of the House of Commons payable in respect of any period after the thirtieth day of September nineteen hundred and thirty-nine a sum calculated at the rate of twelve pounds per annum and the sum so deducted shall be paid into the fund," so the Member really never handles it.

2033. To bring it lower down, have there ever been protests against it?—There may have been. They have not come to me since I have been Chairman, but I should think there have been a lot of protests.

2034. It is collected with complete ease? One small point. In his Report the Comptroller and Auditor General states that two pensions to ex-Members ceased in October and December, 1945, respectively. Is it possible to give the reason for that? Was it death?—Both incomes went over the limit.

2035. You revised them in the light of that?—We are tied by the First Schedule, and if the incomes go over £225 then we cannot give them anything.

2036. Is each recipient required to make a return annually?—Yes. They make a return to show what their income is, and we assess their pension or grant on the figures they give us.

Mr. Thurtle.

2037. One question, Sir Charles. When the Actuary makes his report, does he have regard to the average age level of the particular House of Commons he is considering? That is to say, in the last Parliament presumably the age level was about 55; in this it might be as low as 35. Would the Actuary take that point into consideration in calculating what reserve is necessary?—I should think he probably would, but the £50,000 was not calculated since this Parliament assembled. That was calculated in 1939 and it has never been altered. On your point it probably should be lowered now, because of a younger Parliament, although on the other hand there are more Members.

Chairman.

2038. Do you think the Government Actuary tries to calculate our chances of being returned at an Election?—If the older men were not returned it would be rather serious for the Fund.

Mr. Thurtle.

2039. If there are fewer old men in Parliament there is then less risk of old men being defeated?—Yes, I think that is right. I am not an Actuary myself.

Chairman.

2040. Sir Gilbert, is there any comment you would like to make on this question of the charge by the Government Actuary of £279 for his quinquennial report? I think it is a quinquennial report?—(*Sir Gilbert Upcott.*) I think that is quite correct. I think that that is the proper charge for services rendered to Government Departments. It is based on a principle which I myself pursue when I perform audit services for any paying body; that is, to charge expenses with sufficient to cover overhead charges—that is the true cost of the services.

12 March, 1946.] Sir CHARLES MACANDREW, T.D., Mr. R. R. WHITTY, C.B.E., and Mr. A. J. MOYES, O.B.E.

[Continued.]

2041. You do not proceed like doctors do, upon the principle of what can the patient pay?—No, nor does it provide for any profit. It covers the cost.

Chairman.] Are there any further questions on the Account? May I take it that the Account is approved? (*Agreed.*) I think that is all, Sir Charles. Thank you very much for attending.

(*Sir Charles MacAndrew, Mr. Whitty and Mr. Moyes withdrew.*)

CIVIL APPROPRIATION ACCOUNTS, 1944.

CLASS I.

NOTE 2.

HOUSE OF COMMONS.

Sir GILBERT CAMPION, K.C.B., and Mr. A. J. MOYES, O.B.E., called in and examined.

Chairman.

2042. Will Members turn to the Civil Appropriation Accounts, 1944, to pages 10 and 11, which contain the House of Commons Account. Looking at the Account as a whole, Sir Gilbert, the expenditure was considerably less than the grant?—(*Sir Gilbert Campion.*) That is so.

2043. Might I ask you a question about the footnote to Subhead A.1? Some of the short fall of expenditure under that sub-head is attributable to the fact that two Northern Ireland Members did not take the Oath, thereby saving £1,200. I believe since the new Parliament was formed the Members for that constituency have taken the Oath?—That is so.

2044. Then the note goes on to say: "Members declining salary in part," a figure of £1,320. Could you tell us whether there were any Members who declined their salary *in toto*, and how many Members declined their salary in part?—There were six Members who declined their salary in part. They declined amounts varying from about £100 to £500.

2045. But there was no Member in the year under review, which is the year 1944-45, who took no salary at all?—Yes, there were five.

2046. There were five who took no salary at all?—Yes.

2047. And there were a number of others who declined their salary in part?—Yes; six others who declined their salary in part.

2048. Your estimate of expenditure was based upon the assumption that some Members would decline their salary, but in fact rather more declined their salary, or declined it to a greater amount than you had anticipated?—That is so.

2049. Those various amounts mentioned in the footnote, which add up to about £4,500 as a short fall of expenditure, are counterbalanced to some extent by Ministers electing to forego their Ministerial salary and receive their Parliamentary salary?—Yes.

2050. There, again, I suppose you had anticipated that certain Ministers would forego their salary?—Yes.

2051. And in fact rather more Ministers forewent their salaries than you had anticipated?—That is so. It was anticipated that 13 would forego their salary, and on the 1st April, 1944, there were no less than 16. In November the figure fell to 14; it rose again to 15 in March, 1945.

2052. Those are obviously items which you cannot accurately predict, especially as it was ruled, I think during the time I was at the Treasury, that Ministers could opt in and out of their Parliamentary and Ministerial salaries as frequently as they wished so to do?—Yes, I believe that is so.

2053. It had previously been understood, I think, that a Minister, once having foregone his Ministerial salary and opted to accept his Parliamentary salary, should be bound by that until he changed his office?—Yes.

Chairman.] Those are all the questions I have to put. Has any Member of the Committee any questions on the Account?

Mr. Pickthorn.

2054. On page 11, at the top, Sub-head H is "Shorthand Writers." I see the expenditure was well under half the grant, and I wondered whether in fact there ought to be more Shorthand Writers—whether the difficulty is that there are not enough Shorthand Writers to spend the money on, or what is the explanation?—Fewer Select Committees, I think. (*Mr. Moyes.*) That is so. We had fewer than would normally be the case.

2055. Fewer Select Committees?—(*Sir Gilbert Campion.*) Yes, in the year 1944.

2056. It does not mean that we are not able to get all the shorthand writers that we need?—Not so far.

2057. For ease and efficiency?—We are rather coming up against a shortage, but we have not actually reached it yet.

12 March, 1946.]

Sir GILBERT CAMPION, K.C.B., and
Mr. A. J. MOYES, O.B.E.

[Continued.]

2058. I do not know whether this is a proper question. Perhaps you will stop me, Mr. Chairman, if it is not. Would it seem likely that rates would have to be altered in order to attract them, or is it all right as it stands?—(Mr. Moyes.) We have altered the rates.

2059. I know we have fairly recently, but I wondered whether the rate was now sufficient to give us enough in the way of Shorthand Writers?—(Sir Gilbert Campion.) As far as we can see.

Lieut.-Colonel Alan Dower.

2060. I just want to ask, firstly, in regard to Subhead A.1, "Salaries," as to whether the grant and the expenditure is before taxation is deducted?—Yes.

2061. My second question is this. Subhead G is: "Incidental Expenses." I presume those are personal expenses. They are nothing to do with the assistance which is given to, say, the loud speaking arrangements in the Chamber which come under the Serjeant-at-Arms?—The reduction there was due to less Home Guard expenses.

2062. They are personal ones?—It is largely due to less fire watching really. The arrangement is that we pay a House of Commons contribution towards the cost of custodians, which includes fire-watching. There was less payment needed in that year.

2063. That exhausts that total sum?—That accounts for the great bulk of the reduction.

2064. It appears, Mr. Chairman, that particular services which come under the Serjeant-at-Arms such as this broadcasting do not come under this particular Vote?—(Mr. Moyes.) No.

2065. It does not appear here?—It does not appear here.

Mr. Benson.

2066. Supposing one of the Departments, that of the Serjeant-at-Arms or of the Speaker, requires alterations, does the cost of those alterations come under this Vote, or is it borne elsewhere?—The cost would come on the Ministry of Works Vote.

2067. Supposing furniture were required?—Similarly, it would come on the Ministry of Works Vote. (Sir Gilbert Upcott.) The Houses of Parliament Buildings Vote.

2068. The Houses of Parliament Buildings Vote; and furniture comes under the Ministry of Works Vote?—(Sir Gilbert Campion.) Yes.

Mr. Douglas.

2069. Is there any other expenditure upon the House of Commons besides what is contained in this Account and the Office of Works Account?—(Sir Gilbert Upcott.) Stationery, rates and audit.

2070. I was wondering where to find them. They are not in the index to this volume?—They used to be published in the gross and net cost return; but that has been discontinued during the war.

2071. That is why the expenses in this Account are almost entirely salaries and wages, then?—(Sir Gilbert Campion.) Yes, I should think that is the reason.

2072. You are the Accounting Officer, Sir Gilbert, but do you in fact have control in any way of the other Departments besides that which is entitled the Department of the Clerk of the House?—I have no administrative control, but any expenditure above quite a small sum requires my authorisation. (Sir Gilbert Upcott.) I should add that in 1935 this Committee recommended that the opinion of the Accounting Officer should be before the Commissioners for Regulating the Offices of the House of Commons when they are considering any proposal for a charge upon the Vote.

Chairman.

2073. The opinion of whom?—The opinion of the Accounting Officer, Sir Gilbert Campion should be before the Commissioners when they are considering any proposal for an increased charge.

Mr. Douglas.

2074. Who are the Commissioners?—(Sir Gilbert Campion.) They are set up under Statute. They are the Commissioners for controlling the Offices of the House of Commons. They consist of the Speaker, the Chancellor of the Exchequer and all Secretaries of State who are Members of the House of Commons. They regulate the conditions of pay and service of officers of the House. (Sir Gilbert Upcott.) There are also the Master of the Rolls and the two Law Officers.

2075. Do the Commissioners ever meet?—(Sir Gilbert Campion.) You must ask the Secretary to the Commissioners that question. Certainly the Treasury have a voice in all those questions. The Chancellor of the Exchequer's opinion would weigh very heavily.

Mr. Maurice Webb.

2076. Sir Gilbert, I wonder if you can tell us the total staff of the House of Commons?—Including all the departments?

2077. The departments covered by this Vote?—The departments under the Speaker, the Serjeant-at-Arms and my department?

2078. Yes?—The number is something under 200.

2079. In the three departments combined?—Yes.

2080. On the question Mr. Pickthorn raised about Shorthand Writers, are those solely the Shorthand Writers engaged for

12 March, 1946.] Sir GILBERT CAMPION, K.C.B., and
Mr. A. J. MOYES, O.B.E.

[Continued.]

special committees? Subhead H does not include HANSARD?—No. It is done by contract on a different system altogether.

2081. On what Vote does that appear?—That is Subhead H. (Mr. Moyes.) The other is Subhead D. (Sir Gilbert Campion.) The HANSARD Shorthand Writers are officers of the House, in the department of the Speaker.

2082. Subhead H is purely for supplementary services?—Those are the Shorthand Writers for Select Committees, who are under a totally different organisation.

2083. On what Vote do you charge telephone services?—They are not shown here. (Sir Gilbert Upcott.) The Post Office Vote. I should mention that the number of staff which Sir Gilbert gave would not include the police or custodians.

Mr. Thurtle.

2084. Sir Gilbert, you said there were six Members, I think, who declined their

(Sir Gilbert Campion and Mr. Moyes withdrew.)

salaries in part in varying amounts?—(Sir Gilbert Campion.) Yes.

2085. They were declined on conscientious grounds, or on economic grounds? I was wondering if there would be a varying of conscience, or what was the explanation of those varying amounts?—I do not think they vouchsafed their reasons. They are not required to do so, at any rate.

2086. They just decline a certain part of their salary and disclose no reason?—Yes; and we do not disclose any name.

Mr. Thurtle.] It seems very strange to me.

Chairman.] Has any Member any further questions to ask on the Account? May I take it that the Account is approved? (Agreed.) Thank you very much, Sir Gilbert.

Mr. D. F. C. BLUNT called in and examined.

(Correspondence between the Chairman and the Treasury dated the 26th October and 1st November, 1945, and 25th February, 1946.)

Chairman.

2087. Sir Herbert Brittain is going to make a statement on the form of Estimates for Works Services. The original arrangements proposed were set out in Sir Herbert's letter of 26th October, 1945, which Members have before them. In my reply of 1st November I stated that the Committee "do not feel that their work will be hampered by the temporary change in Estimates for new works," and then I went on to suggest that the Estimates Committee should be consulted upon this matter when they were set up. On February the 25th last Sir Herbert wrote me again, explaining that the arrangements set out in his original letter could not be carried out, and suggesting some alternative arrangements. Sir Herbert, perhaps you will explain the matter to the Committee?—(Sir Herbert Brittain.) Yes. I am sorry to bother the Committee with this again. It relates to the limit above which we show new works separately in the Works Estimates of the Defence and Civil Departments. Before the war the rule was that any new work costing more than £2,000 should be shown separately in the Civil Estimates, and in the Defence Estimates the corresponding figure was £2,500. My first proposal to the Committee was that for 1946 at any rate we should aim at showing works costing over £10,000 for various reasons which I think the Committee appreciated at the time. We are certainly going to do that in the case of the Civil Departments.

When the Works Votes appear very shortly the Committee will find we do set out new works costing over £10,000. In the case of Defence Departments, when we came to discuss the details of their Estimates with them it became quite clear that during this month or the next two months, when they have to get their Estimates out, we could not possibly work to that figure of £10,000, for the reasons which I gave the Chairman in my last letter of the 25th February. The most we felt we were able to suggest was that we should put lump sums for these new works in the Estimates when they first appeared, and later in the session present to Parliament more detailed explanations of those amounts. I think by way of commendation I might say that this arrangement will give Parliament a little more information than they had in the first year or so after the last war. So we are doing our best, but the circumstances are rather against us. I include in Defence Departments the Ministry of Supply, of course.

2088. I must confess I think there is great force in the statements contained in paragraph 3 of your letter, that it is difficult for Departments at the moment to make a final selection out of the many works of rehabilitation which will be necessary; and there is the further difficulty of getting out in time proper estimates of the total cost; then there is the security aspect, which is, I suppose, being reconsidered in the light of pre-war experience, when a good many of

12 March, 1946.]

Sir HERBERT BRITAIN, K.B.E., C.B., and
Mr. D. F. C. BLUNT.

[Continued.]

our defence works were very carefully scrutinised and publicised elsewhere.—Yes.

2089. You say in paragraph 2: "But we propose to add a note to the Estimates to say that further details of new works services will be presented separately to Parliament later." Could you give us any idea of what is in your mind there? Are you going to publish a White Paper?—Yes, it would be a separate programme—separate from the Estimates. The actual form of it I think we should have to consider when we have had further talks with the security experts.

2090. It would set out broadly the major items of expenditure on capital account which you are going to undertake during the year?—Yes; it is all concerned with new works.

2091. Do you think this is a satisfactory arrangement, Sir Gilbert?—(Sir *Gilbert Upcott.*) This display of works services in the Estimates and the Accounts has a lot of ancient history behind it. It really dates from 19th century days, when Parliament was very jealous indeed of the executive Government incurring any capital expenditure, and, therefore, even comparatively small items of capital expenditure were held to require the previous authority of Parliament in detail. That resulted in modern times in the Estimates and Accounts being filled with pages and pages of detailed works services, many of them not of very great magnitude or importance, and rather bewildering both to Parliament and this Committee. In wartime it became absolutely impossible to keep up the system, and, with the consent of the Committee, it was dropped for the period of the war. I think the Committee would not wish to go back to the pre-war system in full detail, because it did involve, I think, the display of comparatively unimportant items, and, therefore, I do think the Committee would probably welcome some new standard which would display both for Parliament in advance of the expenditure and for this Committee when they examine the Accounts, items which are really of importance. That will bring the Treasury and Departments up against the security aspect, no doubt, because it is just those items which no doubt the security experts would be reluctant to reveal; but that is a matter which the Treasury will seek to resolve. What I want to say is that I would urge the Committee, if they think fit, not to press for a reversion to the very detailed display which used to occur before the war.

2092. You would welcome a less detailed form of statement?—Yes, a higher standard of amount would be the most effective way of doing it, which would save a great deal of accounting man-power and a great deal of paper and printing and the time of this Committee and everybody else.

Chairman.] Are there any questions?

Mr. Douglas.

2093. This proposal relates to capital expenditure, I take it, although that expenditure is charged to revenue. That is right, is it not?—(Sir *Herbert Britain.*) Yes.

2094. The amount which will appear in the statement you provide will only be the amount which is charged to revenue in the particular financial year. Is that right?—Just for next year. There is a certain amount included in the Defence Votes and the Vote for the Ministry of Supply which will be set out in the Estimates which are about to be presented as one figure for Part I works. Then this White Paper will give such details as we are able to give of the make-up of that figure.

2095. The White Paper will give a dissection of it, but it will not show what the ultimate cost is, will it? For instance, for work which is going to cost ultimately £5,000,000 it may be only £1,000,000 is charged to the Account of this year. Do we get any clue to that?—To the ultimate cost, yes. (Sir *Gilbert Upcott.*) The normal display has a column for the total estimate.

2096. I wanted to be quite clear on that. Secondly, works of this kind generally entail consequential annual expenditure in maintenance, staff, repairs, and so on. Is any estimate provided of what the average annual charge involved will be?—(Sir *Herbert Britain.*) I do not think that has ever been the practice in connection with Works Votes.

2097. It is very necessary, is it not?—It is taken into account in deciding whether to go forward with a policy, but not as a matter of presentation to Parliament in these Estimates.

2098. Is it not desirable that Parliament should have that information if it is to exercise an informed judgment upon any such proposal?—I suppose there is, perhaps, no limit to the extent to which Parliament might feel it ought to have that kind of information. I do not know where we should stop in the ultimate cost of a service. It has never been the practice hitherto to give Parliament that information, but it is something which is very material to the consideration of a new work by either a Defence Department or the Ministry of Works and the Treasury.

2099. Quite. Somebody does give some consideration to it, and frames some kind of estimate. Is there any reason why that should not be displayed?—Except that it is rather complicating the statement, which we should be a little loth to do, I think.

Sir *Frank Sanderson.*] In regard to the arrangements for 1946, both for Civil and Defence Estimates, I quite agree with regard to Part I and Part III, as suggested. But in regard to Part II, the increase of works costs from £2,000 to £10,000, is

12 March, 1946.]

Sir HERBERT BRITTAI, K.B.E., C.B., and
Mr. D. F. C. BLUNT.

[Continued.]

rather a steep change, and I was wondering whether it would not be possible for those items to be classified under two or three classifications—take, for instance, Post Offices or Offices, if we could be given the aggregate spent on a form of classification?

Chairman.] That was part of Sir Herbert's original proposals, which the Committee, after I consulted them, said they were prepared to accept.

(*Sir Herbert Brittain and Mr. Blunt withdrew.*)

CIVIL APPROPRIATION ACCOUNTS, 1944.

CLASS IV.

VOTE I.

MINISTRY OF EDUCATION.

Mr. J. P. R. MAUD, C.B.E., and Mr. B. L. PEARSON, D.S.O., M.C., called in and examined.

Chairman.

2101. Will members turn to the Civil Appropriation Accounts, 1944, to Class IV, Vote I, the Ministry of Education. I believe, Mr. Maud, the Account which we are to examine was signed by your predecessor, Sir Maurice Holmes?—(*Mr. Maud.*) Yes.

2102. I understand you will accept responsibility?—I will.

2103. Will you turn to page xi, paragraph 29 of the Report of the Comptroller and Auditor General. That paragraph deals with the provision of books and periodicals for liberated countries. Sir Gilbert states: "Subhead Z.3 includes a payment of £12,306 1s. to the Books Commission of the Conference of the Allied Ministers of Education for the purchase of British books and periodicals published since the outbreak of war, for the use of national and university libraries in the liberated countries of Europe". That was quite a new way of spending the British taxpayer's money?—Yes.

2104. Then he goes on to say: "Further payments have been made in 1945 bringing the total expenditure to £19,368 12s. 9d., which appears from the Ministry's files to be roughly half the cost of the books and periodicals supplied". Who paid the remaining half of the cost?—The other Allied Governments which were members of the Conference of Allied Ministers, and whereas the books and periodicals which were purchased were, of course, all British, and were new books published since the war, the contributors included all nine of the Allied Governments who were members of the Conference, and in fact the British contribution over the two years I think will total only 28.1 per cent. of the total.

2105. Sir Gilbert goes on in the paragraph to say: "A contribution of £2,500 has also been made from this Vote in each of the years 1944 and 1945 towards the adminis-

Sir Frank Sanderson.

2100. I am sorry.—Perhaps I may say there are separate Votes for separate classes of work. Post Office Works appear on one Vote. Health Building Works on another, and so on. They are to that extent split up. (*Sir Gilbert Upcott.*) They are sub-classified within those Votes, very often, under different subheads.

trative expenses of the Conference". That is the Conference of Allied Ministers of Education. "These expenses include the cost of the staff of the Inter-Allied Book Centre in London". I was not quite clear if the Inter-Allied Book Centre is something different from the Books Commission mentioned above?—Yes, it is quite different. The Inter-Allied Book Centre is for the distribution of old books and periodicals collected from universities and other places in this country, and there is no expense incurred in respect of these old books and periodicals, the only expense being in respect of the staff of the Book Centre, which the Committee might be interested to know is at Salisbury Square, which has been lent by the British Government for this purpose since September, 1944. The new books which are referred to in the first sub-paragraph of paragraph 29 are quite separate.

2106. Then the paragraph continues: "In view of the probable transfer of the functions of the Conference to a new organisation"—has that new organisation come into being now?—It is in process of coming into being. There was a Conference at the end of last year which gave birth to the Preparatory Commission of the United Nations Educational, Scientific and Cultural Organisation. The Preparatory Commission existed as from about the 1st December last year, and it is to that body that the Conference of Allied Ministers has handed over. UNESCO itself will not come into existence until a sufficient number of countries have signed the Constitution, and it hopes to have its first Conference some time this autumn.

2107. In future I take it this kind of expenditure will be part of the money which we vote to the United Nations Organisation, will it?—That remains to be settled, but the natural expectation would be that that will be so. We have Treasury cover for the moment.

12 March, 1946.]

Mr. J. P. R. MAUD, C.B.E., and
Mr. B. L. PEARSON, D.S.O., M.C.

[Continued.]

2108. You do not expect these items to continue?—No.

2109. Have you any observations to make, Sir Gilbert?—(Sir Gilbert Upcott.) No. I only mentioned this because it is, as you say, a rather unusual enterprise on the part of the Ministry of Education.

2110. Are there any questions on paragraph 29? We pass to the Account which is on page 153. At the bottom of page 155 there is a table showing the payment of grant in 1944 to local education authorities for elementary education, and the amounts remaining unpaid on the 31st March, 1945. It appears from the second column of the table that there is still outstanding £4,500,000 odd for the year 1944, £1,470,000 odd for 1943 and £462,000 odd for 1942. It rather looks as if your accounts with the local education authorities were falling into arrear?—(Mr. Maud.) There has been payment made, of course, since the 31st March, 1945. I do not know whether the Committee would be interested in the figures I have.

2111. These arrears are very much larger than they normally were in peacetime?—That is so, and I think the simple answer is the great pressure of work, in particular on the district auditors.

2112. You rely on the district auditors for this work?—We pay the 90 per cent., but we cannot complete the grant until we have the audited returns, and it is that which accounts for the particular back log in respect of the more distant years.

2113. Are you making any progress with overtaking the arrears?—I think not. I think at present we cannot honestly say that there is an immediate prospect of overtaking arrears.

2114. You think you may fall even further behind?—(Mr. Pearson.) No. If I may interpose here, the position is roughly the same as it was a year ago. It has slightly improved, but not markedly. (Sir Gilbert Upcott.) Perhaps I may say, on that point, before you pass on to the next question, that this is really another case of the general question which the Committee had last autumn—the delay in the settlement of a large number of grants to local authorities, partly due to the man-power difficulties of the local authorities in framing their final accounts, and partly due to the delay in the district audit. The Committee made some recommendations last year with a view to the acceleration of that process which will come before this Committee again later on on the Treasury Minute on last year's report. But it is, as I said last year, very desirable that these arrears, which have been increasing perceptibly in recent years, should be cleared off, so as to clear the ground.

2115. I want you to turn to page 157, Mr. Maud, the footnote to Subhead D.2: "Grants to Bodies other than Local Education Authorities". No. (7) is: "Grant in aid to the Council for the Encouragement of Music and the Arts", a figure of £175,000. That is colloquially known as CEMA. I think you have parted company with this body since these accounts were closed?—(Mr. Maud.) Strictly speaking, it is still ours, because I think the Royal Charter which will constitute the Arts Council of Great Britain has not yet been granted; but in effect the last meeting of the Council of the old body has been held.

2116. How was the grant of £175,000 fixed?—It was agreed, by the Ministry of Education in consultation with the Treasury, after negotiation and discussion of the Estimates with the Council for the Encouragement of Music and the Arts.

2117. The Council includes representatives of the Ministry of Education, does it?—No, the actual Council does not, but assessors have always sat representing the Ministry of Education, and the Secretary of State for Scotland, and the same will be the position under the Arts Council. The Ministry will be represented.

2118. I take it that although this money appears on your Vote, you have no control whatsoever?—(Mr. Pearson.) Yes, we have. It is a grant in aid. It is not a grant made under regulations. It is a grant in aid, and the actual detailed application of it rests with the Council. We have to be satisfied that it is applied usefully to the general purposes for which it is given, but its detailed application rests with the Council itself.

2119. You have to be satisfied— That they are spending the money for the purpose for which it was given.

2120. You have to be satisfied that the Council has not exceeded its powers or gone beyond its Charter, or whatever it is?—It has not had a Charter so far.

2121. What has it got?—It has been an unincorporated body. It started as a Committee and became a Council.

2122. Has it not any Articles of Association or Terms of Reference or anything?—Not at the moment.

2123. It can do whatever it likes?—I would not go so far as to say that.

2124. Provided it is encouraging music or art, I take it?—(Sir Gilbert Upcott.) I think its estimates have to be approved.

2125. Its estimates have to be approved—by whom?—(Mr. Pearson.) By the Ministry of Education and the Treasury.

2126. It gives you estimates, does it?—Yes. The grant in aid, which is included in our Vote, is framed after discussion, with

12 March, 1946.]

Mr. J. P. R. MAUD, C.B.E., and
Mr. B. L. PEARSON, D.S.O., M.C.

[Continued.]

estimates initially prepared in the Council and vetted by us and discussed with the Treasury.

2127. I am quite satisfied with what it does myself?—(Sir Gilbert Upcott.) It was explained to the Committee last year that the Council cannot undertake any service which is not included in their approved estimates without the approval of the Ministry of Education and the Treasury.

2128. I am much obliged, Sir Gilbert. One more question on page 161, Subhead Z.3 "Miscellaneous". The footnote at the bottom of the page is: "The expenditure includes the cost of intensive training courses in engineering (£79,524), further education and training of ex-Servicemen and women (£77,759), and other training schemes". I assume that your expenditure for the training of ex-Servicemen and women is going to be a very big item in the near future?—(Mr. Maud.) It had barely begun at the time to which these accounts apply, of course.

2129. It is going to grow to a large figure, is it? Can you recall what the figure is in this year's Estimates, if they have been published?—(Mr. Pearson.) I could not at the moment give you the figure in this year's Estimates, but it will grow to a very large sum indeed as demobilisation proceeds.

Chairman.] Has any Member of the Committee any questions on the Account?

Mr. Douglas.

2130. Do I understand that Subheads Z.1, Z.2 and Z.3 are all in respect of people who are demobilised from the Services?—(Mr. Maud.) No. Z.1 "State Bursaries in Science" were given to persons during the war for study in preparation for war work. They would be given not to ex-Service people but to, you may say, pre-Service people. The same applies to Z.2.

2131. Will Z.1 and Z.2 increase or decrease?—They are wasting figures.

2132. Z.3 only will be increasing, then?—Yes.

2133. On page 159, Subhead E.1 is: "Pensions etc. to Teachers", which amount to £10,000,000. The teachers' contributions are about one-third of that, according to page 162. Is that right?—No. The £10,000,000 to which you refer is expenditure on Subhead E.1 on page 159, and that bears no immediate relation to the two figures of £3,000,000, which are the contributions from teachers and employers, on the top of page 162, because the sums of £3,000,000 are paid by the teachers and the employers to us, and the £10,000,000 is what we pay out to beneficiaries.

2134. Quite. All I was saying was that the £3,300,000 is the contribution of the teachers towards the £10,000,000 which is paid out in pensions, is it not?—(Sir Gilbert

Upcott.) Perhaps I could put it a little differently. The £3,000,000 and the £10,000,000 cannot be directly compared. The two sums of £3,000,000 odd are calculated on the actuarial principle of contribution to an accumulated fund. There is in fact no accumulated fund, but the pensions are paid from the Vote as they accrue. If the total contributions of £6,500,000 or their equivalent had been from the beginning of the scheme accumulated in a fund at compound interest, it would provide nearly all the cost of the relative pensions—not quite, because actuarially the contributions have been found to be slightly deficient—but those two figures of £3,000,000 on page 162 are not comparable to the expenditure of £10,000,000 on page 159, because they are calculated on different principles.

2135. Let me put it in this way: what are the principles upon which this calculation is made? How much is it assumed that the State, the local authorities and the teachers will respectively bear?—(Mr. Maud.) That is all laid down in the Pensions Acts. (Sir Gilbert Upcott.) The contributions by the teachers and the local authorities are supposed to cover, share and share alike, the full cost of the pensions which the teachers will earn. The whole burden of the local authorities' contributions does not in fact fall upon the local authorities, because they receive a grant in aid from the Exchequer of their appropriate portion, something like 50 per cent. of the contribution which they pay; but in the first instance, the contribution is half and half. In the ultimate incidence, the contribution from the actuarial point of view is as to one half upon the teachers, one quarter upon the local authorities, approximately, and one quarter upon the Exchequer.

2136. I was disregarding, for the moment the Exchequer contribution which covers this as well as all other expenses of education. If that statement is correct, the balance of £3,000,000 or so which the State is paying represents a deficiency, does it?—No, it does not represent a deficiency. It simply represents the fact that the State spent the money as it got it instead of putting it in a fund. I remember the Chancellor of the Exchequer of the day saying that he would not have a fund because it was not the practice of the British Exchequer to keep its money in a stocking under the hearth. The British Exchequer is itself a bank or fund, and takes the money as it comes in and meets the expenditure as it arises. But from the point of view of the beneficiaries it is very important that they should not be called upon to pay more than the actuarial figure required to meet their benefits.

2137. Does this lead to the conclusion that in some year we might suddenly see in the accounts that the position was reversed, and that the State was incurring no net

12 March, 1946.]

Mr. J. P. R. MAUD, C.B.E., and
Mr. B. L. PEARSON, D.S.O., M.C.

[Continued.]

charge, disregarding the element of grant?—At the beginning of the fund that was so, but it could not occur now.

2138. It will get more in the future, will it?—No.

Mr. Douglas.] Then can you persuade me that the State is not bearing a contribution of £3,000,000 a year and will bear it for ever?

Chairman.] This is in the realms of higher mathematics.

Mr. Douglas.

2139. It seems to me to be in the realms of commonsense, but somebody is trying to take it out of them?—Perhaps I might put it this way. One of the champions of the fund, an actuarially accumulated fund, represented that, if there were not a fund, someone would say, at a future date, that the State was bearing part of the expenditure, whereas in fact the State is not bearing part of the expenditure, except as I say incidentally, because in point of fact the contributions are slightly deficient. The argument was used that someone would represent incorrectly that the State was bearing a proportion of the expenditure, whereas in fact actuarially that is not so.

2140. I gather that a report is made by the Actuary upon this matter from time to time. Is that so?—(Mr. Maud.) Yes, that is so.

2141. Does the Actuary say that in fact the State is not bearing anything?—(Mr. Pearson.) I think the Actuary was concerned with the solvency of the fund, on the basis of the contributions which by Statute are paid in by the teachers and their employers.

2142. I am afraid I shall have to leave it there?—(Sir Gilbert Upcott.) The Actuary reports on a hypothetical fund which ought to be solvent if these contributions were actuarially adequate. The contributions represent 10 per cent. of salary, divided equally between the teachers and their employers. In 1935 the Actuary recommended that owing to the longevity of teachers the rate should be increased to 12 per cent.*

Mr. Maurice Webb.

2143. I have a number of questions but I will put only one. On page 157, No. (6), under Subhead D.2 is: "Youth Welfare (Social and Physical Training)" on which you spent, I see, roughly £10,000 less than the estimate. Could you explain why that was? You see the item?—(Mr. Maud.) Yes. That was simply due to the claims not maturing as quickly as they had been expected to mature.

* Note by Comptroller and Auditor General.

It is regretted that there was a misunderstanding in the foregoing answers. I should have stated that pensions now in payment include awards based on service before June 1922 in respect of which teachers did not pay contributions. The State bears the cost of this non-contributory service and it is included in the expenditure of £10,000,000 mentioned in the above Questions. It is a diminishing liability which will eventually disappear.

2144. It was not due to any deliberate cutting down of expenditure?—No, very much not so. It was simply that we were not asked to pay grant to the extent we had estimated we should be.

2145. Why is it that quite recently an instruction has gone out to local authorities reducing the grants for Youth Welfare Services, which is causing quite considerable concern?—(Mr. Pearson.) I think the answer to that is that these grants under Subhead D.2 (6) are grants direct by the Ministry to voluntary youth organisations, and they were started as a wartime service before the authorities could enter the field in full force. As the authorities are now entering the field there has been no discouragement, but the authorities will take over the aiding of their own local organisations, which they are in a much better position to do than the Ministry direct.

2146. That is the whole point of the complaint—that you are now cutting down your direct grants to the Youth Welfare Organisations and asking the local authority to bear the burden?—Only in the case of the local ones.

2147. There could not be any such things nationally?—There are national ones.

2148. They all have local units, have they not?—Yes.

2149. They are in fact doing local work?—Yes.

2150. And hitherto those have all been subsidised or aided by grants out of this fund?—Yes, but on the other hand I think the Committee will find that in the next account the expenditure under these grants is higher than it was, because the grants to the national bodies, and, above all, the grants for national training in leadership, are increasing. What the local authorities are being asked to take over, because they can supervise it better is the purely local work, whereas the Minister is more concerned with the national voluntary organisations and the national work.

Mr. Thurtle.

2151. One question about this grant to CEMA. Do I understand the origin of this grant was that a certain number of well meaning people went to the Treasury and the Treasury agreed to the grant without any reference to Parliament?—(Mr. Maud.) No, that is not the position. The Council was set up by the Minister of Education.

2152. It was really the Minister of Education?—And every member of the Council was appointed personally by the Minister of Education, and the estimates framed by the Council on each occasion had to be agreed with the Ministry of Education and the Treasury. It was on the basis of that that the grant was given by us as a grant in aid.

12 March, 1946.]

Mr. J. P. R. MAUD, C.B.E., and
Mr. B. L. PEARSON, D.S.O., M.C.

[Continued.]

329

2153. It is a child of the Ministry of Education then?—Yes. Its first parent was the Pilgrim Trust, a voluntary organisation. Some of the work was started as has happened in other parts of the social services and the Ministry of Education came in and created this Council for the Encouragement of Music and the Arts.

Chairman.

2154. You are handing over this thriving infant to the Treasury now?—Yes. It is

now coming to manhood on its own as the Arts Council of Great Britain, and the Chancellor of the Exchequer will be answerable for it, and not the Ministry of Education. (Sir Gilbert Upcott.) Its grants in aid have always been voted by Parliament. (Mr. Pearson.) Yes, all the grants in aid.

Chairman.] Are there any further questions on the Account? May I take it that the Account is approved? (*Agreed.*) Thank you very much, Mr. Maud.

(The Witnesses withdrew.)

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

TUESDAY, 19TH MARCH, 1946.

Members present:

Mr. PEAKE in the Chair.

Mr. Benson.
Mr. Douglas.
Mr. Haworth.
Sir John Mellor.
Mr. Pickthorn.

Sir Frank Sanderson.
Mr. Thurtle.
Mr. Wadsworth.
Mr. Maurice Webb.
Mr. Williamson.

Sir GILBERT UPCOTT, K.C.B., Sir HERBERT BRITAIN, K.B.E., C.B., and
Mr. C. E. I. JONES called in and examined.

CIVIL APPROPRIATION ACCOUNTS, 1944.

CLASS II.

VOTE 12.

IMPERIAL WAR GRAVES COMMISSION.

(26th Annual Report of the Imperial War Graves Commission.)

Mr. F. C. SILLAR called in and examined.

Chairman.

2155. Mr. Sillar, you are appearing in place of Sir Fabian Ware, are you not?—(Mr. Sillar.) Yes, Sir. He asked your kind permission to be away. He is in the middle of some very delicate negotiations with the Army on taking over cemeteries all over the world and particularly in the Pacific.

2156. Will Members turn to the Civil Appropriation Accounts 1944, Class II, Vote 12, to the Report of the Comptroller and Auditor General on page xi, paragraph 27. I think it would assist the Committee if you would just tell us a little bit about the Endowment Fund, in regard

to its origin, who are the trustees and what nature of stock it can invest in and so forth, and where it drew its funds from.—That is rather old history. When the Commission's constructional work was completed or was nearing completion, rather, after the last war in about 1924, the participating Governments who provided the funds by annual grants felt that it was right that the generation that had gone through the war should bear the capital cost of the annual maintenance for the future, and they decided between them to build up an Endowment Fund. At that time it was estimated that something like £5,000,000 would be required to produce an income between £200,000 and £250,000,

19 March, 1946.]

Mr. F. C. SILLAR.

[Continued.]

which would be what we thought would be the annual cost of maintaining graves all over the world. The Dominion Governments decided to build up their share in annual contributions over 6½ years, and the United Kingdom Government, having to bear 81 per cent. of the total, decided to take 13 years. That resulted in a slight lack of balance at the end of the time, which meant that we had to ask the United Kingdom Government to find rather more than the original share. That was due to the fact that conversion of War Loan had taken place during the 13 years and money was not being invested at the end of the time so well as at the beginning.

2157. Then the Comptroller and Auditor General refers to the "decision of the Imperial War Graves Commission to lend to His Majesty's Government, free of interest, at call, the surplus income arising from the Endowment Fund." During the recent war you have been unable, of course, to spend the income upon the maintenance of the graves?—In France and Belgium that is so, and that meant that we made a saving every year which it was found we had not power to transfer entirely to the Governments, but we could only lend it; so it was lent free of interest and is accumulating.

2158. The Comptroller and Auditor General goes on to report that "the Commission were able to increase their loan"—that is to say, during the year 1944-45—"by £110,000, making a total loan of £498,000, at 31st March, 1945. The income received from the Endowment Fund during the year was £197,365, against net expenditure on 1914-18 war graves of £74,485." Do you expect, in view of current costs—the level of wages and so forth—that the income of the Endowment Fund will be sufficient to maintain the graves of the 1914-18 war?—Frankly, I do not. I think that the Endowment Fund income will most likely be insufficient. It depends so enormously on foreign exchanges that it is very hard at this moment to estimate.

2159. But the income of the Endowment Fund is likely to be round about £200,000?—Yes.

2160. Then the Comptroller and Auditor General goes on to say that the audited statement on page 93 of the Account shows that the Commission's expenditure in 1944 on graves of the 1939-45 war was £77,000 odd, of which £62,800, or 81.53 per cent., is regarded as the United Kingdom's share. Has there been some agreement with the Dominions concerned that the same proportions as govern the contributions to the cost of the graves of the last war shall apply to the 1939-45 war?—Yes, but only temporarily, on the understanding that an adjustment will be made if the percentages have to be altered. We do not yet know whether the percentages will alter by reason of the attribution of the graves to the various Governments.

2161. So that you are proceeding at present upon a provisional basis?—Yes.

2162. But I take it that accounts which have once been closed will not be reopened if a new assessment of percentages is made?—The understanding at present is that they might be reopened. One might find, for instance, that the United Kingdom Government's share was a reduced share. Speaking personally, I think it will be.

2163. Then the accounts would have to be reopened?—Then the accounts would have to be reopened.

2164. I see that against that expenditure in 1944 of £77,000, of which the United Kingdom contributed £62,800, you received a grant in aid of £114,000?—Yes.

2165. So that you over-estimated your future expenditure?—We did, I am afraid. Under present conditions estimating is extremely difficult, when it is a matter of construction. We do not know at all what constructional costs are going to be in the various parts of the world in which we have to operate. Part of that under-spending is due to what every Department has been suffering from—lack of staff. We could not get the staff we estimated for as being required to carry out the work.

2166. I suppose you have not yet formed any very definite conclusion as to what the cost of maintaining the 1939-45 war graves is likely to be?—No, I can only guess it. It will not be less than the cost of the 1914-18 graves, though they number so much less.

2167. You will still have a great deal of work to do, for example, in the Far East, in identifying graves?—That is the duty of the War Office. We do not actually do that. I understand that the military people think that they will have completed that towards the end of this year.

2168. This excess grant resulted in a balance of £53,000 unspent? You do not surrender surpluses unspent, do you?—No, it reduces the following year's grant.

Chairman.] Are there any questions on paragraph 27?

Mr. Maurice Webb.

2169. Could you tell us to what extent, the Commission is responsible for small pockets of war graves in normal public cemeteries in this country?—We are certainly nominally responsible for the maintenance of all war graves in this country, whether in civil cemeteries or church-yards, wherever they are.

Chairman.

2170. Are there any further questions on this paragraph? Will Members now turn to the Account, which is on page 88. I should like to ask a question on Subhead D: "Maintenance of certain Graves and Cemeteries other than those of the Great War." The grant was only £600, and the

19 March, 1946.]

Mr. F. C. SILLAR.

[Continued.]

expenditure was £615. Could you tell the Committee to what graves and what wars that Subhead refers?—I had some details taken out on that. It refers to graves of the Crimean War, among others, in a cemetery at Haidar Pasha, on the Bosphorus.

2171. That was the Crimean War?—Yes. That was the main expenditure. There are other odd blocks of graves in various parts of the Mediterranean, such as Corfu and one or two of the islands, and there is one Air Force cemetery in Iraq which we maintain on behalf of the United Kingdom Government.

2172. That refers to the 1914-18 war, I take it, does it?—The one in Iraq refers to graves between the 1914-18 war and the 1939-45 war. Under our charter we have no power to spend money on graves other than those which are defined technically as war graves.

2173. Will you now turn to page 90. I take it that the expenditure in the year under review as regards France, Belgium and Italy is very much below the normal figures?—Very much.

2174. What would the normal pre-war figure be for France and Belgium?—For France and Belgium somewhere about £110,000 or £120,000.

2175. And can you give us a figure for Italy?—Before the war?

2176. Yes?—If I remember rightly, it was about £1,600. Italy was, if I may so put it, run cheaply. We employed Italian gardeners on the Asiago Plateau, chiefly because we could not have got British personnel to live there, and their wages were very much less than British gardeners' wages in France and Belgium.

2177. I am taking the whole Account together, because there are not many questions on it. Would Members now turn to page 93, which deals with expenditure on graves of the present war. Could you tell us what are the other areas which are shown in the column with the Dominions?—There is a number of countries where you find you have some small expenditure to meet which it would be quite impossible to set out in detail here—Gibraltar, Malta, East Africa and odd islands, in fact, all the oddments which you cannot classify under the other headings.

2178. It is little odds and ends, is it?—Yes.

2179. I see you have not any column at all for the Far East. I suppose at that time you were not spending any money there?—Exactly. It is going to be rather a problem, as a matter of fact, to present this Account for the Committee in future, when you have a very long row of countries, and we shall have to condense it in some form.

2180. You must have had a good many deaths of serving men in India during the war. Have you taken over the graves

there?—Not yet. We have an Inspector there this year, who is negotiating with the Indian Government to make arrangements for doing so, but we have not actually taken over in India yet.

2181. I wondered if you had any organisation in India for dealing with graves from the 1914-18 war?—The organisation there was known as an agency. The Governor-General in Council was appointed as the Commission's Agent, and he nominated an officer on the military staff to make the necessary arrangements, and it merely cost us a capitation fee on the basis of the number of graves.

2182. There is not any column for India in the previous account, dealing with the expenditure on the graves of the last war?—That was in "other areas."

2183. That is included amongst the other areas in that account?—Yes. I think the amount was only in the neighbourhood of £600 or £700 in the year.

Chairman.] Are there any questions on the Account?

Mr. Maurice Webb.

2184. You said that although the number of graves in this war was much less than the number in the previous war, the cost of upkeep would be about the same. Could you tell us the factors that cause that?—One of the main factors is wages. Another factor is, in thinking of the Far East, the enormous distances that have to be covered and the very heavy travelling expenses which will be involved.

2185. There is a wider distribution of graves, geographically?—Yes.

Mr. Douglas.

2186. What is the total amount of the Endowment Fund?—At to-day's date?

Mr. Douglas.] At the end of the financial year with which we are dealing would probably be better.

Chairman.

2187. It is Appendix G of your draft report, is it not, Mr. Sillar, which has been circulated?—The valuation at March, 1945, was £6,417,000 odd.

Mr. Douglas.

2188. Does this table at the foot of page 89 represent the United Kingdom contribution to that?—Yes. (Sir Gilbert Upcott.) That is so much of the securities as were purchased with the United Kingdom contribution.

Mr. Williamson.

2189. On page 93, in the other areas column, there are three figures of

19 March, 1946.]

Mr. F. C. SILLAR.

[Continued.]

£552 17s. 4d. The three figures are precisely the same. Is there any reason for that, or is it a coincidence?—(Mr. Sillar.) It is simply the allocation of salaries between these headings. We reckon that they do so much of administration, so much of maintenance and so much of records work. It is arbitrary.

(Mr. Sillar withdrew.)

Chairman.

2190. Sir Gilbert, you have not any point that you want specially to raise on these accounts, have you?—(Sir Gilbert Upcott.) No, Sir.

Chairman.] May I take it that the Account is approved? (Agreed.) Thank you very much, Mr. Sillar.

VOTE 4.

DOMINIONS OFFICE.

Sir ERIC MACHTIG, K.C.B., K.C.M.G., O.B.E., called in and examined.

(On this Account no questions were asked.)

TRADING ACCOUNTS AND BALANCE SHEETS, 1944, BRITISH PHOSPHATE COMMISSION ACCOUNTS.

(Confidential Report and Accounts of the British Phosphate Commission for year ended 30th June, 1944.)

Sir ARTHUR GAYE, C.B., O.B.E., called in and examined.

Chairman.

2191. Will Members turn to page 3 of the Comptroller and Auditor-General's Report on the Trading Account and Balance Sheets, 1944, paragraph 4. These accounts are audited by an Australian firm, and the accounts show that during the year 1944 the surplus on trading was reduced to £2,876. Would you or Sir Arthur just explain briefly to the Committee what the British Phosphate Commission is and what it does?—(Sir Eric Machtig.) I think perhaps Sir Arthur had better do that. (Sir Arthur Gaye.) I will be as short as I can. The British Phosphate Commission was set up by Act of Parliament in 1920, confirming an agreement made between the Governments of the United Kingdom, Australia and New Zealand for the exploitation of the phosphate deposits on the Island of Nauru in the Pacific, for the benefit of agriculture in the three partner countries, so it has now been going on for 25 years. The output of phosphates increased from a very small quantity to 1½ million tons in the year before the war. Most of it went to Australia and New Zealand, and for two or three years before the war began a certain amount came to this country?—(Sir Gilbert Upcott.) Perhaps I might add, as rather an essential part of that picture, that the capital of £3,000,000 was subscribed as to 42 per cent. by the United Kingdom, 42 per cent. by Australia and 16 per cent. by New Zealand.

2192. I was going to inquire about the capital. It was subscribed as to 42 per cent. by the United Kingdom, 42 per cent. by Australia and 16 per cent. by New Zealand?—Yes, the interest is 6 per cent. plus sinking fund.

2193. Is it loan capital bearing a fixed rate of interest?—(Sir Arthur Gaye.) Yes, in effect. It is a sort of debenture. I do

not know whether that is the proper, technical term to apply to it, but it is in the nature of a fixed debenture with fixed interest and sinking fund.

2194. The amount of the capital is about £3,000,000?—Nearer £3,500,000.

2195. At some stage you set in operation a sinking fund with a view to redeeming the capital?—Yes, a sinking fund has been running all the time, and so the capital debt has been steadily reduced, but during the war payments of interest and sinking fund have been suspended.

2196. This very small trading balance for the year ended 30th June, 1944, of £2,800 is arrived at after, I think, providing £15,000 for reserve, is it not?—£15,000 to general reserve and £50,000 to depreciation.

2197. During the war Nauru has been in the occupation of the Japanese?—Since December, 1941, and it was partly put out of action (more than 50 per cent. out of action) a year before that, when it was badly shelled by a German raider, so that since December, 1940, Nauru and the other island (Ocean Island) which we work with it, have not been able to supply the requirements of Australia and New Zealand.

2198. Does the Commission own its own ships for transport?—At the beginning of the war we owned four ships; three were sunk in December, 1940, and one survived. During the war we built one more in this country. So we have two at the present moment.

2199. At a later stage (I forget if you mentioned this) your works were badly damaged by American bombers, were they not?—Practically knocked to pieces. We are back there now and in Nauru particularly there is hardly a building standing.

19 March, 1946.] Sir ERIC MACTIG, K.C.B., K.C.M.G., O.B.E.,
and Sir ARTHUR GAYE, C.B., O.B.E.

[Continued.]

2200. Have you resumed production there?—We have resumed what I might call rehabilitation. We shall not ship anything from there before July of this year, but we are back there, and the first thing we have to do is to provide housing for our employees, which takes some time; but we are getting ahead with it very well.

2201. Do you hope to resume payments of interest and sinking fund shortly after you resume production?—Yes. The terms for payment of interest and sinking fund are still under discussion between the three Governments, and my latest information is that there are one or two new points outstanding which are not settled yet, but for the moment all payments are suspended.

2202. Do you anticipate that there will be some payment made eventually in respect of the war years, during which interest was suspended?—That will be part of the new terms. It is really more for the Treasury than for me to explain what is proposed.

2203. Perhaps one of the Treasury witnesses could say whether any income tax was paid on the receipts of interest from the Commission in this country?—(Sir Herbert Brittain.) I think it most unlikely.

2204. I have one or two more questions on the Comptroller and Auditor General's Report. During the war you have been continuing to trade by selling off your stocks already shipped to Australia?—(Sir Arthur Gaye.) Yes.

2205. And to New Zealand, and you have also embarked upon the purchase of phosphates outside?—Yes.

2206. They have come, I think, from the Red Sea, some of them?—Some from the Red Sea, some from the island of Makatea, in the Pacific, a French island; some from North Africa and some from Florida.

2207. You have increased the prices to the farmers out there of your phosphates, in order to make both ends meet?—We are in the fortunate position of being able to control the prices absolutely, ourselves. We do not sell direct to the farmers; we sell to the fertiliser manufacturers. We charge them a price which will cover the cost of purchase plus interest on the capital money we have invested in this enterprise.

2208. You say you have absolute control of the prices. Is that so in peacetime? Is there any effective competition?—In fact it is so in peacetime. There is nobody else who could compete with us in peacetime.

2209. I think it might be convenient if we took these four paragraphs of the Comptroller and Auditor General's Report all together. I should like to pass to paragraph 5, where he says that your purchases of outside phosphates were financed partly

by bank overdrafts amounting to £900,000 and partly by advances of £1,145,000 from the general funds?—Yes.

2210. That is working capital embarked in the purchase of outside phosphates?—Yes.

2211. Do you expect to make losses on realisation of those phosphates?—No, we shall not lose a penny.

2212. Paragraph 6 refers to the investigation of certain phosphate deposits in Australia and New Zealand. I assume that is within your charter?—No, not within our charter, but in the circumstances of the war we were rather forced to do it. It was just as much an investment as the outside phosphate purchases.

2213. Your operations there have resulted in a debit balance of £35,000?—That is all collected from the fertiliser manufacturers, so there is going to be no loss on it.

2214. There is going to be no loss there either?—No, and incidentally we have taken our small profit as we went along, by changing a commission on the distribution of it.

2215. Broadly speaking, I understand your operations there have proved a failure and will be abandoned when better conditions are resumed?—Yes. In fact they have ceased now.

Chairman.] Are there any questions on these paragraphs?

Sir Frank Sanderson.

2216. On page 4, paragraph 5, in the second sub-paragraph the Comptroller and Auditor-General states that the phosphate transactions were financed partly by bank overdrafts amounting to £900,000 and partly by advances of £1,145,000 from the general funds. Was the rate of interest paid upon that money 4 per cent. in 1941 and 3 per cent. afterwards?—3 per cent. afterwards, and then we brought it up again to 3½ per cent., to bring it into line with the bank charges on the overdraft.

2217. The total debit balance shown is £35,520, so that the debit balance in fact really just about balances the interest charge upon the overdraft, does it not, for the number of years the loss has been sustained from 1940 to 1944. You pay about £9,000 a year interest?—Yes, but it is not £9,000 a year interest the whole time. The interest is calculated from day to day on each consignment of phosphate.—(Sir Gilbert Upcott.) The fact that these figures are the same is a coincidence. The transactions have no relation to each other.—(Sir Arthur Gaye.) That is so.

2218. I understood that. The point I am trying really to make is this, that surely 4 per cent. is an unreasonably

19 March, 1946.] Sir ERIC MACHTIG, K.C.B., K.C.M.G., O.B.E.,
and Sir ARTHUR GAYE, C.B., O.B.E.

[Continued.]

high rate of interest to pay. Could it not be financed on a far more equitable basis?—I think at the time when the rate of interest was 4 per cent. that was, roughly, the rate of interest on Government Stocks in Australia at that time.

2219. Is this money borrowed from the Australian bank?—Yes.

2220. Australian and/or New Zealand banks?—Yes.

2221. Could it not be financed through a British bank at a very considerably less rate of interest? I am only thinking that in the commercial world we can finance stocks certainly on a 2 per cent. basis. This should be at least equal to an ordinary commercial transaction. I would have said that the rate of interest was very high?—As the Head Office of the Commission is in Australia I think that is probably one reason why—

2222. I appreciate that would be the reason, that the Australian rate of interest is in excess of that in our own country?—Yes.

2223. The point I am making is, would it not be possible for the finances to be provided in the United Kingdom, with a view to securing better terms and saving at least 50 per cent. of your interest charges?—At the moment I do not see any reason why that should be impossible, but, as I say, as practically all the financial business of the Commission is conducted in Australia they probably found it convenient to deal with the Commonwealth Bank.

2224. It is very convenient but very extravagant?—I have no doubt my successor will make representations to his colleagues on the subject.

Sir Frank Sanderson.

2225. If that is possible, Mr. Chairman, I think it would be useful.

Chairman. I suppose these supplies of outside phosphates will disappear?—In about four or five years' time, so far as we can calculate.

Sir Frank Sanderson.

2226. Meanwhile, the interest charges will continue?—Yes, unless a new arrangement is made.

2227. I understood you to say that quite recently the interest charge has been again increased from 3 per cent. to 4 per cent.?—To 3½ per cent.

Sir Frank Sanderson.] It is a rate of interest I should not like to have to finance my own stocks at.

Chairman.

2228. Sir Herbert, would you like to make any comments on this matter?—(Sir Herbert Brittain.) The fact is that these interest charges are recovered from

the Australian and New Zealand agriculturists for whom these deposits are procured and to whom they are sold. There is no loss to the British Government from the fact that they are paying 3½ per cent. instead of 3 per cent. or 2 per cent.

Sir Frank Sanderson.

2229. It is all recovered. That I appreciate; but the fact remains that the interest charge is in fact being passed on, and it is being passed on at a rate in excess of that at which stocks can be financed.?—In this country.

Sir Frank Sanderson.] In this country. The same thing would apply if I held large stocks in Australia or New Zealand. I should finance them through London and on the London banks. It would certainly be a 50 per cent. less interest charge than is in fact charged in these accounts.

Chairman.

2230. If there is any complaint about this, Sir Arthur, it would be by the Australian farmers. If there is anybody who suffers from it, it is the Australian farmers?—(Sir Arthur Gaye.) Certainly.

2231. And the Public Accounts Committee in Australia might take an interest in this matter?—I may point out, perhaps, that the rate of interest applies also to the Commission's funds which are used for the outside phosphate, which is to the benefit of all the three countries. We are charging now 3½ per cent. on all the money which we have invested, as apart from the overdraft, and that interest goes to pay our expenses and providing £50,000 in this last year for depreciation and £15,000 for general reserve. So there are two sides to it, if I may say so.

Sir Frank Sanderson.

2232. Can you state whether there is any possibility that the rate of interest which in fact is being charged is less than this amount, and that a slight commission of interest is being added to the rate which is paid in order to protect yourselves and to cover the general costs of administration?—I should say that as good trustees we are making the best arrangement within reason that we can to get the best return we can on our capital.

2233. The rate of interest that we see down in this report may be attributable to that cause?—How far it was considered I do not know, to be perfectly candid.

Mr. Benson.] I want to raise a question on a phrase in the Comptroller and Auditor General's Report, but I cannot do so without referring to the accounts. May I do that now?

Chairman.] Yes.

19 March, 1946.] Sir ERIC MACTIG, K.C.B., K.C.M.G., O.B.E.,
and Sir ARTHUR GAYE, C.B., O.B.E.

[Continued.]

Mr. Benson.

2234. In the second sub-paragraph of paragraph 5 the Comptroller and Auditor General states: "In accordance with those recommendations a separate trading account is now provided in respect of the operation in question, showing the extent to which losses incurred have been met by surcharges on sales of phosphates from Nauru and Ocean Island." I find that the sales were 22,000 tons in the last year, 1943-44, and the surcharge was £132,000. What is the surcharge that is made?—It has varied at different times. I think the word "surcharge" was rather unfortunately used in these accounts. We import phosphates from all over the world at varying prices. The irony of it is that the highest grade phosphate was cheaper than the lowest grade phosphate, so it has all been put into a pool and sold according to grade, but we have never sold any particular phosphate at the cost which it represented to us.

2235. Is Nauru phosphate the highest grade phosphate?—Yes.

2236. What was the pre-war price of Nauru phosphate, approximately?—The actual cost delivered in Australia was about 30s. a ton.

2237. What is the price now?—The average cost of phosphate is nearly £6 a ton. The price has gone up year by year.

2238. The £6 or £7 is really represented in the jump from 30s. for high grade to £6 for average grade?—Yes.

2239. The previous year something like £600,000 was the sur-charge, or whatever you call it?—(Sir Gilbert Upcott.) That was for the period from the 1st January, 1941, to the 30th June, 1943.

2240. That means that you were selling a considerably larger volume of Nauru phosphates?—(Sir Arthur Gaye.) Yes. The stock of Nauru phosphates in Australia and New Zealand is now exhausted. There is no more

Mr. Wadsworth.

2241. Are we purchasing any of our phosphate requirements from the British Phosphate Commission in this country at the present time?—No.

2242. None at all? I gathered that.—We have had nothing to do with the purchases during the war in this country.

Mr. Pickthorn.

2243. I am not sure to whom this question ought to be addressed, but on the point Mr. Benson raised I should like to ask whether the whole object of this Commission was not to get phosphates as cheaply as possibly into the ground somewhere, presumably in Australia? It was suggested that it did not matter a bit so long as the thing showed a paper profit. Is not the whole object of the Commission to get phosphates as cheaply as possible?—Yes.

2244. That is what the Commission is for?—Generally speaking, I should say that is correct. (Sir Gilbert Upcott.) It is intended to be for all three countries.

2245. Originally for all three countries but actually for Australia?—Actually for Australia and New Zealand.

Chairman.

2246. In practice this country has subscribed 42 per cent. of the capital and has, for natural reasons, concerned with transport and so forth, received very little phosphates?—(Sir Arthur Gaye.) That is so; but it has received 6 per cent on its investment.

2247. So we are concerned to receive some return on our investment?—Yes if possible, in addition to the 6 per cent.

2248. We are more concerned than the two Dominion Governments are to secure a return on our investment, because they get the benefit of the actual phosphate, whereas we do not?—Certainly, but unfortunately we are badly placed, geographically, which, of course, was known from the start.

Mr. Benson.

2249. On that point, we are getting practically no phosphate from Nauru?—None. Two or three years before the war there was a small trade growing up in this country, and, speaking from memory, in the year 1938/39 we imported something over 100,000 tons.

2250. From Nauru?—Yes.

2251. What is the consumption of phosphate here? Does 100,000 tons represent a large proportion?—The consumption of phosphates in this country before the war was between 400,000 and 500,000 tons.

2252. So that we were getting 25 per cent. of our phosphate from Nauru just before the war?—Yes. As a matter of fact (I do not know whether I ought to mention this) most of that phosphate which was brought in during the year before the war was to build up a reserve of phosphate in this country against the contingency of war.

2253. Are we likely ever in the future to draw on Nauru phosphates?—I hesitate to prophesy on that. It all depends on freight rates. It is a very long haul. Freights were very low just before the war, and it was possible to deliver phosphates from Nauru here at competitive rates.

Chairman.] But the import in 1938-39 was a wholly exceptional measure, just like air raid precautions, against the possibility of war?—Not entirely. Some of it was bought by the Board of Trade as a reserve, but some was sold direct to fertiliser manufacturers in this country,

19 March, 1946.] Sir ERIC MACTIG, K.C.B., K.C.M.G., O.B.E.,
and Sir ARTHUR GAYE, C.B., O.B.E.

[Continued.]

and but for the war I think that trade would have grown. Whether it will ever come again I would not like to say.

2254. Does the Commission supply, in peacetime, the full needs of Australia?—Yes.

2255. And New Zealand?—Yes.

2256. And has a surplus or might have a surplus if the production were developed?—Yes. It always had a small surplus which was sold at full market prices, to other countries, particularly to Japan.

Mr. Benson.

2257. What does that phrase "full market prices" mean? Was it not sold at full market prices to Australia?—No, to Australia and New Zealand it was sold at cost price, and, in calculating cost price, under our charter we are allowed to take in all sorts of charges, such as building up reserves, and so forth. To Japan and other countries we charged the biggest price we could get—that is to say, a competitive price.

2258. So far as imports to this country were concerned we always got it at cost price plus freight?—Yes, at the same f.o.b. price as Australia and New Zealand.

2259. But we still could not compete with nearer products?—We did just for the year or two before the war, because our f.o.b. price was far lower than in any other phosphate-producing country.

Chairman.

2260. Are there any further questions on the Report of the Comptroller and Auditor General? I think we may turn now to the Account, which is on pages 12 and 13. We will take the Confidential Accounts at the same time, because the Confidential Accounts show the same thing in a rather more detailed form. This Confidential Report is not published in our evidence, Sir Arthur, but our questions and your answers are?—Yes, generally subject to a certain amount of editing, because as to some things we have generally considered it would be disadvantageous to our best interests if they were published in Australia and New Zealand.

2261. You will let me know, through the Clerk, if there is anything either in the questions or answers which you would wish to have edited?—Yes. That has been the practice in the past.

2262. I think we have already covered a good deal of the ground covered by the Confidential Report?—(Sir Gilbert Upcott.) Perhaps I should make it clear to the Committee that the Outside Phosphates Account on pages 12 and 13 is inserted for the first time, to meet the wishes expressed by the Public Accounts Committee in the last two years.

2263. Thank you, Sir Gilbert. Will you turn, Sir Arthur, to the fifth paragraph of the Confidential Report, please. It speaks of the increase in the shipments of outside phosphates?—(Sir Arthur Gaye.) Yes.

2264. That represents an increase upon the previous importation?—Yes, a very big increase.

2265. But still not returning to the pre-war import?—No. The pre-war imports into Australia and New Zealand were nearly a million tons.

2266. That, I take it, will mostly come from outside sources?—All of it.

2267. You can assure the Committee that there will not be any loss upon that import programme?—Absolutely.

Chairman.] Are there any questions on the Accounts on pages 12 and 13 or on the Confidential Report?

Sir John Mellor.

2268-72. Why is it necessary to continue to mark these Accounts "Confidential"?—I think the reason is that Australia and New Zealand are not in favour of publication. I myself would not mind having them published. I think out there my colleagues are sensitive to possibly ill-advised criticism; and the practice of having this Confidential Report is really for the information of this Committee. It is just shown to the Government Departments in Australia and New Zealand. I think those Governments would prefer not to publish all these details. (Sir Gilbert Upcott.) Perhaps I ought to remind the Committee that the form of published Accounts, which is printed on pages 12 and 13 in the volume presented to Parliament, was agreed by a former Public Accounts Committee.

Chairman.

2273. And it gives a good deal more information than was previously furnished?—I think it was the original form. When the Accounts were originally set up it was discussed.

2274. I thought you told us, Sir Gilbert, that the accounts in regard to the outside supplies were quite a new feature?—Yes, that is an innovation.

Sir John Mellor.

2275. I should like the view of the Comptroller and Auditor General on the question of these Accounts not being available for publication, because it seems to me rather unsatisfactory to have this restriction, unless there is a very strong reason for it in the public interest. That it may be inconvenient to some Ministers in Australia and New Zealand I should not have thought was a sufficient reason?—(Sir Arthur Gaye.) I think it is a little more than that.

19 March, 1946.] Sir ERIC MACTIG, K.C.B., K.C.M.G., O.B.E.,
and Sir ARTHUR GAYE, C.B., O.B.E.

[Continued.]

2276. If there is a stronger reason we should like to know it; that is all?—The reason why I cannot give a better answer is that this question has never been raised before, and, therefore, I have never discussed it with my colleagues. I am no longer a Commissioner; but I have no doubt that my successor will take notice of this and discuss it with his colleagues when he next meets them.—(Sir Gilbert Upcott.) All I can say is that I think if the three Governments enter into international trade they must, of necessity, conform to some extent to the practice of international commerce, and I do not suppose that any international trading concern would publish more than is contained in these published accounts. Furthermore, the British Government is, of course, a partner with two other Governments, and I take it that in entering upon this undertaking and deciding upon this form of administration the British Government was obliged to pay some attention to the wishes of the partner Governments. I think that these Accounts have been published in a form such as the partner Governments have in the past been willing to have them published.

Chairman.

2277. I think Sir John Mellor's point is that although the Accounts published at pages 12 and 13 are reasonably full—in fact very full—there is not any published report. There is no annual statement of the condition of affairs for the guidance of the shareholders?—The commercial auditors give the ordinary commercial certificate, and I certify these Accounts, as the Comptroller and Auditor General, and report upon them.

Sir John Mellor.

2278. No doubt certain items which are included in the Confidential Report would be eliminated in a public statement, but I should have thought that most of this Report could have been published without any inconvenience to anybody. Would you not agree with that, Sir Arthur, that subject to the elimination of a few items from the Report there is no reason why it should not have been published?—(Sir Arthur Gaye.) Speaking for myself, I do not see any objection to it, but, as I say, I have never discussed it with my colleagues, who might put up some cogent arguments against it.

Chairman.

2279. I should have thought that it was a point which Sir Eric might perhaps follow up. Perhaps you have a view about it, Sir Eric?—(Sir Eric Mactig.) No. I think, as the Comptroller and Auditor General said, the objections, such as they are, to publication come from the Australian and New Zealand side. I think the only

thing to do would be to enquire whether they would like to modify those objections. I am rather uncomfortable about the suggestion that we should publish here (which I take it is suggested) some annual report, without knowing how that would go down in Australia and New Zealand.

2280. I think the suggestion is that if the British Government owns 42 per cent. of the loan capital the British taxpayers might like to have a little statement as to the progress of the undertaking from time to time, apart from the Accounts?—Yes. The Commission has been working for 25 years, and it is the first time that has been suggested.

Chairman.] That does not necessarily make it a bad suggestion.

Sir Frank Sanderson.

2281. May I ask a question on that point? If these Accounts were to be published, would it not be necessary, since this is really an international trading account, to ask for approval both from Australia and from New Zealand?—Certainly.

Mr. Thurtle.

2282. I just want to put one point to Sir Arthur. It does seem rather a strong suggestion, which I think was implicit in the answer you gave, that we ought to acquiesce in the confidential nature of these reports, in order that Ministers, or, it may be, civil servants, perhaps, in Australia and New Zealand might be protected from inconvenient criticism on the ground of inefficiency. I think that is more or less what you said?—(Sir Arthur Gaye.) Not only the Ministers and Civil Servants, but the Commissioners themselves in their task of distribution of phosphates. I think we might be embarrassed by continual "lobbying," if I may use the word.

2283. In the actual trading business?—Yes. (Sir Eric Mactig.) I think that is the point. It has nothing to do with Governments and Civil Servants as such. This is an industrial undertaking, and a private firm carrying out these operations would certainly not publish its accounts, I imagine, in greater detail than this printed one. I feel that the Australian and New Zealand Governments might back the Australian and New Zealand Commissioners in the line they have taken.

Mr. Thurtle.] I should say no one would suggest that if the Australian and New Zealand Governments took up that attitude we ought to persist in asking for publicity.

Chairman.

2284. I presume that the Accounts as published in our volume of Trading Accounts are also published in Australia and New Zealand, are they not, in that form?—(Sir Arthur Gaye.) Yes.

19 March, 1946.] Sir ERIC MACHTIG, K.C.B., K.C.M.G., O.B.E.,
and Sir ARTHUR GAYE, C.B., O.B.E.

[Continued.]

2285. So that if any Australian farmer wishes to attack the Commission on the ground of extortionate charges for phosphates he has available a good deal of information?—It looks a good deal, as printed here, but I think, when the Australian farmer comes to read these Accounts, he will not get very much out of them.

Sir Frank Sanderson.

2286. May I ask one further question? The Accounts show an amount set aside for depreciation?—Yes.

2287. Is the depreciation fund built up on any particular basis, or is an amount simply agreed to be transferred for the purpose of a depreciation fund?—It is just an agreed amount.

2288. It is not based on any particular percentage?—No.

2289. It is more or less an amount agreed according to what you can afford?—Yes, it varies from year to year.

Mr. Benson.

2290. There is one other sentence in the Report of the Comptroller and Auditor-General that is rather puzzling me, with regard to these Accounts. In the second sub-paragraph of paragraph 7, on page 4, Sir Gilbert states: "The Commissioners state that current assets have been valued and current liabilities estimated so as to make provision for the difference in exchange value of the currency of the United Kingdom, Australia and New Zealand at 30th June, 1944." How on earth do they achieve that?—That sentence has appeared every year. It is purely an accountancy question and our Accountants in Australia have satisfied themselves that that is a correct statement. They give a certificate to that effect.

2291. I am afraid the repetition of that statement does not make it clearer. Are these Accounts as presented here calculated in sterling or are they calculated in Australian currency or in New Zealand currency?—Partly one and partly the other.

2292. That is just it. That reduces the sentence to nonsense. You cannot make adjustments if you have an account which is in pounds, but pounds of different value in different parts of the account. It must be either one or the other. You must have a stable unit in your individual account. Is this sterling or what?—It is almost entirely Australian currency, but, of course, we have assets in London which are in sterling, and our Accountants have given consideration to that in certifying this Account as being in proper order. How they do it, I do not know. I am not an accountant.

2293. In fact you are as muddled about it as I am?—(Sir Gilbert Upcott.) I should say that the trading transactions are mostly expressed in Australian currency. As regards the assets, they may be to some extent mixed. The liabilities on the left hand side, showing the shares of the various Governments, are certainly expressed as they originally were expressed in sterling. Most of the assets are probably by now expressed in Australian currency, because they arose since the currencies were depreciated. (Sir Arthur Gaye.) That would be so. (Sir Gilbert Upcott.) The Accountants have made an allowance in valuing them to produce a proper balance.

2294. Either, then, they are expressed in sterling, or they have not made an allowance?—(Sir Herbert Brittain.) There is an item for adjustment of currency differences in the Balance Sheet every year, in outstandings.

2295. I know. Does that mean that they have adjusted the items into sterling? I will not press it any further?—(Sir Gilbert Upcott.) I have qualified the certificate ever since the change occurred. That is a weakness in the Balance Sheet. It leaves an element of uncertainty in the Balance Sheet for that reason.

2296. I see the ship replacement reserve is £700,000. You have built one ship?—(Sir Arthur Gaye.) Yes.

2297. You have lost three ships?—That is so.

2298. You have one ship which is old, I take it you have lost three ships and you have replaced one?—Yes.

2299. Are they fairly large ships? You have a ship replacement reserve of £700,000?—They are big ships of approximately 10,000 tons.

Mr. Wadsworth.

2300. May I ask one question which is not quite on the subject of the Accounts. How many Commissioners are there?—Three.

2301. Is there one representing each country?—Yes.

Mr. Wadsworth.] That covers this question of publicity. I am not quite clear even now what is going to happen about this question of publishing the Report. The discussion seems at a certain stage to have evaporated into thin air. What is happening exactly, Mr. Chairman? Is this matter of publicity of the Report from time to time going to be considered?

Chairman.

2302. You cannot bind the Commissioners in any way, Sir Arthur, as you are no longer a Commissioner?—No. (Sir Eric Machtig.) I am very willing, if it will help

19 March, 1946.] Sir ERIC MACHTIG, K.C.B., K.C.M.G., O.B.E.,
and Sir ARTHUR GAYE, C.B., O.B.E.

[Continued.]

the Committee, to ask the new Commissioner, when he arrives in this country, to discuss that point with his colleagues. No doubt next year an opportunity will arise of informing the Committee more fully as to the views of the Australian and New Zealand members.

Chairman.] I think that is as far as we can carry it.

Mr. Wadsworth.] That satisfies me now, Mr. Chairman.

Chairman.] Are there any further questions on the Accounts on pages 12 and 13 or on the Confidential Report and Accounts? May I take it that the Account is approved?—(Agreed.)

(*Sir Arthur Gaye withdrew.*)

CIVIL APPROPRIATION ACCOUNTS, 1944.

CLASS II.

VOTE 5.

DOMINION SERVICES.

Chairman.

2303. Now we come back, Sir Eric, to your wicket. Will Members turn to pages vi and vii, paragraphs 13 and 14 of the Report of the Comptroller and Auditor General in the Civil Appropriation Accounts, 1944. In paragraph 13 the Comptroller and Auditor General states: "Since the date of my last Report I have received the audited accounts of Swaziland and of the Bechuanaland Protectorate for the financial year 1943, together with the reports of the local auditors thereon. Neither of these Territories has received a grant in aid of expenses of administration, etc., since 1941, but the control of their finances by the Treasury continued during 1944." Would you explain that matter to us, Sir Eric?—(*Sir Eric Machtig.*) I think the point here is that a few years ago both Swaziland and the Bechuanaland Protectorate were unable to balance their Budgets and received a grant in aid each from the Dominion Services Vote. In the last few years, owing to the war, conditions have improved in both territories, and a grant in aid has not been necessary. However, both countries are still subject to Treasury control for the time being.

2304. They are administered by the High Commissioner for South Africa?—That is so, the High Commissioner for Basutoland, the Bechuanaland Protectorate and Swaziland, as we now call him.

2305. They have not in recent years received any grant in aid?—Not for the last few years.

2306. But Treasury control to some extent still continues?—Yes.

2307. What does the Treasury control consist of?—It is a question of approving Estimates, of the Dominions Office referring to the Treasury special unforeseen expenditure and so on.

2308. This Treasury control continues because they did at an earlier stage receive

grants in aid?—Yes. (*Sir Gilbert Upcott.*) Normally, it continues for three years after the cessation of the grant in aid, lest there should be any falling back, I suppose. The present conditions are, I think, rather unsettled.

2309. Have the three years normally allowed elapsed in these two cases?—(*Sir Eric Machtig.*) I think they have in the case of Bechuanaland, but it is agreed that Treasury control should continue for the moment, because the relative prosperity of the two countries is due to war conditions, and is, therefore, temporary.

2310. Treasury control means that the Treasury vote their Estimates and approve them?—Yes. Prior Treasury sanction is also required for excess expenditure, the creation of new posts, the general revision of salary scales, writes-off of certain losses, and normally Treasury sanction is required for any eventual excess over the total expenditure approved in the Estimates.

2311. Sir Herbert, can you throw any light on this? Is Treasury control going to continue in these two cases?—(*Sir Herbert Brittain.*) It has continued during the war, because the reasons why these two Protectorates have gone off the grant in aid list is, as Sir Eric said, purely temporary, for war reasons. It was not so much the three-years' rule here, but that fact. Therefore, we want to keep control until we see whether in fact they are going to be permanently off the list. It may be when war conditions have passed they will again be candidates for grants in aid. We do not know yet. Therefore, it would be rather a pity to relax control in the meanwhile.

2312. Those are all the questions I have on paragraph 13. Are there any questions on that paragraph? Paragraph 14 is quite formal, I think. Does any Member wish to ask any questions on paragraph 14? We will pass to the Account, which is on

19 March, 1946.] Sir ERIC MACHTIG, K.C.B., K.C.M.G., O.B.E.

[Continued.]

page 66. The footnote to Subhead D explains the position in regard to Swaziland, which we have just been discussing?—(Sir Eric Machtig.) Yes. The grant in aid was not required.

2313. The £2,000 expenditure represents advances to settlers. Is that right?—Yes.

2314. On page 67, Subhead K is "Rhodesian Railways Inquiry." There was a grant of £2,500. That was not expended. Could you explain that matter to us?—The reason why it was not expended was that the Commissioner was not appointed until the succeeding financial year. The reason for the Commissioner is as follows. The Southern Rhodesia Government two years ago proposed to the United Kingdom Government that the principle should be accepted of the desirability of the Governments of Southern Rhodesia, Northern Rhodesia and Bechuanaland Protectorate obtaining control of the railway system in those three Territories by acquiring an option jointly to purchase the share capital of the Rhodesia Railways. Northern Rhodesia, Southern Rhodesia and the Bechuanaland Protectorate are all served by the Rhodesia Railways. That is a private railway company. It is already under a certain amount of Government control in the Territories, as the result of local legislation. But the Southern Rhodesia Government felt that there was a case for

going further and acquiring the share capital of the railway. The British Government is, of course, closely interested in that, because Northern Rhodesia and the Bechuanaland Protectorate are both Protectorates depending on this country, and any finance to be provided by the Governments of Northern Rhodesia and the Bechuanaland Protectorate for such a purpose would no doubt have to be found in some way by the United Kingdom Government. Therefore, the United Kingdom Government thought the best plan would be in the first place to appoint a Commissioner who would report to them, the United Kingdom Government, on this proposal of the Southern Rhodesia Government. That happened in 1943. Owing to the war it was very difficult to find a suitable man to appoint as Commissioner, and in point of fact he was not appointed until the following year, 1944-45. Sir Harold Howitt was then appointed. He went to Southern Africa last summer. He has since returned and made his report to the United Kingdom Government, and it is going to be published in a few weeks.

2315. The fact is that you made every endeavour to obtain and send out a Commissioner in the year under review, but you were unable to do so?—Yes.

Chairman.] Are there any questions on the Account?—May I take it that the Account is approved?—(Agreed.)

VOTE 6.

OVERSEA SETTLEMENT.

Chairman.

2316. Will Members turn to page 68, to the Overseas Settlement Account. Here we have the rather curious position that there is a surplus of revenue over expenditure in the year.—(Sir Eric Machtig.) Yes.

2317. Could you explain how that comes about?—This Vote really falls into two parts. There is the very small expenditure on current migration, and there is expenditure or receipts on the winding-up of old migration schemes which were started after the last war. The receipts, £3,870 worth of which have been applied to meet this expenditure, come from repayments from settlers under the old schemes after the last war. You will find the details of receipts on page 69 at the top. What happened was that during the year £29,395 was realised. £3,870 of that was applied to meet the cost of current expenditure on this Vote, and the balance was paid to the Treasury. (Sir Gilbert Upcott.) The Committee will find the total amount which has been issued under these Votes in previous years on page 70—a figure of nearly £1,500,000. These receipts are, of course, a small remanet of recoveries in respect of those loans.

2318. Your experience, Sir Eric, is that you, as a rule, get what repayments are due in respect of assisted passages, but you have lost a good deal of money in the past on land settlement?—(Sir Eric Machtig.) The land settlement here is mainly Canadian land settlement, and the losses on that have been very heavy. Repayments on assisted passages have certainly come in better, but there is an item there of £41,550 outstanding; it is the top figure on page 70 in the right hand column—assisted passages to Australia. There is, I understand, very little hope of recovering that. In fact I think Treasury approval has been given for writing it off. (Sir Gilbert Upcott.) Even with that loss there will have been a recovery of quite three-quarters of the total advances made for assisted passages.

2319. Looking at footnote 2 on page 69, it speaks of the 3,000 Families Settlement Scheme. That was the scheme after the last war?—(Sir Eric Machtig.) Yes.

2320. Under which 3,000 families were settled in Canada?—Yes.

2321. Have you any statistics to show what proportion of those families are still there?—A memorandum on the subject was

19 March, 1946.] Sir ERIC MACHTIG, K.C.B., K.C.M.G., O.B.E.

[Continued.]

furnished to the Committee some years ago. It is something between 1,000 and 2,000. (Sir Gilbert Upcott.) Just under 1,500, I think. As at the end of 1939 just under 1,500 remained, out of rather more than 3,000 settlers.

Chairman.] Has any member of the Committee any questions on this Account?

Mr. Benson.] With regard to the sums realised, are these payments still being made by the settlers in respect of debts incurred just after the last war, or are they more recently incurred debts?—(Sir Eric Machtig.) They are the settlers who went out after the last war.

2322. They are still paying?—They are still paying. (Sir Gilbert Upcott.) I think the settlements were spread over ten years. (Sir Eric Machtig.) I was talking about the inter-war period. Settlement began in 1920, but it went on for a good many years after that, and until later than 15 years ago.

2323. 1929?—Yes.

Chairman.

2324. I suppose there might be some settlers who fell into arrear during the slump about 1929 and 1930 and would resume payment?—That is in fact what is happening. I think you will see that the repayments this year have been rather bigger than they were last year, which reflects the fact that agriculture in Canada is profitable again.

Mr. Benson.

2325. Have you any legal claim on them? Have you a mortgage on their farms?—I ought to explain that all these schemes were joint schemes either with the Canadian Government or with other Canadian authorities. The administration of the schemes is really left to the Canadian authorities.

2326. They collect and transmit a portion to us?—That is it. They correspond with us from time to time as to revision, writing off or extension, or whatever it may be, in any particular case. (Sir Gilbert Upcott.) There has in fact been a good deal of Canadian legislation affecting these settlements.

2327. Was there any settlement scheme in Australia, or is this all assisted passages?—(Sir Eric Machtig.) There was a settlement scheme in Victoria, but I do not think anything is on this Vote in that respect.

Mr. Williamson.

2328. Before these amounts are written off you expect to be informed by the Canadian Government that it is impossible to recover them?—Yes. The Canadian Government correspond with us periodically as to the state of the various schemes. They recommend writing off in cases where they think it is hopeless, or, in some cases, it is a question of extra payments for rehabilitation, and so on.

Chairman.] Are there any further questions on the Account? May I take it that the Account is approved? (*Agreed.*)

VOTE 10.

DEVELOPMENT AND WELFARE (SOUTH AFRICAN HIGH COMMISSION TERRITORIES).

Chairman.

2329. Will Members turn to the Account on page 85. These are the three Territories we have already been speaking of. They qualify for grant under the Colonial Development and Welfare Act, 1940?—(Sir Eric Machtig.) There were two Acts. Subhead A relates to the Colonial Development Act, 1929. Subheads B and C relate to the Colonial Development and Welfare Act, 1940.

2330. Under the 1940 Act £124,000 odd was spent against a grant of £116,500, and the excess is explained in the footnote. What kind of welfare work is included in that total of £124,000?—Geological survey, native education, land settlement, malarial survey, development of water supplies. That is in Swaziland. In Bechuanaland there is included water development, control of the tsetse fly, agricultural development, surveys and education. In the case of Basutoland it is largely education and motor roads.

2331. Do the Territories get a fixed share of the total sum put at the disposal of the fund by the Act?—No, they put up schemes.

2332. They put up schemes through you?—Yes.

Chairman.] Has any member of the Committee any questions on this Account?

Mr. Benson.

2333. Apparently, Bechuanaland is attached both to the Colonial Office and yourselves. Is that so?—It is news to me. (Sir Gilbert Upcott.) The table on page 84 relates to the whole corpus. (Sir Eric Machtig.) That refers to the Colonial Development Act, not the Colonial Office.

2334. Welfare is under the Colonial Office Vote, apparently?—Is it?

2335. It just caught the corner of my eye?—(Sir Gilbert Upcott.) That is a Treasury account on page 84.

19 March, 1946.] Sir ERIC MACTIG, K.C.B., K.C.M.G., O.B.E. [Continued.

Mr. Williamson.

2336. On page 85 there was a grant of £36,500 for research. The money was not expended. Why was it not expended?—(Sir Eric Mactig.) It has been spent. The items were transferred from Subhead C to Subhead B. Malaria survey and control of the tsetse fly—malaria survey and control of the tsetse fly in Swaziland and control of the tsetse fly in Bechuana-land—were originally submitted under Sub-head C: "Research Schemes," but it was

afterwards found that they were more appropriate as "Development and Welfare Schemes" under Subhead B. (Sir Gilbert Upcott.) It was simply changing them round.

Chairman.] Are there any further questions on the Account? May I take it that the Account is approved? (Agreed.)

Chairman.] I think that is all we have to ask you to-day. Thank you very much, Sir Eric.

(Sir Eric Mactig withdrew.)

CLASS I.

VOTE 1.

HOUSE OF LORDS OFFICES.

VOTE 5.

PRIVY COUNCIL OFFICE.

(On these Accounts no questions were asked.)

CINEMATOGRAPH FUND ACCOUNT, 1944.

(On this Account no questions were asked.)

CIVIL APPROPRIATION ACCOUNTS, 1944.

CLASS I.

VOTE 7.

CHARITY COMMISSION.

VOTE 8.

CIVIL SERVICE COMMISSION.

VOTE 10.

FRIENDLY SOCIETIES' DEFICIENCY.

VOTE 11.

GOVERNMENT ACTUARY.

VOTE 12.

GOVERNMENT CHEMIST.

VOTE 15.

NATIONAL DEBT OFFICE.

(On these Accounts no questions were asked.)

LOCAL LOANS FUND ACCOUNTS, 1944.

(On this Account no questions were asked.)

19 March, 1946.]

[Continued.]

SINKING FUNDS, 1944.

(On this Account no questions were asked.)

CIVIL APPROPRIATION ACCOUNTS, 1944.

CLASS I.

VOTE 16.

NATIONAL SAVINGS COMMITTEE.

VOTE 17.

PUBLIC RECORD OFFICE.

VOTE 18.

PUBLIC WORKS LOAN COMMISSION.

VOTE 23.

TITHE REDEMPTION COMMISSION.

VOTE 24.

MINISTRY OF TOWN AND COUNTRY PLANNING.

VOTE 25.

SCOTTISH HOME DEPARTMENT.

(On these Accounts no questions were asked.)

(The Witnesses withdrew.)

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

TUESDAY, 26TH MARCH, 1946.

Members present:

Mr. PEAKE in the Chair.

Mr. Benson.
Mr. Haworth.
Sir John Mellor.

Sir Frank Sanderson.
Mr. Thurtle.
Mr. Wadsworth.

Sir GILBERT UPCOTT, K.C.B., Sir HERBERT BRITAIN, K.B.E., C.B., and Mr. C. E. I. JONES called in and examined.

Chairman.] Before we begin examining our first Witness to-day I think the Committee ought to take official cognisance of the death of Sir Malcolm Ramsay, who was the Comptroller and Auditor General from 1921 to 1931 and was Sir Gilbert Upcott's predecessor in that office. I think only one member of the Committee—that is Mr. Benson—had the good fortune to serve on this Committee with Sir Malcolm Ramsay. I note that the Obituary Notice in "The Times" says that "Perhaps his best work was done during his 10 years as Comptroller and Auditor General, and in that post his particularly agreeable manner and power of lucid explanation always put him on excellent terms with that exacting and

critical body, the Public Accounts Committee of the House of Commons." Mr. Benson, perhaps you would like to add something?

Mr. Benson.] As I was for 2½ years with Sir Malcolm I should very much like to move formally a resolution of regret and I should like the Clerk to the Committee to send it to his relatives.

Sir John Mellor.] I second that.

Chairman.] Is it agreed that we send a suitable message to his surviving relatives, expressing our condolences on the loss of this valuable public servant? (*Agreed.*)

CIVIL APPROPRIATION ACCOUNTS, 1944.

CLASS V.

VOTE II.

ASSISTANCE BOARD.

Mr. G. STUART KING, C.B., M.C., called in and examined.

Chairman.

2337. Will Members turn to page xii, paragraph 32 of the Report of the Report of the Comptroller and Auditor General. That paragraph gives us the out-turn of the Account for the year 1944-45, which showed a saving on the Estimate of £229,900 odd. The average weekly number of allowances on payment was 22,572 compared with 23,450 in 1943. The average weekly rate of allowance increased from 27s. 6d. to 29s. Mr. King, could you explain to us how the average weekly rate of allowance came to increase?—(*Mr. Stuart King.*) This is the first complete year when regulations which were made at the end of 1943 came into effect. It is a point which is noted, if I may be permitted to make the observation, more definitely at the top of the next page in relation to supplementary pensions; but the point is exactly the same one in relation to Unemployment Assistance, that the allowances had in certain material respects been improved.

2338. The regulations of which you speak were more generous, were they?—In certain respects. It was largely a rearrangement, but the general effect was that they were more generous.

2339. In regard to the assessment of means?—In regard to the assessment of means.

2340. Larger disregards, or something of that character?—The scales were slightly put up for the people without resources in some respects.

2341. Then the Comptroller and Auditor-General goes on to say: "In addition an average of 829 payments was made weekly in 1944 in supplementation of unemployment benefit, the average weekly rate being 12s. 10d.," compared with 13s. 4d. in the previous year. There is a decrease there in the amount of supplementation in those cases?—Yes, there is. I can only say that with a small number of cases like that I cannot really ascribe any general cause to it. In the cases in which supplementation is necessary the amount of supplementation may vary from a few shillings up to, perhaps, 15s. or 16s., and I can only suppose that the cases which came along in that year happened to be those with rather less children, or something of that kind. It is such a small number that no general cause can be assigned to it. (*Sir Gilbert Upcott.*) The rates of unemployment benefit were also increased in that year, and, therefore, the

26 March, 1946.]

Mr. G. STUART KING, C.B., M.C.

[Continued.]

345

applicants may have been less in need of supplementation.

2342. The increase in the basic rate was from 20s. to 24s. in that year?—(Mr. *Stuart King*.) Yes.

Chairman.] Are there any questions on paragraph 32?

Mr. Benson.

2343. You do not bear all uncovenanted benefits on this Vote, do you?—"Uncovenanted benefit" is rather a technical term. At the moment there is not such a thing. You have either your strict benefit, or else you go on to assistance, speaking generally, at the moment. When I say "at the moment" I mean in the year of the Account.

2344. Before the war uncovenanted benefit was after the insurance had run out?—Yes. There was a long history and it would take a long time to recapitulate. There was "uncovenanted" benefit, and all sorts of other adjectives. We pay anybody who has run out of benefit. He is our responsibility.

Chairman.

2345. These are the able-bodied unemployed?—That is right.

Mr. Benson.

2346. The number was down in this year to 22,000 or 23,000?—Yes, and it has been practically static at that figure for some years.

Chairman.

2347. Are there any further questions on paragraph 32 of the Report of the Comptroller and Auditor General? We pass to the Account which is on page 221. The only thing I observe on the Account is that the salaries under Subhead A came to £2,839,000. The allowances to applicants, etc., under Subhead E came to £2,061,000. It looks as if the administrative costs were rather heavy in relation to the benefits paid out. I think perhaps you might like to tell the Committee of the other services which you administer besides the allowances under Subhead E?—Of course, the principal factor is that the Assistance Board has two main functions, namely, Supplementary Pensions and Unemployment Assistance, and during the war it performed a number of other services for other Government Departments. As a matter of arrangement, or direction I suppose it is, by the Treasury, the whole of the administrative costs are borne on this Vote, whereas, when we turn to the Supplementary Pensions Vote, I think we shall find there is no administrative cost there. If I may respectfully put it in fairness to myself, I am entitled to amalgamate the two Votes in order to get the sort of ratio of staff costs.

49852

2348. There are a great many services besides Assistance, which comes under this account, and Supplementary Pensions under the following one, where you carry out administrative duties, are there not?—As agencies for other Departments. The great thing during the war that we did was to make immediate payments of war damage after raids, which involved extremely heavy responsibilities and work during this year of account, which, I may remind the Committee, covers the whole of the flying bomb and rocket attack period.

2349. You issued clothing coupons, did you not?—Yes, and also made inquiries in connection with Service dependants.

2350. There was also the scheme for the prevention and relief of distress?—Yes, which is really part of the Unemployment Assistance Account, although it is a very small matter in fact. I have the figures here if the Committee want them. (Sir *Gilbert Upcott*.) Mr. King might have mentioned that the expenditure on Supplementary Pensions is nearly £57,000,000, so that his ratio is £2,800,000 to £59,000,000 not to £2,000,000.

Chairman.] Are there any questions on the Account?

Mr. Haworth.] I suppose it is thought the right thing to do to show this £2,000,000 for Salaries against the £2,000,000 expenditure? It would seem more appropriate to show it against the £57,000,000, on page 226.

Chairman.

2351. Sir Herbert can give a better answer to that, probably, than the Witness?—(Sir *Herbert Brittain*.) This is really the Headquarters Vote of the Assistance Board for all its activities. It is probably more proper to put it there than against one Vote like Supplementary Pensions. Although it is the largest item in their activities financially it is not the Headquarters Vote, so to speak. The Assistance Board existed before these other functions were put on to them. I do not know, but I imagine it might be rather difficult if one had to start splitting up the costs of the Board between their various functions; so there, again, it is better to attach the salary figures to the Vote for the Board itself. (Mr. *Stuart King*.) I might add one point. Of course, historically we were at that time looking to two separate Departments—the Ministry of Health for Supplementary Pensions and the Ministry of Labour for the Unemployment Assistance. Both those functions have now been taken over by the Ministry of National Insurance and I think this question of sort of amalgamating the Votes in some way will probably have to be discussed.

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26 March, 1946.]

Mr. G. STUART KING, C.B., M.C.

[Continued.]

Mr. Benson.

2352. Do you handle as well the work done for the Special Areas?—We have practically no work now for the Special Areas as such. We have only a very small responsibility—small in relation to the figures

of our main Vote—for a grant in aid to the National Council. We have no direct work on the Special Areas.

Chairman.] Are there any further questions on the Account? May I take it that the Account is approved? (*Agreed.*)

VOTE 14.

SUPPLEMENTARY PENSIONS.

Chairman.

2353. We pass to paragraph 33 of the Report of the Comptroller and Auditor General. This is on Supplementary Pensions. The first sentence in this paragraph in his Report tells us that the expenditure of £56,500,000 was £11,296,000 approximately more than in the previous year. Can you explain that to us?—(*Mr. Stuart King.*) The explanation is the increased number of pensioners applying and an increase in the average rate due, as I said just now, in relation to the other Account, to the fact that this is the first year when the new rates became effective throughout the year. We have no control, of course, over the number of people who apply.

2354. There were about 105,000 more applicants than in the previous year?—Yes.

2355. Do you attribute that to the fact that the treatment was more generous, and, therefore, more applications were attracted?—I think there are two reasons. Whenever the rates of supplementary pensions are altered two things happen. One is that a certain number of people are, on the automatic application of the means test, which, as you probably know, is a profit and loss account of the man's own means, enabled to apply for the first time. But also—and this is very important—every time the supplementary pensions regulations are discussed in the House a great deal more knowledge is spread about the supplementary pensions scheme, and there are a lot of extra people who apply, even though they might have applied under the old rates. It is the advertisement attraction together with what we call the true attraction of the new cases.

2356. Do you keep statistics of applications or only of supplementations granted?—Of both.

2357. Have you any figures which relate the number of applications granted to the applications for this year?—I have not them in my brief here.

2358. They will be available, perhaps, in a moment or two?—Yes.

Chairman.] In the meantime I will ask the other members of the Committee if they have any questions to put to you on paragraph 33 of the Report of the Comptroller and Auditor General.

Mr. Haworth.

2359. Is the number of applicants a steadily rising curve? Are we getting the effect of increased longevity, that Sir William Beveridge is rather worried about? Is it showing itself here?—I think the simplest way to answer that question is to say that in March we had 1,288,000; in June, 1,307,000; in September, 1,326,000; in December, 1,352,000; and in March, 1,359,000. So that the answer to your first question is that it is a steadily rising curve. I myself think it is partially the longevity point that you make, that there are more basic pensions being granted; but I have no doubt whatever that it is due also to this other fact, that pensioners do realise that it is not quite the dreadful thing which it is sometimes made out to be to apply for a supplementary pension.

Mr. Benson.

2360. You say that the average weekly rate was 16s. Roughly, what was the maximum?—There was none—absolutely no maximum whatever, in the sense of a legal maximum. Do you mean what is the highest one we have ever granted?

2361. Yes. How do your high figures run? That is what I want to get at?—I can give you those figures. We gave very elaborate tables in our report for the year. I think I really cannot do better than to pick out some of the figures from that. We have a range of supplementary pensions: from 10s. and under, 13.9 per cent. of all; 10s. 1d. to 15s., 39.5 per cent.; 15s. to 20s., 28.3 per cent.; 21s. to 30s., 15.4 per cent. and over 30s., 2.9 per cent. Those should add up to 100 per cent., I think.

2362. It depends on rent, the number of dependants and matters like that?—Yes, that kind of thing.

Mr. Thurtle.

2363. You said that according to your experience every time supplementary pensions were discussed in the House you had an increase in the number of applications. May we justly assume that there are still quite a number of people who are unaware of the fact that they are eligible to obtain these supplementary pensions?—I think there are undoubtedly a considerable number of people who could successfully apply. I am not prepared to say it is necessarily ignorance. It may be some objection to doing it.

2364. You do not think there is any obligation on the part of the Department responsible for making better known the right to these supplementary pensioners?—We have often discussed that. The difficulty is how to do it. It was once pointed out to me that if people do not read newspapers and do not listen to the wireless it is very difficult to know how one is to reach them. We have done both from time to time.

Chairman.

2365. You were going to give us some figures in regard to the proportion of applications granted to those rejected in the year?—Yes. The number of applications received in the year of account was about 350,000, on which 300,000 supplementary pensions were granted. These figures include widows under 60.

2366. You take those figures out every year, do you?—They are current figures. I think they come out every month.

2367. Are they published in your Annual Report? I forget?—I do not think we published that particular figure in our Annual Report this year. We have to select. We just did not happen to choose that one, I am afraid. The trouble is that if an application is not granted it may be due to the fact that it ought never to have been made, in the sense that it is made by a person who is not entitled to one at all as a matter of entitlement, and, therefore, when this figure has been mentioned before I have always rather hesitated about it lest it gives the impression that it is the means test alone which results in 50,000 people not getting it. It may not be. There may be people who have not a basic pension but who put in an application, not understanding it, and that goes down as an application rejected.

2368. These are applications for supplementary pensions you are speaking of?—Yes.

2369. We will turn now to the Account at page 226. I have a question on the footnote to Subhead A, the second paragraph. It says: "During the year payments amounting to £273,779 7s. 6d. made in error and charged to this Subhead in 1944 and previous years were brought to light and recorded." The first question that occurs to me is: whose error was it? Was it the error of the applicant or the error of the Board's officers?—I can give you these details. We categorise them under six different categories of error. These are those which are due to a false statement by the pensioner, fraud being suspected. Those account, if the detailed figures interest the Committee, for about £46,000 out of this amount. Those, I may say, are cases where, quite frankly, an old pensioner, knowing full well he ought to disclose the fact, for example, that he has

capital, just does not do it. The next category is non-disclosure by a pensioner where his good faith is in doubt, but we do not think we can classify it as fraud. We give him the benefit of the doubt and say no more about it. That is a comparatively small amount. Numerically, it is 1,000; in amount it is £6,842. The biggest category is mis-statements or misrepresentation or non-disclosure, where we completely accept the good faith of the pensioner, but none the less he has told us something which is untrue. In that category we have 35,200 (I am giving round figures) and a total amount of £155,700 odd. The next category is errors on the part of the officers of the Board, 15,000 cases, £61,000. Although they are put down as errors on the part of the officers of the Board, they are often extremely difficult things to avoid, because they are errors due to the facts not having turned up at the right time. A man ought to report a change of circumstances today; he does not report it perhaps till next week. An error technically has occurred in not reassessing in the meanwhile. It is our fault in some way. Then errors on the part of officers of other Government Departments, about 1,000 cases, amounting to £1,389. I hesitate to say what those are, but I believe they are sometimes mistakes of the Post Office and matters like that.

2370. And the last heading?—The last heading is a miscellaneous one containing 1,000 cases with £1,351 in it. I am afraid I cannot analyse that for you.

2371. Does the footnote mean that those sums paid in error were recovered?—The recoveries amounted in all to just about £100,000. Direct recovery in the sense that we had money paid out and got it back again amounts to about £80,000. But, in addition to that we recovered by deduction—that is to say, in cases we have overpaid, but we have still something to pay and, by arrangement with the man, pay him a little short. Those cannot technically be shown on that side of the Account, but they are in fact recoveries.

2372. I suppose in cases of fraud you take some other action besides taking back the payment or trying to make the recovery?—We have prosecuted in a fair number of cases where fraud is clearly established, and have obtained convictions. But if I may say so, it is not very easy to prosecute an old man of 80 who for the first time has been brought up against a rather complicated machine.

2373. He is probably put on probation if he is convicted?—Some magistrates have a rather unfortunate habit of fining them. We have tried to dissuade them from doing so, because it is not much use fining a person whose only income is derived from the State.

26 March, 1946.]

Mr. G. STUART KING, C.B., M.C.

[Continued.]

Chairman.] Are there any questions on the Account?

Mr. Haworth.

2374. I wonder whether it is the happiest way of describing it—it seemed to me rather an unfortunate expression—to say: “made in error.” It seems a very large number of payments are described as having been “made in error.” Would it not be better to say “paid to people who were afterwards found not entitled,” or something of that kind? Of the quarter of a million, £62,000 at the very outside could properly be described as having been paid in error by your Department. I should have said they were not errors so much as a matter of wrong entitlement. I am trying to reconcile this figure of payments in error with Sir Gilbert’s statement that in his opinion all these accounts are correct. We can ask questions on this Committee, but any member of the public reading this might get a false impression altogether?—(Sir Gilbert Upcott.) I say the

(*Mr. Stuart King withdrew.*)

account is correct because that fact is disclosed on the face of it. The account contains that statement. It discloses the fact if it is a fact.

Chairman.

2375. I think Mr. Haworth’s point is that the statement “made in error” is a bit hard on your Department in the circumstances, Mr. King?—(Mr. Stuart King.) I respectfully say thank you very much. But, of course, the position is undoubtedly that if the pensioner gets some money by not telling us something which he ought to tell us, it is his error, if it is not his fraud; it may be his fraud, but it is his error. Perhaps one could think of some other more convenient phrase. We will take note, if I may respectfully say so, of what Mr. Haworth said.

Chairman.] Are there any further questions on the Account? May I take it that the Account is approved? (*Agreed.*) I think that is all we have to put to you, Mr. Stuart King. Thank you very much.

CLASS VI.

VOTE 5.

OFFICE OF COMMISSIONERS OF CROWN LANDS.

Mr. O. S. CLEVERLY, C.B., C.V.O., and Mr. T. R. OSWIN called in and examined.

Chairman.

2376. Will Members turn to the Account at page 260 of the Civil Appropriation Accounts, 1944. This I think is very

formal. It simply shows your administration charges?—(Mr. Cleverly.) Yes.

Chairman.] Are there any questions on this Account? May I take it the Account is approved? (*Agreed.*)

CROWN LANDS ABSTRACT ACCOUNTS, 1944.

Chairman.

2377. Will members turn to the Crown Lands Abstract Accounts, 1944. The Commissioners consist now of the Minister of Agriculture, the Secretary of State for Scotland and yourself?—(Mr. Cleverly.) That is so.

2378. We will turn first to the Report of the Comptroller and Auditor General which is on page 8. He reports that in the year under account £980,000 was paid to the Exchequer as surplus revenue. All your surplus revenue is paid over to the Exchequer, is it not?—Yes.

2379. When you were in receipt of mining royalties they were treated as regards 50 per cent. as revenue and 50 per cent. as capital?—Yes.

2380. Now, of course, your income from mining royalties has disappeared, and so you will not have any surplus to place to capital account in the future?—Not from coal. We have some stone quarries and other minerals than coal.

2381. I see it recorded that you purchased two estates during the year, the

Portman Estate in Somerset of 10,480 acres for £351,000 odd, and the Sunninghill Park Estate, Berkshire, of 665 acres, at £140,000?—Yes.

2382. Are you perfectly free to decide whether you invest capital moneys in land or in stocks?—The statutory position, going back a very long way, back to an Act of George III, is that we must invest our capital as it becomes available from the sale of estates, and so forth, in land. But in the event of there not being land available for purchase at a reasonable price, it may be invested temporarily in the 3 per centums, as the Act of that day says. The restriction to the 3 per centums has now been removed. The principle remains that we ought to invest in land, but that we are not, therefore, bound to run out and buy land at uneconomic prices as soon as we have some capital. Our invested capital actually has been accumulating during this century rather faster than the Commissioners really think is right, and this coal money has produced a considerable accretion of capital for investment.

26 March, 1946.]

Mr. O. S. CLEVERLY, C.B., C.V.O., and
Mr. T. R. OSWIN.

[Continued.]

2383. So that up till recently your interests in land have tended to grow owing to the investment of mining revenue in land?—We have not really invested much of the mining money in land yet, because we have only just got it.

2384. I am not speaking of the capital money from the nationalisation of the royalties; I am speaking of the royalty income, half of which was treated as capital?—Yes. That was invested in land, if land was available, and otherwise *pro tem* in stocks.

2385. I think we will take all three paragraphs of the Report together. In paragraph 2 Sir Gilbert states that the account shows that remissions of Crown rents amounted to £184,000. Those I take it, were, as the note says, mainly made to lessees on your London estates?—Yes.

2386. They are in Regent Street?—In Regent Street, the Regents Park area, Pall Mall, Piccadilly, Millbank, Trafalgar Square, a little in Holborn, in Jermyn Street, St. James's Street, Kensington, and places like that.

2387. These remissions were made owing to causes arising out of the war?—Yes, practically entirely—the great majority. Some were due to direct war damage and some to trading losses and financial difficulties arising out of the war.

2388. What proportion do they represent of your rental from the London properties? I think the Account gives us the income from rents?—I have the London remissions but I have not the London rental handy. (Sir Gilbert Upcott.) My information is that it is £1,373,000. (Mr. Cleverly.) I find I have a figure here. The London collection rental is approximately £1,500,000, and the London remissions were £168,231.

2389. £168,231 on a rental of?—On a rental of £1,500,000. But they were not all remissions on the rental for the year; some of them were remissions of arrears. £82,000 represented remissions on arrears and about £100,000 on the rental for the year.

2390. That is to say, 7 per cent. or 8 per cent.?—Yes.

2391. I take it that the remissions are dealt with on an individual basis, according to the position of the tenant?—Yes. Each case is dealt with on its merits.

2392. Passing to paragraph 3, you have received in all £2,110,000 in exchange for your coal?—Yes.

2393. You received £417,000 during the year 1944. Can you tell us what loss of income will result to you from that transaction?—Our average receipts for coal over a period of seven years before the war were £106,000, half of which went to capital and half went to income. We got just over £2,000,000, and if we invest it to give a return of about 2½ per cent. our income will remain approximately the same. But,

of course, we shall not get the capital payments. The reason for the capital payments was, of course, that the coal was a wasting asset.

2394. Your gross income will be about halved?—From coal, yes.

2395. Or would be about halved if you invested the proceeds at 2½ per cent.?—Yes. It looks something like 20 years' purchase.

2396. 20 years' purchase?—Yes, I think so.

2397. That is interesting, if it is a fact, because the global sum assessed was 15 years' purchase?—Taking the capital payment from the Coal Commissioners as £2,000,000 and the average proceeds which I gave just now of just over £100,000, it is about 20 years' purchase of the gross. It is about 20 times. (Sir Herbert Brittain.) Possibly the Commissioners had their royalties in some of the best areas.

2398. So it would appear, Sir Herbert?—(Mr. Cleverly.) We had a very good mineral adviser who conducted our case very well before the Commission. (Sir Gilbert Upcott.) I am not sure Mr. Cleverly has not slightly under estimated his income from mines before the war. (Mr. Cleverly.) I think there may be a confusion here. You are talking, Sir Gilbert, about our total income from mines. I am talking about our income from coal alone. In the income from the mines are included stone quarries, gold mines, tin mines and any other minerals than coal.

2399. In which areas were your principal holdings of coal?—Durham, Northumberland, Scotland and some in Kent.

Chairman.] Are there any questions on the Report of the Comptroller and Auditor General?

Mr. Benson.

2400. I observe from paragraph 1 that you bought two estates, one of which, I see, works out at £35 per acre and the other at just over £200 per acre. That is a very big discrepancy, and £200 per acre is rather a high price to pay for agricultural land. What did the Sunninghill Park Estate comprise besides land?—There is a very lovely house, which is at present under requisition, but we do not anticipate any difficulty about letting it at more than we get at present from the requisition. There is an area of land adjoining Ascot Race Course which is very useful to Ascot Race Course as accommodation land, and we let it to them. The rest is good quality farm land. This estate is right alongside the Windsor Estate, and from the point of view of estate consolidation it was a very useful purchase. As a matter of fact, it belonged to the Crown in Charles I's reign. He sold it for a ridiculously small sum to a courtier, and we are quite glad to get it back again. I am glad I am not defending the sale. The purchase was in fact calculated to give us a return of over 3 per cent. on the

26 March, 1946.]

Mr. O. S. CLEVERLY, C.B., C.V.O., and
Mr. T. R. OSWIN.

[Continued.]

purchase money besides the advantage it has in consolidating and safeguarding that side of the Windsor Estate.

2401. In earlier days I believe they executed the owner and just resumed possession of Crown lands that were alienated. You say it is calculated to give you a return of 3 per cent. on the purchase money. What does the Portman Estate show you?—The present rent roll of the Portman Estate gives us about 4 per cent., but we have hopes of being able to increase the income from it. When we bought it we thought to ourselves that there was some sort of plus value that might mature. There is a life interest on part of it, and so on.

2402. For the Sunninghill Park Estate you paid a much higher price?—Yes.

2403. Was your primary consideration to round off your estate?—No. Our primary consideration was to find a good investment for the Crown capital, but the fact that it rounded off the estate was a subsidiary but useful consideration.

2404. Who advises you in your purchases?—Generally speaking, we have our Crown Receivers in each district. The agricultural land is largely in the hands of one firm who advise us. For both these purchases we departed from our usual rule and consulted the District Valuer. The District Valuer advised us in both these cases.

2405. It is not your custom to consult the District Valuer?—No. It is more usual to deal with it through one of our receivers. If there is anything special about it, if it is a very big purchase or if probate is mixed up with it or any consideration of that kind, we ask the Valuation Department to help us.

2406. Is there any other Government Department besides yourself that does not automatically consult the District Valuer?—I must not answer for other Departments. I understand the War Office have their own arrangements.

2407. It is very desirable always to check up on the opinion of a private firm, is it not?—We very often do consult the District Valuer.

2408. I thought you said you departed from your usual custom in so doing in these two cases?—To describe it as "the usual custom" may have been going a little far, because in these recent big purchases we have used the District Valuer. For small purchases we usually use our own people.

2409. Seeing that you have there an official and a department which must necessarily have much more information at its disposal than any private firm, ought you not, automatically, to make your proposed purchase known to them?—I think it depends on the circumstances.

2410. I do not say that you should not take the opinion of your Receiver, but merely that you might check up on it?—When it is a case of buying a farm, as very often happens, in the neighbourhood of one of our own existing estates I myself think that our own man who knows our own estate and has known it for years, who knows the rentals and where he is likely to get a tenant, he being engaged in the business of letting farms and so on, is probably better qualified to advise, maybe, than the District Valuer.

Mr. Benson.] I would like to reserve my questions on paragraph 2 of the Report of the Comptroller and Auditor-General until we take the Account.

Chairman.] We will turn to the Account in a moment.

Sir Frank Sanderson.

2411. On paragraph 1 I want to make one point in reference to the same matter as was raised by Mr. Benson, and that is the great disparity in the price paid for these two estates, one being £200 an acre approximately and the other £25 an acre. Can you state whether there is any limit to the price which it is possible to pay? In other words, are the powers to purchase agricultural land as such or to purchase building land or buildings? Is there any limit at all to the type of property you can buy?—We have powers, subject to Treasury sanction, of course, to purchase land at a reasonable price wherever the land may be. If it is in the City of London it will naturally be more expensive than if it is on the top of a Scottish moor. But we have power to buy either kind of land, or anything in between.

2412. In the case of the estate purchased in Berkshire, surely it could be said that you were purchasing something more than land? I take it one would not pay £200 an acre for land in Berkshire unless it had other buildings or some other property upon it of real value?—We have power to buy land whether it has buildings on it or not.

2413. You have power to purchase also the buildings?—Yes.

2414. There is no limit to the type of property you can buy, provided it is land, with or without buildings upon it?—That is so.

Mr. Thurtle.

2415. May I ask one question? You were talking about these remissions. I wondered whether these remissions are made because you are legally obliged to make them, or whether they are made on an *ex gratia* basis?—Some are made because we are legally obliged to make them. In the

26 March, 1946.]

Mr. O. S. CLEVERLY, C.B., C.V.O., and
Mr. T. R. OSWIN.

[Continued.]

case of leases that have not been disclaimed under the Landlord and Tenant War Damage Act, if it ever came to the legal touch we probably should be compelled legally to make the remission, but we make the remission actually outside the Act. In other cases they are on an *ex gratia* basis—on the basis that we do not think the person is able to pay and there is no means of making him.

2416. There are some large firms, and I dare say some very wealthy people, holding some of these leases in London, and I wondered if, in cases of that sort, you would think of making any sort of remission?—In all those cases we look at the accounts. Before we make any remission we have the accounts of the company with whom we are dealing examined. We go into the question of their ability to pay with great care, and, unless it is within our delegated powers, we consult the Treasury. It is a difficult thing to generalise about. I can only say that each case is looked at on its merits.

2417. I wonder if I might give an example. Supposing there was a firm with a large store which had its building blitzed, it would recover, of course, war damage for the destroyed building, but there would be loss of income. Would you, in a case of that sort, make a remission in order to meet the loss of income?—Assuming that they have neither disclaimed nor retained their lease under the Landlord and Tenant War Damage Act, but they come to us and say that owing to some war damage and owing to war conditions trading has been very bad, and they are losing money and cannot pay their rent—we should look at each case on its merits. As I say, it is almost impossible to generalise. If it were a case of a multiple firm which had a lot of shops up and down the country and were presumably doing quite nicely out of the ones that were not on our property we should not give them any remission.

2418. Or even if it were not a multiple firm but had large reserves?—If it were an old firm with large reserves? Our first line is to keep people to their bargain. They have taken this house from us at such and such a rent and they have contracted to pay it, and they have to pay it unless they can show a very, very good reason why they should not. On the other hand, we do not think our employers—this House or this Committee—wish us to be harsh and unconscionable, and we have to bear in mind that there is in existence the Courts Emergency Powers Act and the Liabilities War-time Adjustment Act, under which in the long run our lessees could go to the Courts and get protection against an unreasonable demand from the landlord. So that we have to balance what is reasonable with our duty to the public to collect all the rent we can.

49852

Sir John Mellor.

2419. Is the Portman Estate somewhere between Taunton and Char? Is it in that kind of direction?—It is in two sections north and south of Taunton; it runs more or less from the foot hills of the Quantocks to the Blackdowns.

2420. What sort of proportion is farming land and what proportion rough land?—It is all agricultural land, except that there is a goodish bit of unproductive woodland on the southern section. Some of it is very good land indeed. Some of it, on the southern section running out to the Blackdowns, is rather heavy cold clay and not so good; they are mostly dairy farms on that side.

2421. Before the war I suppose it was mostly permanent pasture, was it not?—On the south side of it a good deal of permanent pasture. The north side, the Quantock side, has always been mixed arable farming. It is a very nice estate. It has been very nicely looked after and the buildings are in very good condition.

Chairman.

2422. Are there any further questions on the Report of the Comptroller and Auditor General? Will Members turn to the Account now? Table 1 shows the transactions during the year on capital account. The item: "Purchases of Estates" includes two big items we have already been discussing. It is a figure of £510,000. I take it the figure on the other side, amongst the receipts: "Sales of Estates," a figure of £545,000 is comprised in the main of the sum you received for the compulsory expropriation of your coal interests?—Yes, £417,000.

2423. "Sales" is rather a euphemism here?—Yes. That is the only head of the Account we could put it down to.

2424. Looking lower down we see two items which very nearly balance: "Investment of Capital," £1,424,000, and "Cash realised on Securities sold," a figure of £1,460,000. That is simply repayment of Treasury Bills, I take it, and the reinvestment in the same type of securities?—Yes, as they matured. We had money available on Treasury Bills and Ways and Means advances, because we saw these purchases coming and the war damage money, and we wanted to have it readily available.

2425. There is a statement lower down of the securities purchased in the year. They are mainly Treasury Bills?—Yes. The same sum of money keeps on recurring inside that total, because of the Bills maturing and being repurchased.

2426. There is a statement of the securities held, showing a very substantial appreciation over the cost price, due to the rise in gilt-edged securities?—Yes.

D 4

26 March, 1946.]

Mr. O. S. CLEVERLY, C.B., C.V.O., and
Mr. T. R. OSWIN.

[Continued.]

Chairman.] Especially in the long term ones. Are there any questions on table I? I think we had better take each table separately.

Mr. Haworth.

2427. There is a very big difference between the balance on the 1st April, 1944, and the balance at the end of March, 1945. I suppose it is not customary to carry a large balance? Was this exceptional at the beginning of the year?—As you say, we do not usually carry a larger balance than we can help, but we had these big purchases coming on, and we were having big payments in from the Coal Commission in instalments, and it just happened that the 1st April came when we happened to have them.

2428. This closing figure at the 31st March, 1945, is about the normal one, is it?—Yes. There is no particular object in having a balance on the capital account unless we have some capital purchases coming along.

Mr. Benson.

2429. On the question of capital investment, I would like to find out who is responsible for the general policy of investments? What steps do you take to find land in your widest sense, with £3,000,000 of Government securities you hold?—The Commissioners are responsible for the general policy, whether they should invest their money in land or temporarily in securities.

2430. Who are the Commissioners?—The Commissioners of Crown Lands—the Secretary of State for Scotland, the Minister of Agriculture and myself, subject to the direction of the Treasury. (Sir Gilbert Upcott.) They have to get Treasury approval for a purchase.

2431. Yes, I assumed that. I wondered what was the machinery available inside your Department for searching for suitable investments, and who was responsible for the decision as to where to buy and when. One naturally assumes that a Minister is responsible. Quite obviously, the Minister of Agriculture acts subject to advice. The Commissioners act subject to advice. Whence comes the advice?—(Mr. Cleverly.) From me.

2432. Where do you get your information on which to advise them?—We have a good many contacts with the estate world through the various firms that work for us, and our individual agents; we have contacts with other Government Departments, who put anything our way they know of, including the Inland Revenue Valuation Department. We hear of these things and we consider the ones that look promising. We get a valuation, and if it looks like our price we seek Treasury authority to buy it if we think we have capital available.

2433. Have you any general policy, any long term policy, as to purchasing in a certain area, or purchasing a certain type of land? Do you buy outside towns or do you go mainly for purely agricultural land? What is the general line of development?—We have not tied ourselves by any decision to go for one particular type of land. We are open to offers inside towns, on the outskirts of towns or in the country.

2434. You just take an estate if it is offered to you and you feel that it is a good purchase?—If we feel it is a good investment.

2435. You mentioned that the Inland Revenue Valuation Department and other Government Departments keep you informed. How much land have you purchased in the last 10 years? Have you any idea?—I am afraid I should want notice of that.

2436. How much land have you purchased since you became Commissioner?—I am afraid I should want notice of that question, too.

Chairman.

2437. Are you asking for the information, Mr. Benson, in terms of value or in terms of acreage? It is rather difficult for the Witness to give an answer if he does not know what you are asking for?—Since I became Commissioner I am afraid I have not the figures either in pounds or acres. I can easily get them.

Mr. Benson.

2438. You have invested half a million in this Sunninghill Park Estate. Is that larger or smaller than your usual purchases?—This is much the biggest year I have ever had.

2439. Do you get many estates offered to you?—"Many" is a relative term. I personally have looked at I suppose about a dozen important estates that I have not bought.

2440. During this period?—During the last four years.

2441. That is round about three a year. (Sir Gilbert Upcott.) There was a very big purchase in 1937 of the Richmond and Gordon Estate. (Mr. Cleverly.) That was before my time.

2442. You really rely on what is offered to you?—We keep our eye on the Press. If we see advertised for sale anything that looks likely we very often consider whether we should get further particulars.

2443. You have looked at about a dozen, you say. How many have you contemplated buying without looking at them? Is it a weekly matter, a monthly matter or a yearly matter?—I should think it is almost a daily matter. Somebody in my office

26 March, 1946.]

Mr. O. S. CLEVERLY, C.B., C.V.O., and
Mr. T. R. OSWIN.

[Continued.]

will look at the paper and will see that there is an estate for sale; they will see whether they think it worth bringing to my notice. Or I myself will see it and consult people in my office as to whether we ought to ask about it.

2444. There is in reality a very large influx of particulars?—I would not say particulars of sale. We see estates advertised and wonder whether we will ask for particulars. We decide not to more often than we decide to do so.

2445. How do you get particulars of properties for sale? Is it customary, for example, for the big estate agents and land agents when they have an estate for sale, to send particulars to you?—Yes.

2446. Those come in quite regularly?—Yes.

2447. Now with regard to London property, you own all those Regents Park houses?—Yes.

2448. The majority are empty?—Yes.

2449. That is partly due to blitz, is it not?—Yes.

2450. Who, for instance, would be responsible for deciding whether you should reinstate those as houses or convert them into modern flats?—That, of course, is within the responsibility of the Commissioners, subject to Treasury sanction and the approval of the Government—or of the Cabinet, if necessary. That is a very difficult question—so difficult that the Commissioners asked the Prime Minister to appoint a special committee to advise them on the subject, and that committee is now sitting.

Sir Frank Sanderson.

2451. On that point, has it not gone a step further? Has it not been agreed that certain properties in Regents Park should in fact be converted into flats?—No.

2452. That is not so?—No.

2453. I understood it was. One further question. The statement of securities at the foot of page 3 shows a total nominal amount of securities held of £3,490,000. Am I right in assuming that provided you could find suitable properties you could invest the whole of those proceeds?—Yes, we could.

2454. You are in a position to invest the whole of the £3,490,000?—It is, indeed, our statutory duty to invest it all in the end, but, of course, we have to think ahead and consider whether we may have things that we must do with the money. This Committee to which I referred might put on us the duty of taking very expensive steps in Regents Park, for instance.

2455. You have to consider whether or not the time is appropriate to purchase?—Yes.

Sir Frank Sanderson.] If the purchasing of your lands is as successful as the purchase of your securities has been, your future should be very bright!

Chairman.

2456. We pass to table 2, on which I have a question or two. On the receipts side of the Account I see an estate, a small one evidently, described as "The Rolls Estate." Could you tell the Committee what that is?—It consists of land and houses situated in and near Chancery Lane, London. Prior to 1837 it was vested in the Master of the Rolls. By 1st Victoria, Chapter 46, the property was vested in the Crown and passed to the management of the Commissioners of Woods. Section 5 of the Act provided that a separate account of moneys received and moneys paid should be kept in respect of the Rolls Estate, but actually, apart from the fact that we keep the accounts separately, as we are bound by statute to do, it is treated exactly as if it were part of our estates.

2457. It must be a very small estate?—It is smaller than it was because Hitler hit it.

2458. It brings in £670 a year?—Yes.

2459. On the payments side I see: "Remuneration of Receivers and Others," a figure of £20,000. Are those fees paid to professional land agents and others who do part-time work for you, or are they salaries of whole-time employees of yours? What do they represent?—They represent a percentage payment to two big firms of estate agents who do most of our work, in the country at any rate; a whole-time employee who collects small rents in Cumberland Market—an estate manager. A whole-time man in Scotland—the Crown Receiver in Scotland. A part-time man in Caithness. A staff of whole-time people in connection with the Gordon Estates in Scotland, and a whole-time man at Taunton.

2460. You have a certain number of whole-time employees whose remuneration does not appear amongst the salaries in Subhead A of the Account we have already considered, but appears here?—No, because it comes from land revenues.

Sir Gilbert Upcott.] The Vote Account is only Headquarters.

2461. I see lower down amongst the payments: "Property Tax allowed"—£580,000. I was a little surprised by the word "allowed" there. Does that mean that you have paid it as an act of grace to the Inland Revenue?—(Mr. Cleverly.) No, under the Income Tax Acts. (Mr. Oswin.) The property tax allowed is the assessment which a landlord would have to pay in respect of rack-rented property. A tenant is assessed to Schedule A tax.

26 March, 1946.]

Mr. O. S. CLEVERLY, C.B., C.V.O., and
Mr. T. R. OSWIN.

[Continued.]

He can recover from his landlord tax at the standard rate on the rent which he pays his landlord.

2462. These are payments of Schedule A made by the tenants and deducted from the rents payable?—So far as rack-rents are concerned. So far as ground rents are concerned it is tax automatically deducted from every payment of rent.

2463. A little lower down I see: "Farms, etc., in hand," and that item appears on both sides of the Account. You do not conduct farming operations yourselves in the ordinary way, do you?—(Mr. *Cleverly*.) Only exceptionally. We are farming the land in Windsor Great Park because we have no power to let it, and it has, obviously, to be farmed, so we are farming it. We have a farm in Yorkshire which we have had in hand in fact all the war, but it is to let if anybody will give us the rent which we think they ought to give us for it. We are making a very nice thing out of it, so we are not worrying very much.

2464. These two items show that you made about £6,000 in the year under review on your farming operations?—It is not quite as easy as that, as a matter of fact, because these are cash figures entirely; they are not trading accounts. As it happens, we let one farm we had had in hand and got a big tenant-right for it, and we have taken in one or two small farms and have had to pay the tenant-right for them, so these figures do not show very much.

Chairman.] Are there any questions on this table?

Mr. Benson.

2465. Where is the Rolls Estate?—In the Chancery Lane part of the world.

2466. Is it "legal" land, so to speak?—Yes, belonging to the Master of the Rolls.

2467. On the payments side of the Account there is an item: "Maintenance of Shootings, etc.", a figure of £8,882. Those are your outgoings in respect of—?—Keepers' wages.

2468. And stocking?—Yes.

2469. What rentals do you get for your shootings against that £8,000 payments?—I do not know that I have a separate figure for them, but we are not getting anything like the normal rents for shootings, or we certainly were not in the year under review. We have grouse moors in Scotland which have not been very successful in the last few years.

2470. In future you would expect to get some good returns from them?—I would not like to prophesy about the future of grouse moors.

Sir Frank Sanderson.

2471. On page 4, on the receipts side, the interest from capital investments is shown at a figure of £105,000. That would show that the average rate of interest upon your investments is 3 per cent., but it shows a gross figure. Do the Crown Lands pay Income Tax?—No.

2472. They recover the whole of the Income Tax from their investments, do they? They will receive their income net? Do they recover the Income Tax upon the dividends received and credit the accounts with it?—(Mr. *Oswin*.) The interest on the dividends is paid in gross without deduction of tax.

2473. Would the Treasury pay one particular Department interest upon investments gross, whereas it pays the interest net to the ordinary investor?—(Sir *Herbert Brittain*.) Yes, that is done sometimes, where it is certified to be owing to a Government Department. We allow instructions to be given to the Bank of England to pay it gross.

2474. The Crown Lands, therefore, pay no Income Tax?—I have not seen the actual instruction in this case.

2475. [Its receipts are gross and remain gross?—(Mr. *Cleverly*.) The securities are in the name of the National Debt Commissioners, so I expect it is an automatic arrangement.

Mr. Benson.

2476. Would it not be the other way round, that these are the assets of the Crown and the Crown are not liable to tax?—(Sir *Herbert Brittain*.) The purport of my answer was that the Bank of England need instructions, in the first place, to pay it gross, and we give those instructions in certain cases, where it is definitely held by the Crown or for the Crown.

Chairman.

2477. I think it appears that you pay property tax under Schedule A on your landed properties?—(Mr. *Cleverly*.) We allow it to our leaseholders.

2478. Who have themselves paid it?—Yes.

Mr. Benson.] That has to be allowed.

Chairman.

2479. Yes. Then table 3 simply shows that you have paid over £980,000 to the Exchequer, your surplus revenue in 1944. Table 4 gives the cash balances. Table 5 I think is rather more important. We have already spoken of the remissions of rent, £184,000, and you have pointed out that that included £82,000 odd which was rent in arrears?—Remitted from rent in arrears, yes.

26 March, 1946.]

Mr. O. S. CLEVERLY, C.B., C.V.O., and
Mr. T. R. OSWIN.

[Continued.]

2480. Table 6 I do not think I shall concern myself with. It looks as if there might be a lot of history behind?—There is.

Chairman.] Are there any further questions?

Mr. Benson.

2481. About £100,000 has been remitted against current rents. How much of that falls to Regent Street?—The total remissions are £168,000. Of that £53,500 is for Regent Street. How much of the Regent Street remissions were arrears and how much current rent I do not think I have analysed.

(*Mr. Cleverly and Mr. Oswin withdrew.*)

CIVIL APPROPRIATION ACCOUNTS, 1944.

CLASS I.

VOTE 14.

THE MINT.

Sir JOHN H. McC. CRAIG, C.B., called in and examined.

Chairman.

2484. Will Members turn to page 27 of the Civil Appropriation Accounts, 1944. I have very few questions and I am sorry that you have been kept waiting so long, Sir John. If you will look at Subheads J, K and L, Subhead J is: "Expenses incidental to Redemption and Withdrawal of Silver Coin," and the expenditure on that Subhead was substantially in excess of the grant, but the actual expense of redeeming silver coin shown under Subhead K and similarly under Subhead L—those two amounts were very much less than the grant?—(*Sir John McC. Craig.*) Yes.

2485. It appears on the face of it as rather difficult to reconcile those figures. Will you explain that to the Committee?—They are not really comparable. The excess on Subhead J is accounted for by freight charges on coin repatriated from abroad. Actually, we spent £7,000 on coin that came from South Africa and Liberia.

2486. The footnote says: "Due to the unexpected repatriation of coin from South Africa."?—Yes. That has, of course, no parallel in the other Subheads.

2487. Can you tell us how this unexpected repatriation of coin from South Africa came about?—Our soldiers went to South Africa and other parts of Africa, and they took coin in their pockets, which was, of course, not current coin in that country, and this country was in honour obliged to take it back.

2488. You had to pay the freight on it?—We paid the freight on it. I ought perhaps to say as well that in Subhead J the cost is not entirely due to the searching

2482. What were the other major remissions of rent? Regent Street accounts for £53,000. That leaves £115,000. Are they agricultural rents?—No, they are practically all in London and mostly in small amounts. They are round about the Whitehall, Piccadilly and Charing Cross area and Holborn—there is a big war damage one in Holborn.

2483. Wherever you get war damage you remit?—Yes.

Chairman.] Are there any further questions on the Account? May I take it that the Account is approved? (*Agreed.*) Thank you, Mr. Cleverly. That is all we want to ask you.

out of coin for withdrawal. The whole cost of the centralised redistribution of coin in this country, and the examination by the Bank of England to take a surplus out of one place and put it where there is a deficiency, comes on Subhead J.

2489. On page 28 there is a statement of receipts payable to the Exchequer. The amount was substantially in excess of the amount estimated for—£6,407,000 against £4,035,000. Could you explain that to the Committee?—Yes. It is extremely difficult to foretell, 15 months ahead, how much new coin the country will need. We estimated at a guess £5,000,000 of silver coin. We actually had to produce £7,000,000.

2490. This is entirely on silver coin, is it, or practically entirely?—Practically entirely. It is the silver which makes the difference. In bronze our estimated figure was just under £500,000 and our actual production was just over £1,000,000, but the silver is the predominant factor.

2491. You also mint coins, do you not, for certain overseas countries?—Yes; we mint for some of the Dominions, for a good number of Colonies and to a smaller extent for foreign countries. During the war we have confined the minting for foreign countries to cases where it was really essential for the interests of this country.

2492. Which of the Dominions do you mint for?—Eire, Southern Rhodesia and New Zealand.

2493. And a large number of the Colonies?—Yes, I think most of the Colonies. Some are supplied from India.

26 March, 1946.]

Sir JOHN H. McC. CRAIG, C.B.

[Continued.]

2494. Is there anything in the accounts to show whether that business is profitable to you?—No, there is nothing to show whether it is profitable in the Account. Actually, although we have abandoned our cost accounting system, I think it is certain that this country does not lose by it, but I should not like to estimate how much profit there was in it.

2495. So far as minting coin for this country is concerned, you make a very large profit?—Yes.

2496. But as far as minting for the Dominions and Colonies is concerned the same position does not arise?—No. We try to make a fair manufacturer's charge which will leave enough margin to prevent any loss.

2497. You sell them their half-crowns at 4d. or 5d. or whatever the price is?—At the cost of the metal, plus the cost of labour, plus the overheads.

Chairman.] Are there any questions on the Account?

Mr. Wadsworth.

2498. What determined the issue of silver coinage? It has gone up from £5,000,000 to £7,000,000 in the year of account. Do you get complaints from the banks? Is that a means of ascertaining what amount of coinage is best in distribution?—No. It does not wait for complaints. What happens is that banks in general go to the Bank of England and say: "We want so much coin this week or this month." The Bank of England holds a stock and supplies them, and it says to the Mint: "Our stock is running down; we want so much coin in these three months." There is a programme arranged beforehand agreed with the Bank that over the year as a whole probably so much will be wanted. That binds nobody. Shortly before the beginning of each quarter there is a definite order from the Bank of England to make so much coin. It is their business to estimate what the future requirements of the other banks will be. The other banks are guided by the requirements of their customers, so that you have a sort of chain of responsibility.

2499. It is going to start now with the State and end with the State?—So far as I know the customers of the ordinary bank will still go to the bank and ask for £5 worth of silver.

2500. You have not seen the point, actually. The Bank of England is now run by the State?—I beg your pardon.

(*Sir John H. McC. Craig withdrew.*)

Mr. Benson.

2501. You used to do a fair amount of coinage for foreign countries as well as the Colonies, did you not?—Yes. It is rather variable. We did some in the year under review. Actually, it was only 25 million pieces. That was unusually low even for this period.

2502. There is one figure I cannot understand in the details of receipts, at the bottom of page 28: "Face value of new silver coin issued in replacement of coin withdrawn for recoinage," a figure of £150,000 estimated. Is that a self-balancing figure?—Yes.

2503. You charge the whole cost of your coinage in the £150,000 in Subhead L and you set against that in your appropriations the value of the individual coins received?—Yes, it is the same figure.

2504. You also are charged with the duty of minting war medals, are you not?—Yes.

2505. That will mean that you are going to be rather busy from now onwards. Have you been doing that in the current year?—On such a small scale that it hardly signifies. Labour could not be diverted to anything that could wait. We have been doing campaign stars on a very small scale, but not in the year under review.

2506. No—that is 1944, of course, but from now onwards you will have to meet the demand for campaign medals, will you not?—Yes. It will be a very heavy manufacture indeed.

2507. It is heavy because it is highly specialised stuff? You do not turn out millions of the same star. It is different from coinage?—Yes. Each of those stars has to be done separately and it involves a great many operations, but, of course, the reason it is heavy work is because there are millions of them.

Sir Frank Sanderson.

2508. I understood you to say that you paid the freight on the silver coin shipped from South Africa to this country. Is that so?—Yes.

2509. Do you insure the cargo?—No, we do not insure it.

2510. You take the risk?—We take the risk.

2511. Can you say whether in fact any of the silver was lost?—None of that silver was lost.

Chairman.] Are there any questions on the Account? May I take it that the Account is approved? (*Agreed.*) That, Sir John, concludes our examination, thank you very much.

26 March, 1946.]

[Continued.]

CLASS III.

VOTE 2.

BROADMOOR CRIMINAL LUNATIC ASYLUM.

VOTE 4.

PRISONS, ENGLAND AND WALES.

VOTE 6.

SUPREME COURT OF JUDICATURE, ETC.

(On these Accounts no questions were asked.)

SUPREME COURT OF JUDICATURE ACCOUNT, 1944.

(Accounts of Receipts and Expenditure of the High Court and Court of Appeal, 1944-45.)

Mr. Benson.

2512. I am afraid I did not give notice to the Treasury, but there is a point I would like to raise on this Account on pages 4 and 5. There seems to be a very large sum, of £45,000,000 odd, invested which bears very little relationship to the lodgment by suitors and payments out. The balance of payments is only less by £300,000 than the lodgments. That means that £300,000 new capital has been accumulated. The total balances are £45,000,000 odd. Is that an accumulation over a long period of years? I did not give notice of the question, Sir Herbert, and if you cannot answer it, it does not matter?—*(Sir Herbert Brittain.)* Do you mean the securities?

2513. The sum in hand of £45,000,000?—That must be an accumulation of suitors securities.

2514. In fact it goes back to "Bleak House" and the Court of Chancery?—It is turned over gradually.

2515. It is turned over there to the tune of £300,000 in the year of account. Is there much dead money in that—money that the claimants have lost all track of? Is it an accumulating fund that has gone on accumulating through a century?—I should have to ask about the dead money, I think, Mr. Chairman, if I might.

Mr. Benson.] If there is nothing in it, do not bother. It does not matter. The extraordinary discrepancy between the two figures struck me.

Chairman.] Are there any further questions on this Account?

Mr. Wadsworth.] With regard to the question put by Mr. Benson, I take it it is important if there is £45,000,000 locked up? Is it locked up? Could it not be invested or could not something be done with it? Is there any point in keeping this large amount on one side?

Chairman.] You are speaking of the £45,000,000?

Mr. Wadsworth.] Yes.

Chairman.] The balance in English currency on the 1st March, 1944. Is that right?

Mr. Benson.

2516. Surely, that "English currency" only means in distinction to dollars. That, surely, is invested?—Yes, it is all invested. The great mass of it, I think, stands in the name of particular suitors—a good deal of it, anyhow. *(Sir Gilbert Upcott.)* It is held by the Accountant General on behalf of particular suitors. *(Sir Herbert Brittain.)* Yes. *(Sir Gilbert Upcott.)* It is held in trust, of course.

Mr. Wadsworth.

2517. It is invested and held in trust. Nobody may claim it. Is that the position?—*(Sir Herbert Brittain.)* About 80 years ago, when there was two or three million pounds of money due to suitors, it was taken over, and the Consolidated Fund accepted the liability to make it good if it were ever called on, but that was a very much smaller sum than this.

Mr. Wadsworth.] I wonder if the time has again come when perhaps some similar procedure could be adopted?

Chairman.

2518. Is this money invested on the direction of the Treasury?—A good deal of it is invested on the direction of the Court. The Court itself may say that suitors' cash shall be invested, in this, that and the other. A lot less of it is cash which is handed over by the Paymaster General of the Supreme Court to the National Debt Commissioners, and invested by them on behalf of the Court. I think a third category must be actual securities which are in question in the Courts, which have never been in the form of cash as far as the Court is concerned.

2519. Is there any form of statement of revenue from investments? I suppose there is?—Yes, on page 4—"Dividends on Securities in Court," a sum of £1,000,000.

26 March, 1946.]

[Continued.]

Mr. Wadsworth.

2520. I am suggesting it may be worth while investigating at this point. The point has now been raised. It may not be raised for another 50 years. Is it worth while doing something about it?—(Sir Gilbert Upcott.) This money could not be touched except by legislation. It is held under statutory authority, under the Orders of the Judicial authorities. The Treasury could not touch it, except with legislative authority.

2521. It was touched 80 years ago, apparently?—(Sir Herbert Brittain.) Yes, under statute.

Mr. Wadsworth.] It would have to be done by statute again. We could only make a recommendation, I take it. Is it worth while making a recommendation?

Mr. Benson.] We cannot make a recommendation until we have the facts.

Chairman.

2522. Could you furnish us with a short statement on this, Sir Herbert?—Certainly.*

Chairman.] Are there any further questions on the Account? May I take it that the Account is approved? (*Agreed.*)

* See Appendix No. 5.

SUPREME COURT: PRIZE, ETC., DEPOSIT ACCOUNT, 1944-45.

Chairman.

2523. Members have the Account, which has been circulated. It contains a brief account certified by the Comptroller and Auditor General. Then there is what is called an Abstract Account on pages 3 and 4, signed by the Registrar. Are you satisfied, Sir Gilbert, with the form of this Account, and that the Account is properly kept?—(Mr. Jones.) We were responsible for appointing the Auditor whose name appears as approving the Account. There is, of course, a very large sum which has not yet been allocated to the various headings. The reason for that is the delay in settling these prize cases.

2524. This money will go to the personnel of the Navy and the Air Force, I am told?—Not the whole of it. There is a portion which will revert to the Exchequer. The other portion, if legislation is passed by Parliament, will be available for distribution to the Royal Navy and to the Royal Air Force.

2525. There will have to be some legislation dealing with this, will there?—Yes.

2526. This will be over and above what those Services receive by way of war gratuities, of course?—Yes. There has been an announcement made by the First Lord of the Admiralty to the House that it was proposed to award prize money, but not, I think, prize bounty, to the members of the Royal Navy and the Royal Air Force. The legislation will determine the share of the total prize receipts which is to go into the Naval Prize Fund. There was legislation after the last war which set out in detail the classes of receipts which fell to be credited to the Naval Prize Fund, and the basis of distribution of the Naval Prize Fund among the personnel of the Royal Navy.

Chairman.] It has usually been decided, I am told, after each war that there shall not be any prize money in the next war; but that always lapses. Are there any questions on the Account?

Mr. Benson.

2527. I want to know how the Royal Air Force managed to capture ships?—I

think they played their part with the Navy. They did capture ships by themselves; but, of course, there were Combined Operations, when they were operating with the Navy.

Chairman.

2528. At any rate, they have staked a claim to part of this money?—It has been agreed that they have a claim.

Sir Frank Sanderson.

2529. The amount of the Prize Deposit Account is shown at £10,500,000. Who controls this money, meanwhile?—It is under the control of the Accountant-General of the Supreme Court for the time being.

2530. I observe on the receipts and payments there is no indication of any interest at all being credited for this large amount of money. I wondered how the money was handled in the meantime? Is it handed over to the National Debt Commissioners free of interest?—(Sir Gilbert Upcott.) It is held by the Paymaster General.

2531. Is the Account eventually credited with interest or not?—(Mr. Jones.) No, I think not. (Sir Gilbert Upcott.) I do not think the Treasury ever gives interest.

2532. The benefit accruing really falls to the National Debt Commissioners?—(Mr. Jones.) To the Treasury.

Mr. Benson.

2533. On the Comptroller and Auditor-General's answer that it is held by the Paymaster General of the Supreme Court, how far can the Paymaster General utilise it without the permission of the Comptroller and Auditor General himself? I am assuming it is not lying there?—(Sir Herbert Brittain.) We agreed with the Paymaster General to borrow that money from him.

2534. It is held on loan. It is not on current account. It is used for loan purposes, not current account purposes?—It is borrowed from him, like so many other Ways and Means Advances.

26 March, 1946.]

[Continued.]

2535. It goes through the Ways and Means Advances. The Paymaster General usually provides the cash for current expenses?—He has usually sums on deposit

on loan of varying amounts day by day. *Chairman.*] Are there any further question on the Account? May I take it that the Account is approved? (*Agreed.*)

CIVIL APPROPRIATION ACCOUNTS, 1944.

CLASS III.

VOTE 7.

COUNTY COURTS.

(*On this Account no questions were asked.*)

COUNTY COURTS FUNDS ACCOUNTS, 1944.

(*On this Account no questions were asked.*)

CIVIL APPROPRIATION ACCOUNTS, 1944.

CLASS III.

VOTE 8.

LAND REGISTRY.

(*On this Account no questions were asked.*)

VOTE 9.

PUBLIC TRUSTEE.

Chairman.

2536. On page xi, in paragraph 28 of his report, the Comptroller and Auditor General states: "A test examination of the Public Trustee's Trust Accounts has been carried out according to the regulations under the Public Trustee's statutory rule. The results of the examination were generally satisfactory and a report on the subject, including references to certain special cases, has been made to the Treasury." Could you tell us, Sir Herbert, what those special cases were which are there referred to?—(*Sir Herbert Brittain.*) I think in the body of the Comptroller and Auditor General's Report he refers first to certain cases where there had been delay on the part of executors in getting on with the execution of their administrations, so that the entry of the Public Trustee into cases was delayed a great deal. But that was no fault of the Public Trustee, as I understand it. Another individual case which he referred to us related to the remission of certain fees which the Comptroller and Auditor General was not quite certain that the Public Trustee had full Treasury authority for, where there had been an overcharge of fees in the first instance. We investigated the case and came to the conclusion that there was quite a sufficient explanation for it, and gave the authority necessary.

2537. Sir Gilbert, have you any comment to make on this matter?—[*Sir Gilbert Upcott.*] That was a large case in which I had to ascertain whether remission of the fee had been granted in accordance with Treasury authority, and the Treasury have informed me it is so. I do not think I have yet had an answer from the Treasury about the other case, which is a question of delay in the preparation of the first account of a trust newly accepted. I think there may be some legal dispute on the subject, but it was accepted in 1939, and no account has yet been rendered in that particular trust. (*Sir Herbert Brittain.*) I am told we did not realise the Comptroller and Auditor General was waiting for an answer from us. I thought it would come from the Public Trustee. (*Sir Gilbert Upcott.*) It is really for the Treasury to say whether they are satisfied or dissatisfied. I examine these accounts on behalf of the Treasury, and report to them. I draw their attention to any case which I think requires their attention or may require their attention.

2538. You will look at that, Sir Herbert, will you?—(*Sir Herbert Brittain.*) Yes.

Chairman.] Are there any questions on the Account? May I take it that the Account is approved? (*Agreed.*)

VOTE 10.

LAW CHARGES.

(*On this Account no questions were asked.*)

(*The Witnesses withdrew.*)

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

TUESDAY, 2ND APRIL, 1946.

Members present:

MR. PEAKE in the Chair.

Mr. Benson.
Mr. Douglas.
Mr. Haworth.

Sir Frank Sanderson.
Mr. Thurtle.

Sir GILBERT UPCOTT, K.C.B., Sir HERBERT BRITTAI, K.B.E., C.B., and Mr. C. E. I. JONES, called in and examined.

TREASURY MINUTE ON PARAGRAPH 6 OF THE SECOND REPORT OF THE COMMITTEE OF PUBLIC ACCOUNTS, 1945.

Sir ORME SARGENT, K.C.M.G., C.B., Mr. J. I. C. CROMBIE and Mr. L. R. SHERWOOD, O.B.E., called in and examined.

Chairman.

2539. Sir Orme, you have become Accounting Officer recently?—(Sir Orme Sargent.) Only within the last few weeks.

2540. The Accounts were signed, I see, by Sir Alexander Cadogan?—That is so.

2541. But you accept responsibility for them?—I accept responsibility for them.

2542. Will Members turn to the Treasury Minute on paragraph 6 of the Second Report of the Committee of Public Accounts, 1945. In their report, in paragraph 6, the Committee said that they had found occasion to comment in recent years on the financial administration of the Foreign Office and that they were glad to learn that as a result of investigations made in consultation with the Treasury the financial staff had been and was being further strengthened. Could you tell the Committee a little more about that now, in the light of present circumstances?—That is a year old, is it not?

2543. Yes, it is.—Since then the financial department of the Foreign Office has been reorganised considerably, and a special finance department has been set up as distinct from the establishments department, with a view, among other things, to strengthening the financial side. Might I ask Mr. Crombie to give the actual details?

2544. Yes, please?—(Mr. Crombie.) The particular point about which the Committee was, I think, concerned on the previous occasion was the examination of accounts. In order to attempt to bring them up-to-date considerable increases of staff were made. The staff on relief and recovery account examination was practically doubled. On the accounts of the Consular officers a substantial addition, actually of three, was made to a previous total of twelve, and on the Diplomatic accounts the staff was practically doubled—eight instead of four.

2545. Are you still requiring extra staff, or are you fairly well satisfied now with what you have?—I do not think we require extra staff. What we do require is staff who will stay and acquire knowledge of the work. There is a real difficulty about getting staff, as you know, but even more

important from our point of view is to get staff who will stay and acquire a real knowledge of the work of the Foreign Office; and that is extremely difficult to achieve.

Chairman.] Are there any questions on the Treasury Minute on paragraph 6 of the Committee's Second Report of last year?

Mr. Douglas.

2546. Are your accounts now kept on a modern system of double entry, and so on?—(Mr. Sherwood.) The accounts are certainly on the double entry basis—on the ordinary Government standard entry.

2547. I am afraid I do not know what that means, but does it correspond to commercial methods of accounting?—No, they are not commercial accounts.

2548. I know they are not commercial accounts. I asked do they correspond to commercial methods of accounting?—No, I do not think it would be proper to say that they do correspond to commercial methods of accounting, because the subject of the account is considerably different from trade and commerce.

2549. There are certain general principles of accounting which apply, no matter what the subject matter is, are there not?—I hope those principles are followed. (Sir Gilbert Upcott.) The accounts are not commercial accounts, of course. They are appropriation accounts. They are kept on the double entry principle.

Mr. Douglas.] That is what I wanted to be satisfied about, thank you.

Mr. Benson.

2550. Has this revision of your accounting department been done in conjunction with the Treasury?—(Mr. Crombie.) Yes, certainly.

2551. What is the Treasury attitude about it? Have the Treasury anything to say on this matter?—(Sir Herbert Brittain.) As I said last year to the Committee, we hoped, with the additional staff which had then been authorised, and has since been obtained, that the financial side of the Foreign Office would be able to deal with all the responsibilities which were put upon it. That still stands, and I do not think I have anything more to add to it.

2 April, 1946.] Sir ORME SARGENT, K.C.M.G., C.B.,
Mr. J. I. C. CROMBIE and Mr. L. R. SHERWOOD, O.B.E.

[Continued.]

2552. Did the Treasury offer any advice to the Foreign Office on this matter?—We are in very close touch with the Foreign Office, of course, on the organisation of their financial department, just as we are with other Departments.

Chairman.

2553. Mr. Crombie himself served in the Treasury, I think?—(Mr. Crombie.) Yes, I did.

Mr. Benson.

2554. You say you have great difficulty in attaching your staff to the Foreign Office. Why is that?—The usual difficulty, namely, that all temporary staff prefer to move round and take better jobs if they can.

2555. In other words, it is one way of saying that they are under-paid?—No, I do not think so. They may have greater opportunities of advancement elsewhere. In peacetime the staff would be recruited on a permanent basis, and we could rely on their remaining with us, but during the war, when we have had to expand very substantially, we have not been able to expand on a permanent basis.

2556. Of course, you had to take in older people?—Yes. It was not because they were older but because there was no established staff recruited during the war; and married women, of course, are always liable to leave.

2557. You introduced a lot of women into the Department, did you?—Yes. We were very glad to get them; but they do not stay.

2558. What is going to happen now?—The Control of Employment Order still applies to the Civil Service.

2559. I was not referring to your immediate and temporary difficulties with your present staff, but are you going to be able to recruit a permanent staff of adequate size and quality?—Yes, we hope so. We recruit through the normal Civil Service examinations which have just started.

2560. Have any of your staff on the financial side had book-keeping and commercial experience of any kind?—Yes, I am sure some of them have. It is a little difficult to generalise on that. In recruiting temporary staff we investigate their previous experience, and if we can get people with accounting experience, either in business or preferably inside Government Departments—they know our methods—we naturally go for them; but the supply of staff with experience has been extremely limited, and we have had to recruit a lot of people whom we would not in normal times wish to recruit.

Chairman.] Are there any further questions on the Treasury Minute on paragraph 6 of the Second Report of the Committee of Public Accounts, 1945?

CIVIL APPROPRIATION ACCOUNTS, 1944.

CLASS II.

VOTE I.

FOREIGN OFFICE.

Chairman.

2561. Will Members turn to Civil Appropriation Accounts, 1944, Class II, Vote I, the Foreign Office. The Account is on pages 55 and 56. Sir Orme, will you look at page 56, at the explanation of the causes of variation between the expenditure and the grant. The note to Subhead A—which is "Salaries, etc."—states: "An excess of £245,000 occurred in connection with the transfer of the Economic Advisory Branch from the Ministry of Economic Warfare to the Foreign Office." Then a little lower down the note states that "these excesses were partly offset by savings," and amongst the savings there is one regarding the Research Department. Could you explain what is the relationship between the Economic Advisory Branch which is transferred from the Ministry of Economic Warfare and the Research Department?—(Sir Orme Sargent.) I do not think there is any direct connection. They are only brought together here because, by saving on one, we were able to cover the excess incurred by taking in unexpectedly this branch of the Ministry of Economic Warfare. It was the Intelligence Branch section of the Minis-

try of Economic Warfare. It was decided during the course of the year that it would be better absorbed into the Foreign Office.

2562. What are the Research Department engaged upon?—The Research Department is a department which has been put together during the war, largely composed of university professors and Dons, whose business it is to prepare papers of a historical character for the information not only of the Foreign Office but Government Departments generally. Their work increased considerably as the war came to an end, because they were called upon to prepare papers on a multitude of subjects which would have to be considered when it came to peace-making.

2563. It is now a permanent part of the Foreign Office administration?—It is a permanent part, except that it is still staffed by temporary volunteers; but we do intend to keep it as a permanent part of the Foreign Office, because it plays a very useful role.

2564. Subhead E is: "Special Services," and I have a question on the footnote to Subhead E. More details of these Special Services are given in the Estimates than is

2 April, 1946.]

Sir ORME SARGENT, K.C.M.G., C.B.,
Mr. J. I. C. CROMBIE and Mr. L. R. SHERWOOD, O.B.E.

[Continued.]

given in the Appropriation Accounts. Part of the expenditure under Subhead E is for the purchase and use of wireless equipment, and it says in the footnote that the excess in the year 1944 was almost entirely due to the purchase and use of wireless equipment for the Code and Cypher School?—That is so. The work of the Code and Cypher School increased very considerably during the war and involved us in increased expenditure, and this is one of the major items.

2565. I think something like £21,000 was spent on the purchase and use of wireless equipment by direct purchase from contractors?—Yes.

2566. It appears to be growing. In this year's Estimates there is shown a figure for purchase and use of wireless equipment of £65,000, and in the year 1945 it was £50,000. What I want to know is have you anybody in the Foreign Office who has any experience of placing contracts for equipment of this character?—Of course, the Code and Cypher School is a separate organisation. They have their own experts and their own purchasing officers.

2567. Their staff is set out in detail in the Estimates, a copy of which I have before me. They have a wireless engineer whose salary is £978 a year, an assistant engineer, and so on; but there does not appear to be anybody who is particularly well qualified for purchasing direct. Your previous practice was, I think, to get assistance from either the General Post Office or the Metropolitan Police?—That still holds good. We rely upon advisers from other Departments, when it comes to this big and special expenditure, in addition to the actual staff.

2568. You are still purchasing a certain amount of equipment, I understand, through the Metropolitan Police organisation and through the General Post Office?—Yes.

2569. But there is a considerable and a growing item for direct purchases by the Foreign Office—by the Code and Cypher School?—(Mr. Crombie.) We do make direct quite considerable purchases. Although the staff is not shown in this section of the Estimates, there are quite a number of highly qualified staff attached to other Departments in association with the Code and Cypher School, on whose knowledge we draw and who carry out the purchase of technical equipment on our behalf.

2570. You are satisfied that there are staff in the Code and Cypher School who are competent to enter into these contracts at what are fair and reasonable prices?—Yes, we believe so.

2571. You are quite satisfied on that?—Yes. (Sir Orme Sargent.) On the advice that they receive from the other Departments.

2572. Because other Departments who are purchasing machinery of a similar character do as a rule, I think, purchase through the General Post Office. Is that not so, Sir Herbert? You have a special knowledge of these subjects, have you not?—(Sir Herbert Brittain.) I am not sure that I can give an outright answer and say yes or no to that. I should have to inquire. Some of this material is no doubt pretty specialised. That is why the contracts are placed to some extent direct. (Sir Gilbert Upcott.) The Ministry of Supply contract for wireless on a large scale, of course. They are supposed to do so for all Government Departments.

2573. Presumably, you have considered the respective merits of purchasing through other Government Departments and purchasing direct?—(Mr. Crombie.) Yes, I am sure we have, although I cannot give a definite personal assurance on that. As Sir Herbert said, a great deal of this equipment, although described as wireless equipment, is of a highly specialised type, which is probably not found in use in any other Government Department.

2574. Even where machinery is of a particularly specialised type and is put to very secret uses, one used to find, in other Government Departments, that the purchases were made through the General Post Office, and the General Post Office engineers were entrusted with the installation and the maintenance of the machinery.—I can assure you that there is very close contact with the Post Office engineers over a considerable field of work done by the Code and Cypher School. There is also contact with the Service Departments over a considerable field of work.

2575. Sir Gilbert, have you any observations to make on this matter?—(Sir Gilbert Upcott.) I really do not know anything about this development at the present time. Of course, this Committee has always attached great importance to centralised purchasing where there are expert Departments like either the General Post Office or the Ministry of Supply, and it does strike me as a rather astonishing development that the Foreign Office should be undertaking ventures in the field of contracts. They have not a costing staff, for example.

2576. I think it is a matter you might have a look into, Sir Orme, possibly with advantage.—(Sir Orme Sargent.) Yes, certainly I will.

Chairman.] As Sir Gilbert points out, this Committee is very keen upon people who purchase for the Government being experts at the job of purchasing. Are there any questions on the Account?

Mr. Thurtle.

2577. I notice from the explanatory note to Subhead A, at the top of page 56, that there has been a considerable saving

2 April, 1946.]

Sir ORME SARGENT, K.C.M.G., C.B.,
Mr. J. I. C. CROMBIE and Mr. L. R. SHERWOOD, O.B.E.

[Continued.]

the Code and Cypher School of £67,600. I wondered how that arose?—I think that arose merely through the reorganisation of the staff in the course of the war.

2578. There would not be any lessening of activity of that sort in 1944, would there?—(Mr. Crombie.) The activity changed its directions in several ways, I think.—(Sir Gilbert Upcott.) There was no reduction in the expenditure as compared with the preceding year. The point is that there was an underspending as compared with the Estimate for 1944. What happened was that there was a very large increase in the Estimate; it was very nearly doubled. They underspent their Estimate. It does not follow that they spent less than the preceding year.

Mr. Douglas.

2579. Your purchases of wireless equipment, and so on, are increasing. Is that a temporary phase?—(Sir Orme Sargent.) I think it was a phase produced by war conditions very largely, and I do not see why it should continue at the same rate in peacetime.

2580. Would not one expect it to diminish considerably?—I would not like to make any promises on that score at the present moment.

Mr. Benson.

2581. On the question of wireless, you say that some of it is highly specialised. From whom do you buy? Do you buy from the ordinary manufacturer?—(Mr. Crombie.) I think a good deal of equipment is bought in a raw state and put together by the establishment.

2582. You buy your parts and build the sets?—Yes.

2583. Who designs the sets for you?—The staff engaged on the work.

2584. The radio engineers?—Yes.

2585. Surely, the purchase of parts which are not specialised, which are in themselves common to all forms of radio, would be better bought through the normal Government channels, would they not?—It

is probably quite right that a great deal of the basic stuff is of common type, but whether it would be better to have it all bought through other Government Departments I am afraid I am not competent to say. I just would emphasise that there are large numbers of highly expert technical staff attached to this establishment, and I am doubtful as to whether other Government Departments would be better able to buy than they are.

2586. Were they in contact with the people who were developing Radar?—I am afraid I cannot answer that. I doubt if the two sciences come together.

Mr. Benson.] May we know something about the Code and Cypher School yet—what they do and why they do it?

Chairman.] I suspect you have asked that question before, have you not?

Mr. Benson.

2587. No. I merely asserted our right to ask the question. I was wondering whether we might have a little information now the war is over?—(Sir Orme Sargent.) I am afraid it is just as difficult to give the answer now as it was during the war.

2588. I see in your Research Department you have re-graded certain posts. You have apparently down-graded a number of people?—(Mr. Crombie.) I think it was a change in numbers rather than in grading.

2589. In the explanatory note it says "re-grading"?—(Mr. Sherwood.) I think it would be right to say that there was some up-grading and some down-grading, and also a reduction of numbers, and the net result was a saving in expenditure.

2590. With regard to passport fees, the receipts are $3\frac{1}{2}$ times as much as you estimated. Was there any reason for that? I thought by the end of last year there was not very much travelling in Europe. This carries us to March, 1945?—(Mr. Crombie.) The explanation is that it was mainly due to increased travel to the liberated countries of Europe.

Chairman.] Are there any further questions on the Account? May I take it that the Account is approved? (Agreed.)

VOTE 2.

DIPLOMATIC AND CONSULAR ESTABLISHMENTS, ETC.

Chairman.

2591. Will Members turn to the Report of the Comptroller and Auditor General, page v, paragraph 7. This deals with sub-accountants and other balances. The Comptroller and Auditor General states: "In paragraph 8 of my last Report I referred to the considerable expenditure up to 31 March, 1944, which the Foreign Office had been unable to include in the account for 1943, and to the fact that the sums drawn by the Foreign Office from Votes of Credit

exceeded by some £7,900,000 the expenditure recorded in the relative accounts. At 31 March, 1945, the corresponding excess of Vote of Credit drawings over expenditure brought to account was about £12,500,000. Nearly 75 per cent. of the total represented uncleared advances to the Protecting Power in charge of British interests, mainly in the Far East." The Protecting Power is Switzerland, is it not?—(Sir Orme Sargent.) Yes, that is Switzerland.

2 April, 1946.]

Sir ORME SARGENT, K.C.M.G., C.B.,
Mr. J. I. C. CROMBIE and Mr. L. R. SHERWOOD, O.B.E.

[Continued.]

2592. That means that some £8,000,000 or £9,000,000 has been handed over to the Swiss in order to deal with our interests in the Far East that has not yet been accounted for?—They have not been able to account for that yet. We have had great difficulty in getting the accounts in, because of the difficulty or communications with the various posts abroad.

2593. If 75 per cent. represented uncleared advances to the Protecting Power, the other 25 per cent. must have represented something else. Can you tell us about the other 25 per cent.?—(Mr. Crombie.) The total, as the Comptroller and Auditor General said, is round about £12,500,000. Of that the actual figure in respect of advances to Protecting Powers is £9,000,000. The balance is made up in this way: The first item is expenditure amounting to about £312,000 which has been incurred on behalf of other Government Departments. There are continuous accounts between the Foreign Office and other Government Departments, particularly in regard to expenditure abroad. We pay accounts for them and they sometimes pay accounts for us, and the balance represents the sum I mentioned of £312,000, which we expect to recover from other Government Departments. Up till then it had been met by advances out of the Vote of Credit, but we expect in fact to recover the full amount of £312,000. Then the next item is a group of suspense accounts amounting to £470,000. These represent *ad hoc* accounts between ourselves and other Governments, other Government Departments and some individuals, where there are still points of dispute between the other parties to the account as to where it should be chargeable—whether it should be recoverable from the other parties. Actually of that £470,000 a sum of about £300,000 represents relief given by Consular officers to distressed British subjects. A considerable proportion of that may be repayable when the accounts of the individuals have been fully examined. The next item is a sum of £560,000 odd, which represents expenditure on B Vote of Credit Services. I expect I need not describe what they are; they are forms of expenditure which do not enter into this account at all. They will be dealt with on the Vote of Credit. (Sir Gilbert Upcott.) They are outside the ambit of the Diplomatic and Consular Vote. They will come before the Committee when the Vote of Credit Report is before them. (Mr. Crombie.) The biggest remaining item is a sum of £2,200,000 odd representing advances to Foreign Office sub-accountants all over the world. Since the Vote for 1944-45 was closed, we have established that some £1,600,000 was properly expended on Foreign Office business, but was not examined, and, therefore, could not be charged into the Account for 1944/45. That leaves, as compared with the £2,200,000 I mentioned, a balance of something like £600,000. That represents simply

cash in the hands of Foreign Office sub-accountants all over the world, and as there are about 200 of these sub-accountants, it does not in our view represent sums in excess of the needs of the posts.

2594. That is to say £1,600,000 out of the £2,200,000?—appears to have been properly spent.

2595. That has been properly spent. You have satisfied yourself on that?—Yes, but it could not be cleared in time.

2596. In normal conditions it ought to be cleared in time?—Yes, certainly. (Sir Gilbert Upcott.) That is all very well, but, of course, the lag has accumulated all over again. It is really a question whether they are catching up or not. We are now dealing with 1944.

2597. I was going to ask Mr. Crombie whether he was making any progress in overtaking the arrears of accountancy?—(Mr. Crombie.) In general we have not made anything like the amount of progress we should have liked to make, but that, as Sir Orme said, is due to the fact that we have had a very big block of accounts from the protecting powers, amounting to some £4,000,000 or £5,000,000, added to the amounts outstanding in the previous year, and, obviously, that takes a great deal of time to overtake. (Sir Gilbert Upcott.) I am not criticising the Foreign Office, as I said last year, for this trouble which I thoroughly appreciate, but the Committee should not be under the delusion that things are better than they are. (Mr. Crombie.) What I should like to say is that there will not be any further big outstanding accounts from protecting powers, so that we should be able to start overtaking the mass now.

Chairman.] Are there any questions on paragraph 7 of the Report of the Comptroller and Auditor General?

Mr. Douglas.

2598. Out of the £2,200,000 you said £600,000 represented balances in the hands of sub-accountants. Do you get a certificate from anybody to verify the net balance?—An independent certificate?

2599. Yes. (Mr. Sherwood.) Yes. All balances at the end of every quarter are certified by all posts. In so far as the balance is held in a bank the banker gives a certificate. If it is held in the safe the head of the post certifies that he has verified it and holds it.

Mr. Benson.

2600. I am not quite sure that I clearly visualise what a sub-accountant is and what a post is. Could you give me some idea?—(Mr. Crombie.) A post may be an embassy or a legation or a consular post.

2601. Really, the whole of your foreign establishment?—Practically the whole of our establishments abroad.

2 April, 1946.]

SIR ORME SARGENT, K.C.M.G., C.B.,
Mr. J. I. C. CROMBIE and Mr. L. R. SHERWOOD, O.B.E.

[Continued.]

2602. The whole establishments abroad hold about £600,000 in cash?—Yes.

2603. How often are they supposed to render complete accounts—every twelve months?—(Mr. *Sherwood*.) Quarterly, and remissions of funds which keep these balances fed occur about every three or four weeks. In other words, a post is not supposed to take more than four weeks' supply of funds at a time.

2604. £600,000 is a good deal more than four weeks, is it not?—No, I think that would be about right. Washington, for instance, takes 750,000 dollars every three weeks. It is much more than the Vote charge in a case like Washington, because Washington feeds all His Majesty's Government dollar requirements in the United States, apart from purchases.

2605. All your requirements other than purchases?—Yes.

2606. Irrespective of on what Department they fall? For example, if we send over to Bretton Woods or if we send over to U.N.O., then the Foreign Office provides the dollars?—For all Foreign Office missions. I do not know whether the Treasury officers can help more over this. (Mr. *Jones*.) The wartime Missions are financed separately from the Foreign Office. I think Mr. *Sherwood* means that the Foreign Office, drawing for Washington, are responsible for all Diplomatic and Consular posts in the United States of America.

2607. It is the Foreign Office posts that go through Washington?—(Mr. *Sherwood*.) Yes.

2608. With regard to the protecting power, who was the protecting power in the Far East?—(Sir *Orme Sargent*.) Switzerland.

2609. They seem to have spent some £9,000,000. Do they act on their own judgment or do they consult you before incurring expenditure?—We have to rely upon their own judgment in most cases, because after all we have no means of forming a judgment.

2610. They acquaint you with what they think is right?—Yes.

2610A. Is the same strict audit applied to their expenditure as it is to our own?—(Mr. *Crombie*.) May I deal with your first point first? You asked how far we controlled the expenditure?

2611. Yes?—A basis has been agreed with the protecting powers for actual amounts. By and large the amounts to individuals are limited to sums of £10 to £15 a month, but there is provision for higher rates in special cases where the living costs are high, and also there is provision for special issues to meet heavy expenses like medical expenditure. But there is some basis agreed between us and the protecting powers as to the amounts they should issue

in relief cases. As regards scrutiny of the accounts of the protecting powers, that is the big block of work which we have been explaining has still to be done. Some £5,000,000 out of a total of £14,000,000 has already been examined and disposed of, and in general it is quite clear that the accounts of the protecting powers are very, very fully prepared, show a high standard of accounting technique, and we have no reason to think that anything has gone amiss in their expenditure of funds. We are catching up on it. So high is the standard of accounting technique as shown in the examination up-to-date that the Treasury have agreed, I understand, that the balance of £8,000,000 may in fact be charged to the accounts, subject, of course, to later scrutiny with a view to possible recovery from the individuals.

2612. The whole of this money is spent on the assistance of individuals, is it?—And administrative charges, too.

2613. And administrative charges. That is inevitable. They are individuals in enemy territory?—Yes.

Chairman.

2614. Or enemy controlled or enemy occupied countries?—Yes.

Mr. Benson.

2615. In territory under enemy control?—Yes.

Chairman.

2616. I should like to ask the Treasury Witnesses whether they are satisfied with that position or whether they have any comment to make?—(Mr. *Jones*.) We are satisfied that the Foreign Office are doing all they can to catch up to date. With regard to the reference to the Treasury agreement to charge this sum of £8,000,000 to the Vote, we were satisfied that the standard of accounts rendered by the Protecting Powers was very high indeed. The work that actually remains to be done is mainly in setting up personal accounts against persons who had received aid from the Protecting Powers, with a view to recovery; that is a long job dissecting and analysing the accounts over the war years, and building up individual accounts, which is the block of work which the Foreign Office have yet to tackle for the Far Eastern territories.

Mr. Benson.

2617. May I ask one further question on that point? On what basis do you make recoveries? Is it rigidly enforced or is it treated with generosity?—(Mr. *Crombie*.) We hope on a reasonably generous basis. It certainly would not be enforced in cases where hardship would result. We examine the financial circumstances of the individual. In many cases, of course,

2 April, 1946.]

Sir ORME SARGENT, K.C.M.G., C.B.,
Mr. J. I. C. CROMBIE and Mr. L. R. SHERWOOD, O.B.E.

[Continued.]

deposits have already been made against relief payments by relatives or people who have credit accounts. It is certainly true to say that repayment is not insisted upon where hardship would be involved. (Mr. Jones.) And I should perhaps add that there would be a heavy writing down of

the advances in the Far East because of the high rate of exchange at which we acquired the Japanese currency.

Chairman.] Are there any further questions on paragraph 7 of the Report of the Comptroller and Auditor General?

(Mr. Crombie and Mr. Sherwood withdrew.)

TREASURY MINUTE ON PARAGRAPH 7 and 8 OF THE SECOND REPORT OF THE COMMITTEE OF PUBLIC ACCOUNTS, 1945.

Mr. A. J. S. WHITE, O.B.E., and Mr. R. DAVIES called in and examined.

Chairman.

2618. We turn to a group of matters which all affect the British Council. We have a Treasury Minute on paragraphs 7 and 8 of the Committee's Report of last year. The Committee, in paragraph 8 of their Report, said: "Your Committee also welcome the information that the Council have been discussing with the Treasury a proposal to set up an internal audit department, and have decided to put it into effect." The Treasury in their Minute say: "My Lords have approved the proposal that the British Council should set up an internal audit department." Has that in fact been done?—(Sir Orme Sargent.) That has been done now. The appointment has been made, I understand. (Mr. White.) Yes.

2619. And the staff assembled, and so forth?—Yes. Sir Cameron Badenoch, who was Auditor General in India, has been appointed as the first Director of our Audit Department, and one or two assistants have already been appointed for him.

2620. The Treasury in their Minute continue: "Their Lordships endorse the Committee's desire that the accounts of the Council for any year should in future be rendered to the Comptroller and Auditor General sufficiently early to permit of his examination being completed in time for their consideration by the Public Accounts Committee along with the Appropriation

Account for the same year." That also has now been achieved, has it not?—Yes. We got the accounts in by October this year. They had to be amended in one or two respects, so they were not resubmitted till about February, but they were originally sent in in October.

2621. We have had furnished to us the accounts of the British Council for two years, but the accounts for the year 1943/44 were dealt with, I think by the Public Accounts Committee last year, although they had not been certified. Is not that right, Sir Gilbert?—(Sir Gilbert Upcott.) Yes. They were considered by the Committee in advance of certification. The accounts for 1943/44 and 1944/45, on this occasion, I was particularly anxious should be before the Public Accounts Committee after audit, but I ought to draw the attention of the Committee to the fact that, as I say in my letter to the Treasury, I have certified the accounts for 1944/45, subject to the broad qualification that I have not yet seen the reports of all the professional auditors who deal with the accounts in the various institutions of the Council abroad. Therefore, my certificate is subject to that qualification, and it is possible that questions may arise when I have seen those reports to which I may have to refer later.

Chairman.] Has any member of the Committee any questions to ask on the Treasury Minute on paragraphs 7 and 8?

CIVIL APPROPRIATION ACCOUNTS, 1944.

CLASS II.

VOTE 2.

DIPLOMATIC AND CONSULAR ESTABLISHMENTS, ETC. (continued).

(Accounts of the British Council for the years ended 31st March, 1944 and 31st March, 1945, and Comptroller and Auditor-General's letter to the Treasury on the 1944-45 Accounts.)

(Report of the British Council, 1944-45.)

Chairman.

2622. Will Members turn to paragraphs 8 to 12 of the Report of the Comptroller and Auditor General on pages v and vi. I think we can take paragraph 8 by itself, and then, perhaps, take paragraphs 9 to 12 together, dealing with paragraph 12

separately, which refers to the accounts of the special company. Paragraph 8 shows that for the year ended 31st March, 1945, the net expenditure was £2,215,000. "The expansion of the Council's activities," the Comptroller and Auditor-General states,

2 April, 1946.]

Sir ORME SARGENT, K.C.M.G., C.B.,
Mr. A. J. S. WHITE, O.B.E., and Mr. R. DAVIES.

[Continued.]

"did not proceed as rapidly as was anticipated, and the grant in aid of £2,460,000 issued under Subhead J of the Vote resulted in the increase of the balance in the Council's hands from £256,927 brought forward from the preceding year to £501,566." Actually, whilst your net expenditure was, I think, £2,200,000, you estimated for an expenditure of £3,500,000?—(Mr. White.) Yes, that is so.

2623. It seems that your expenditure was very much less than you had anticipated at the time when you drew up the Estimates?—Yes.

2624. Can you explain that?—There were several factors. We thought there would be a chance, probably, of getting into Europe earlier than we did get in. But I think more important than that, we thought that with any luck travel facilities would improve, and we estimated too much for foreign students coming over from Latin America and the Middle East. Travel did not improve. The paper shortage continued, so that our Estimate for publications was very much under spent. It is very difficult to foresee in the Council's Estimates what opportunities we are going to have in a country, and our ability to spend money depends on travel and on facilities being given by foreign Governments. Another difficulty was, of course, that of getting staff, so that we had a very large number of unfilled posts. There was a big saving on that.

2625. Then the carry forward was increased to just over £500,000, as a result of the grant in aid being £240,000 or so in excess of the expenditure. £500,000 does seem rather a large carry-forward for you to have on an expenditure of £2,250,000?—Yes, I think it was rather excessive. It is difficult. We had fairly large sums tied up. For instance, we had a loan of £114,000 to the Book Export Scheme. (Sir Gilbert Upcott.) Pardon me, but that is not in the £500,000. That is not in the corrected figures. That £100,000 would raise the balance to £600,000. (Mr. White.) I beg your pardon. That does not arise in the corrected figure. Then we had cash holdings of sub-accountants abroad, amounting to £95,000. There are 45 of those spread all over the world. They have to have balances in hand: I think that sum is unavoidable. There were one or two other sums tied up. There was £44,000 deposited with the Foreign Office against future claims from missions which come in subsequently. I think all those sums are unavoidable, but the bank current account in London totalled £298,000. That is a very high sum. We have to keep a pretty big sum in hand to meet demands coming in afterwards which have to be met from the grant in aid of that year. But I admit that that was an unduly large sum, and we need not have provided anything like that amount. In this year which has just closed the sum in hand was just about £100,000

as compared with that £298,000, so I think that does show that we can keep it lower than that.

2626. You are adopting a new form, I think, in the current estimates. You are splitting your requirements between the Foreign Office and the Colonial Office now, are you not?—Yes, that has been done in the last two years, this current year and the year before. Some of it is shown on the Colonial Office Vote.

2627. And will some be shown on the Dominions Office Vote?—No. Any expenditure in the Dominions is still shown on the Foreign Office Vote. (Sir Gilbert Upcott.) That should not affect the Council's accounts or the Council's balance. Those are merely the sources from which they get their money. That should not, subject to anything the Treasury may have to say, affect the amount of the balance which they hold.

2628. I suppose the Treasury would agree that £500,000 is a quite unnecessarily large amount for the British Council to carry forward as cash in the till?—(Sir Herbert Brittain.) Yes. I think at that time the British Council were being treated on a rather generous scale, and since then they have been restricted to a less generous standard.

Chairman.] Are there any questions on paragraph 8 of the Report of the Comptroller and Auditor General?

Mr. Thurle.

2629. You said, in connection with the unexpended money, that part of it was due to the fact that you did not bring some students from Latin America over to this country. Was it part of the policy of the Council to bring numbers of students from Latin America?—(Mr. White.) Yes, it was definitely so at that stage of the war. Earlier in the war we did not encourage them to come, but by the year in question we were offering a fairly large number of scholarships. The competition was not keen because people would not face the journey.

2630. What are you expecting to achieve by that?—We are expecting to achieve goodwill for this country on the part of the students who come and get their education here.

2631. Is it within the discretion of the Council to decide on an issue of that sort, as to how it will spend its money? Have you to get the authority or approval of the Foreign Office or some other body?—Very definitely. The Foreign Office go through all our estimates for the allocation of the money for foreign students every year, and the Colonial Office do the same with the colonial students, but the general policy of spending money on students was laid down right at the beginning of the British Council in 1934, when we took over some sort of

2 April, 1946.]

Sir ORME SARGENT, K.C.M.G., C.B.,
Mr. A. J. S. WHITE, O.B.E., and Mr. R. DAVIES.

[Continued.]

students' committee to bring students over that was already in existence, and then the Foreign Office were very much in on the shaping of that policy, and the Treasury presumably approved of it, because they knew about it from year to year. It is a thing that has been going on since the very beginning of the Council.

2632. There is one other question. You say you have considerable sums of money held at your various posts. What is the point of having that money at those posts? I take it the distressed citizens have not any right to go to you, as they might go to a consular office, for assistance. I wondered why you should need to have such a considerable amount of money at these posts?—The money would not be used for that purpose. It would be used for the ordinary disbursements of the Council really. If we were supporting a British school or paying the local salaries in a British institute, in Cairo, for instance, the money would have to be there to be paid out as it was needed.

Mr. Douglas.

2633. Do you supply to the Foreign Office before the beginning of each year a detailed estimate of your contemplated expenditure?—Yes. Our Estimates do go to the Foreign Office in great detail. Actually, they come in at an earlier stage than that, because our Estimates, as soon as they are framed within the Council, go to a Budget Committee of the Council. It is a sub-committee of the Council Executive Committee on which the Foreign Office is represented.

Mr. Benson.

2634. Did you have the £500,000 actually in cash or was it a credit with the Paymaster-General?—We had that actually in the bank.

Chairman.

2635. Are there any further questions on paragraph 8? We pass to paragraphs 9, 10 and 11. In paragraph 9 the Comptroller and Auditor General states that the British Council's estimates for 1943 and 1944 were drawn up on a new basis and the accounts followed the same form. The expenditure is sub-divided now under four headings, personnel, general services, functional services and extraordinaries. We have been furnished with the British Council accounts for 1944. Members might like to have them in their hands at this stage. You will see the four headings on the right hand side of the account. Perhaps, Mr. White, you would explain to us what are the boundaries, so to speak, of each of these four classes of expenditure—personnel, general services, functional services and extraordinaries?—Broadly speaking, personnel would be salaries of staff. General services would be the general maintenance of British institutes abroad and any other institutions we are running—the support of

British schools, and so on. Functional services would be to cover the supply of films and materials—books, periodicals and so on. Extraordinaries means capital expenditure which would be, for instance, on buildings for institutes or schools or equipment of Council offices, decoration and adaptation of premises, and furniture.

2636. So that all capital expenditure really would come under the heading of "extraordinaries", would it?—Yes.

2637. The Comptroller and Auditor General says that the accounts follow the same form as the estimates, but I am not quite sure whether this year's estimates follow the same form as the accounts. You do not distribute your projected expenditure in the estimates, do you, under these four headings?—We did then. We do not now. In the new estimates that have gone forward for the coming year we have adopted the Parliamentary form—the form that Government Departments ordinarily take.

2638. You are adopting the ordinary common form, so to speak, as regards the division of the headings, are you?—In the estimates for the coming year.

2639. In the estimates for 1946?—Yes.

2640. May that ultimately involve some change in the form of these accounts which we have before us?—Yes, it will. We shall have, presumably, to put our accounts in the same form. (Sir Gilbert Upcott.) That follows. The accounts must always follow the form of the Estimates. That is an essential rule of Government accounting. Otherwise you have no check at all.

2641. So that the accounts will only be presented in this form to this Committee in respect of two years, 1944 and 1945?—(Mr. White.) In respect of the year succeeding this year, the year 1945, presumably, but in the year 1946 they should take the form in which they are displayed in the Estimates.

2642. Paragraph 10 sets out the main headings of expenditure. The largest single item, Sir Gilbert says, was that for films on which £112,350 was expended in 1943 and £151,325 in 1944. Would you tell the Committee how you manage the production of films? Do you produce your own films or do you pay somebody else to produce them? What is the procedure?—We have no producing unit for films, but we go to private film companies to produce our films for us. That arrangement is about to cease, because of the setting up of this Central Office of Information, and in future we shall go to them for our films.

2643. In future the Government will produce its own films?—Presumably all films required for any Government Department or for any body like the British Council, using public funds, and those films will have to be produced by or through the Central Office of Information, so that we shall have to go to them and say we want a film.

2 April, 1946.]

Sir ORME SARGENT, K.C.M.G., C.B.,
Mr. A. J. S. WHITE, O.B.E., and Mr. R. DAVIES.

[Continued.]

2644. There will not, therefore, continue to be any direct relations between the British Council and the film producers?—No.

2645. The expenditure takes the form, I suppose, of producing films, which will enhance British prestige overseas? Is that it?—That is the general idea. They cover a big range. There are educational films, chiefly suitable for showing in schools. We have other films primarily intended for British institutes.

2646. There is a considerable item for books and publications. The figure has risen from £136,000 in 1943 to £298,000 in 1944. The latter figure included an advance of £100,000 to the subsidiary company or the special company, so that the true figure of expenditure on books was £198,000 in this year?—Yes.

2647. Is any of that money recovered eventually? Are these books given away or do they furnish libraries or are they sold?—None of these books are sold. A good many of them remain an asset in the sense that they remain in our own British institutes and therefore remain our property. That figure of £198,000 is the net figure after certain receipts, because this head covers "Britain To-day," and it covers our own publications, by which I mean the booklets that we produce for ourselves for our own use.

2648. What is the expenditure under the "Press" heading amounting to £55,000 odd?—We have a department called the Overseas Press Department. It has sent out a regular weekly letter about Britain overseas and it sends out individual cultural articles, usually to meet the demands which our representatives send home to us, saying that articles are wanted for insertion in periodicals on such and such subjects. We commission the articles and send them out.

2649. You mean the £55,000 goes to the authors of the articles?—Some of it goes in fees to the authors of articles. Some of it goes on air mail postage, which is fairly heavy.

2650. You do not make payments to foreign newspapers for insertion of our articles?—No, we do not have to purchase space.

2651. In paragraph 11, in the middle of the paragraph, Sir Gilbert says he understands "that professional auditors have now been appointed for all the larger countries in which the Council operates." Can you confirm that that has been done?—Yes. There are auditors now in each country except China, which I think is the only exception. (Mr. Davies.) There are rather more exceptions than that. There are a certain number of countries, notably in Europe, where we still have no auditors.

2652. When you have auditors, are they nationals of the country concerned or are

they British auditors operating abroad?—They are all British. (Sir Gilbert Upcott.) My information is that where no professional auditors are available local representatives have been instructed to transmit sub-vouchers.

2653. You could not find a British auditor in Ethiopia or the Belgian Congo?—(Mr. Davies.) Yes. In Ethiopia the accounts are audited by Russell and Company from Cairo. They have to send a man there.

2654. You can secure the services of reputable British firms virtually all over the world?—Not in every country, but in a great number of countries. The firms who are employed are Russell and Company, Price Waterhouse, Castleton Elliott, Deloitte Plender Griffiths, Nichols, Barton Mayhew, and in the case of Turkey we found an individual accountant to do our auditing for us. (Sir Gilbert Upcott.) I think it is generally possible to cover a very wide area in East Africa and the Middle East from Cairo, as I do in fact in the case of my own staff.

2655. I was going to ask Mr. White if he can give us some idea of the number of territories where there are no professional auditors and the amount of expenditure involved where there are no professional auditors?—(Mr. White.) I cannot give the figure, but I should think it must be very small. In Latin America there would be a good firm of auditors, Deloitte Plender Griffiths, or one of them, in practically every capital city, even in the smaller countries in Latin America, and certainly in any countries where our expenditure is large. In countries like Egypt there would be good professional auditors there.

2656. But it must be almost impossible to make a satisfactory audit from here of expenditure in some very remote part of the world, must it not?—Yes.

Chairman.] Are there any questions on those three paragraphs of the Report of the Comptroller and Auditor General or on the accounts?

Mr. Thurtle.

2657. I wondered what determines the degree of activity of the British Council in a given area. Does the Council work in conjunction with the Foreign Office as to how much it does in a particular country?—Yes. In that respect we are in very close touch indeed with the Foreign Office.

2658. I see that in Turkey, for example, the personnel cost £122,000, and in Egypt it cost £66,000. In cases of that sort, where you do spend a great deal of money, it is because the Foreign Office wishes that money to be spent there?—Yes.

2659. Is that the rule with all your activities, that you are guided always by the wishes of the Foreign Office as to the activity you carry out?—We are guided as

2 April, 1946.]

Sir ORME SARGENT, K.C.M.G., C.B.,
Mr. A. J. S. WHITE, O.B.E., and Mr. R. DAVIES.

[Continued.]

to the emphasis we put on any particular country almost entirely by the Foreign Office. As to the sort of activity which we undertake in that country, as opposed to any other activity, that also is a matter for consultation with the Foreign Office.

Sir Frank Sanderson.

2660. There is a point I want to raise on the accounts with regard to bank interest. In the Accounts for the year ended 31st March, 1944, there is an item of £1,412, for bank interest. The same item does arise in one or two other places. Am I to understand from that that there are countries which are in a position to expend in excess of the amount which has been granted to them? I find it rather difficult to understand how bank interest can arise, assuming the usual principle is adopted, of making a grant for a specific amount of expenditure?—I think the main item of bank interest would be the money we receive from interest on sums held in the bank, when we have received a sum from the Foreign Office or the Treasury and have not yet spent it.

2661. From money which has been placed on deposit?—From money placed on deposit, yes.

2662. And the Department has received a credit of interest on money not expended?—Yes. We receive our grant in aid by regular portions throughout the year, and the rate of expenditure varies, so there may be a time lag in spending, and that would produce bank interest for it.

Mr. Benson.

2663. That is on the half million you have got?—On that there would be a big bank interest, yes.

Sir Frank Sanderson.

2664. On the item to which the Chairman has already made reference, films, a figure of £151,325, are you satisfied that the money expended for films is, I was going to use the word "necessary"—but what I want really to be satisfied about is that the money expended by this Department does not overlap any money expended on films by other Government Departments. In other words, are the same films being produced twice for the same purpose by two different Departments? Is there no overlapping?—That is a point we watch very carefully, because obviously there is scope for overlapping or duplication, but we have compared notes extremely carefully with the Ministry of Information, just in case they would be producing films on the same subject. There has been no fear of duplication, anyhow during the last year or two, because we compared our programmes beforehand, so there is no fear of our making a film on the same subject. There would be no other organisation, I think, making films for overseas. As regards whether any films are made by Government Departments, for instance, for home use, which might be useful

to us for overseas, we are always short of films for abroad, and so we are looking about the whole time to see what films there are that might be suitable, adapted if necessary, for our purposes abroad. But the possibility of duplicating will be reduced very much by this new arrangement, by which we have to go to the Central Office of Information to get the films made.

2665. Is the new arrangement working satisfactorily?—It has not come into force yet, because it only started yesterday.

2666. It may be recalled that I raised the same point, I think it was last year or the year before, and it was generally accepted that there was overlapping, but there was money being wasted which could reasonably be saved by a judicious arrangement between this Department and the Ministry of Information. That you say has now been done?—Yes. I do not think there has been any duplication in the past year, for instance.

Mr. Douglas.

2667. According to the Balance Sheet there was, in the second of these years, a sum of nearly £300,000 cash in bank. £1,000 of interest seems rather a small amount to recover on such a large amount of balance?—I suppose the money does not remain on deposit long enough to earn much interest.

2668. According to the accounts for the second of these years it does not appear to be on deposit at all. In the first of these years you show £100,000 on deposit. Why, when the balance is increasing, should the deposit account be cancelled—I do not know whether Mr. Davies can answer that. (Mr. Davies.) Part of it was on deposit in the second year, although it does not show like that in the Balance Sheet. I think the reason why it has earned so little interest is that we had not this large sum for a very long time. We took in a substantially greater amount from the Foreign Office towards the end of the year, as we were anticipating being able to make a good many payments which in fact we were not able to make before the end of the financial year.

2669. Even so, is it not good policy to put the money into a deposit account in the first place, and to transfer it into current account from time to time, as you need it?—I think it was only drawn, perhaps, one month before the end of the financial year. I think we drew something like £200,000 about that time.

2670. But your account shows that at the end of the year you had £298,000 in the bank?—(Sir Gilbert Upcott.) It depends when they drew the bulk of their grant in aid. They might have drawn the bulk of their grant in aid in March, 1945. (Mr. Davies.) When the grant in aid was considerably smaller we used to draw one-twelfth of it at the end of each month.

2 April, 1946.]

Sir ORME SARGENT, K.C.M.G., C.B.,
Mr. A. J. S. WHITE, O.B.E., and Mr. R. DAVIES.

[Continued.]

When our grant became very large it was found that that was apt to produce large balances, and the Foreign Office began to ration us to something more nearly corresponding to our actual needs, and we were rather apprehensive of an overspending towards the end of this year. We have over-spent, the Committee will remember, before, and we did not wish to run any risk of that, and because of that we drew money from the Foreign Office on an unnecessarily large scale towards the end of that year, but it was not with us for very long on that scale.

2671. I have a little difficulty in understanding why, in order to prevent an over-spending, you draw a large sum of money?—Because if we short draw we are not entitled to come back after the end of the year and ask the Foreign Office to give us more money from a grant which we did not draw before the end of the year. Even if we short-drew by £1,000,000 we still should be described as having over-spent if we over-spent the actual cash which we had drawn.

Mr. Douglas.] I am sorry, but I cannot see that.

Mr. Benson.

2672. On that point, is that quite accurate? A grant in aid carries on, does it not? If you have a grant in aid it does not matter whether you have spent it by 31st March or not, you can still draw on it after the end of the financial year?—No, we have not been allowed to do that. (Sir Gilbert Upcott.) If you have drawn a grant in aid, you may retain the balance, but if you have not drawn a grant in aid, if it has not been issued, it is surrendered.

Mr. Douglas.

2673. Precisely. The explanation is the precise opposite of that which the witness has given, that they drew the money in order to make sure that they could have it and spend it?—(Mr. Davies.) In order to cover an expectation of spending some of it, which was not in fact realised.

2674. It is not correct to describe that as being done in order to prevent over-spending, is it?—If we had not drawn the money, and then we had realised our expectation of spending, we should have been described as having over-spent our grant in aid. (Sir Herbert Brittain.) There are two safeguards. First, the subjects of expenditure and the amount on each subject are controlled by the Foreign Office and by the Treasury. The second safeguard is that if there is an excessive balance in the bank at the end of one financial year, that balance is taken into account in fixing next year's grant in aid.

2675. Yes, I understand that perfectly. You said that the column headed: "Extraordinary Expenditure" represented

capital expenditure. Is it entirely capital expenditure?—(Mr. White.) If you call purchase of furniture capital expenditure, yes.

2676. Assets of some degree of permanence. Is that right?—I suppose anything non-recurrent would come under that. For instance, if we decided to give not a regular annual grant in support of a British school but a sum definitely for one year only, it would come under that heading.

2677. To take the items which can properly be described as capital items, whose property are they?—That would vary. If the money is used for purchasing furniture for a British institute, one of our own concerns, the property remains ours; but we make a capital grant to what we call an Anglophil society in Latin America, which would be a Latin American institution, and that would not be our property in that case.

2678. Have you an account which shows how much of this capital expenditure is your property?—No, I do not think we have figures which would show at a glance what proportion of this remains our property, but we have, of course, stock books for all our areas, showing the value of our property in those areas.

2679. So that if an inventory were taken at any time you could check it against these books?—Yes.

2680. Has any inventory ever been taken at any time anywhere?—Yes, an inventory of our stock abroad has been going on during the last year or two. I think two years ago we instructed all our representatives abroad to prepare inventories of all the Council's property under various headings—buildings, stocks of books, libraries, cars and other vehicles, and so on, and also to prepare statements of the insurance which had been effected to secure that property. We have not yet received the complete invoice for all Council property overseas. That system is being operated and it is one of the matters which our new Audit Department is going to look after for us.

Mr. Benson.

2681. I should like to get clear the position of a grant in aid. With regard to an ordinary Government Department, it over-spends only if it spends more than the actual money appropriated to it. Is that not so?—(Sir Herbert Brittain.) Yes.

2682. And the question whether the cash has actually been paid on the 31st March does not matter?—No.

2683. If it is within its appropriation it has not over-spent; but where a spending organisation like the British Council is fed by grants in aid, it has over-spent if it does not actually draw the requisite amount of cash from the grant in aid and hold it in its own bank account? Is that correct?—There are two conceptions of over

2 April, 1946.]

Sir ORME SARGENT, K.C.M.G., C.B.,
Mr. A. J. S. WHITE, O.B.E., and Mr. R. DAVIES.

[Continued.]

spending here. The Committee will remember that the over spending on the part of the British Council which was criticised last year or the year before was the fact that they had been spending abroad and using moneys which were really, I think, owed to the Foreign Office; they had overdrawn on the Foreign Office, not necessarily against the grant in aid. It was a bank overdraft rather than an appropriation overdraft.

2684. The criticism of the British Council last year was that they had put themselves in the position of a department that had over spent its appropriation, surely?—(Sir Gilbert Upcott.) Yes; they had over spent their grant in aid. (Sir Herbert Brittain.) Both.

2685. They had over spent their estimates?—Both.

2686. Apparently there is a second form of over spending that can take place, where a grant in aid is the source of money, and that is that you can run up more debts than you have actually drawn cash to meet out of your grant in aid when it comes to the end of the year. Is that correct? That is what I understood the explanation to be—that if the British Council have a grant in aid of £2,000,000 and they spend £1,900,000 by the end of the financial year, but they have drawn from the Treasury only £1,800,000, they are not under spent but over spent by £100,000. Is that the correct position?—Yes, that is right.

2687. They have over spent?—Yes.

2688. Although they have spent less than their estimates, they have over spent, because they have not drawn the cash to meet their debts?—Yes, they have over spent, as compared with the cash they have drawn from the Treasury. They have not necessarily over spent, as compared with what Parliament authorised us to give them.

2689. I am trying to get at why they drew such a large sum towards the end of the year. Supposing they had failed to draw that large sum, what would have happened? Would they have been criticised for not having drawn enough to meet their debts, or would they be penalised in that, not having drawn to the maximum of their grant, the balance would then cease?—I suppose it would have shown itself, in the first place, in their having to over draw somewhere; they would not have the cash there. They cannot over draw now from the Foreign Office, but they might have been over drawing from a bank locally, or something like that. That is the mistake in that case.

2690. In fact, the grant in aid method is rather inflexible when it comes towards the end of the year?—I think it has proved fairly flexible on the whole. The period of the war was rather difficult, I think, with an account like that of the British

Council, where it was growing very rapidly; but in the ordinary Department which runs on fairly steadily from year to year, I think the grant in aid is flexible enough. (Sir Gilbert Upcott.) A grant in aid is a maximum, of course. Parliament votes, as it did in this year, £3,500,000 grant in aid. It might be said to them in the course of the year: "It is quite true Parliament has granted £3,500,000, but we do not think you ought to have more than £3,000,000." and in that case they must not spend more than they are allowed to draw.

2691. What I was trying to find out was the reason for the anxiety of the British Council to get their full sum?—I suppose they were afraid of getting into the same kind of trouble they got into a year ago.

2692. It would be, strictly, a different kind of trouble from that which they got into previously. I notice, Mr. White, that one half of your expenditure has been in five countries—Egypt, Iraq, Palestine, Persia and Turkey. All those countries if I remember rightly were in a very inflationary state. Have you suffered as a result of that? Has your expenditure been heavy on account of the very sharp rise in prices?—(Mr. White.) Yes, we have suffered very badly indeed, particularly in Turkey, and, to a slightly lesser extent, in Persia, and also in Egypt. In Turkey, for instance, the cost of living has been at certain stages during the past year or two 2½ times as high as in this country, and costs have gone up proportionately.

2693. The exchange rate of the Turkish pound was fixed?—The cost of living has not fallen at all.

2694. The Turkish pound exchange rate has not fallen?—I do not think it has.—(Mr. Davies.) No, it has been pegged at about five lira to the English pound, and there has been a special rate of 7.28 Turkish lira to the English pound available to the Foreign Office and to the British Council.

Mr. Haworth.

2695. May I put to you a question on films. The expenditure included the cost of equipping a film theatre for the use of the Council in London. In what circumstances would that be used? Is that for trying out films or for entertaining foreign visitors?—(Mr. White.) It would be for both of those purposes and certain others, but primarily to try out our own films, because we found we were spending such a large sum of money in hiring film theatres in Wardour Street just to try out our films. It also meets the cost of showing films to people over here from abroad, for instance, whom we want to interest in films, and various other purposes of the Council—so that our regional officers can see the films; and the film theatre is also used a great deal for lectures, and so on.

2 April, 1946.]

Sir ORME SARGENT, K.C.M.G., C.B.,
Mr. A. J. S. WHITE, O.B.E., and Mr. R. DAVIES.

[Continued.]

2696. With regard to films shown abroad, how do you have them shown? Do you offer them round through the film theatres, or have you theatres of your own?—There, again, there are several different ways of using them. I suppose there are three main ways in which our films are shown. One, in our British Institutes and Anglophil societies, of which there are rather more than 100 spread all over the world. Many of them have their own film theatres or halls in which the films can be shown. Secondly, there is non-theatrical distribution in schools. There is a great demand for British films to be shown in schools, in places like Buenos Aires and Istanbul, where there is regular showing by arrangement with the education authority. And there is the theatrical distribution, which is arranged quite separately, and for which we do get some small return.

Chairman.

2697. I want to put one question arising out of your answer to Mr. Thurtle with regard to your expenditure. You act under the guidance of the Foreign Office as regards your expenditure in foreign countries?—Yes.

2698. Spending small sums in one country and large sums in another?—Yes.

2699. So far as the Colonies are concerned, I take it you act under the guidance of the Colonial Office?—Yes.

2700. Looking at your published report for 1944-45, on page 13, under the heading "Activities Overseas" I see: "Sir Angus Gillan, Director of the Empire Division, left England for a tour of Australia and New Zealand to ascertain the demand for the Council's services in those Dominions." Nobody can take exception to your showing the British way of life to foreign countries or even to the Colonies, but when it comes to showing the British way of life to the Dominions, it seems going rather far, does it not?—We had understood that there was a demand in the Dominions for more information about the Mother country, and it was with the encouragement of the Dominions Office that we sent Sir Angus Gillan out to find out how strong the demand was. Actually, he found that the demand was very strong indeed, and he came back with letters from the Prime Ministers both of Australia and New Zealand, asking the British Council to set up offices in those Dominions.

2701. Whose authority would you have to get before you undertook expenditure on a considerable scale in the Dominions? To whom would you look?—The Dominions Office and the Treasury. We are waiting for that now.

2702. You could not undertake it off your own bat?—No. There is a recognised agreement with the Treasury that we

do not start in on any new territory without their sanction.

Mr. Douglas.

2703. I should like to ask Sir Herbert one question more about this problem of the grant in aid. Is it really desirable to insist that a body like this, which in fact is financed almost wholly by the British Government, should draw the whole of the money which it has been estimated that it would require, whether in fact it proves that it is likely to require it or not?—(Sir Herbert Brittain.) It does not have the money if there is any doubt about whether it requires it in the year. As I think I mentioned a little earlier on in the discussion to-day, we, perhaps, erred on the side of giving the Council the benefit of a rather heavy doubt about this £500,000 at the end of 1944-45, and we have been stricter since. That is a case where, if we had taken a stricter view, we should not have issued so much money to them at the end of the year.

2704. I understood the Witness to say that he drew the money in order to make sure of getting it, and if he had not drawn it he would not have got it?—I am not acquainted with the actual terms on which representations were made, either to the Foreign Office or to the Treasury, at the time, but if he got this money it was probably on the understanding that he persuaded either the Foreign Office or the Treasury that commitments were in sight of an appreciable amount which would justify the issue of this amount. That is the usual basis on which the balance of a grant in aid is asked for towards the end of the financial year.

2705. Let me put it to you conversely. Is there an obligation upon the Council to try to collect this money before the end of the year, because if they did underestimate a little the amount that they actually required they would not then get it after the end of the year, because they had not drawn it during the year?—If it were a definite commitment, they ought to get it before the end of the year, rather than throw it on to the next year's grant.

2706. What this does is exactly the opposite. It reduces the next year's grant by a balance of £600,000. Is that any better?—It has reduced it not by so much, because there would be always a working balance there, as has been shown, of perhaps £200,000 or £300,000. So the reduction was probably £300,000.

2707. I will not argue about the figure, but it produces even more inequality in the accounts to do it this way, does it not?—I do not know—I should have thought it was fifty-fifty. It might be one way or it might be the other.

2708. Very well. I do not seem to be able to make this simple point clear?—I am

2 April, 1946.]

Sir ORME SARGENT, K.C.M.G., C.B.,
Mr. A. J. S. WHITE, O.B.E., and Mr. R. DAVIES.

[Continued.]

sorry if I have misunderstood you, Mr. Douglas. (Mr. Jones.) Perhaps I could add this. When we agreed to the final issue of the grant in aid in this year of account we had anticipated that there would be a balance left in the Council of about £150,000, which we regarded as a reasonable working balance. The final issue must be made on estimated expenditure to be incurred before the 31st March. The estimate of the expenditure which was going to be made between the date of the final issue and the close of the year of account was out to the difference between this estimated sum of £150,000 and £500,000. The explanation of that is that the information as to the expenditure has to be collected from all over the world, and obviously nobody can have exact information in the middle of March as to what the position is at all these various posts at that date.

Chairman.] Are you satisfied, Mr. Douglas?

Mr. Douglas.

2709. When you talk about the expenditure incurred before the end of the year, do you mean the liabilities incurred or do you mean the cash required?—Spent as cash. This is entirely on a cash basis. We are not concerned here with commitments that may be incurred but not disbursed until the next financial year.

Chairman.

2710. I think we ought to pass on now to paragraph 12. We have thrashed this pretty hard, I think. Paragraph 12 deals with this subsidiary company, as it is called in the Comptroller and Auditor General's Report. That is the B.E.S. Company, is it not, whose accounts are attached?—(Mr. White.) Yes.

2711. What does "B.E.S." stand for?—That is Book Export Scheme.

2712. The Book Export Scheme Limited, is it?—Yes.

2713. The Balance Sheet is attached to the back of the Accounts. That Balance Sheet is in respect of the year ended March 31st, 1944. I should have thought that as the British Council Accounts deal with the year ended 31st March, 1945, we might have had the Balance Sheet for the same period. —I am afraid it has only just been produced.

2714. On the copy of the Accounts with which I have been furnished the name of the Accountants is not inserted. There is an address: 25, Coleman Street, E.C.2, but there is no name of the Chartered Accountants who audited the Accounts.—They were Chalmers Wade and Company.

2715. I should have thought, I must confess, that by March, 1946, we might have had a Balance Sheet for the year ended March, 1945.—Yes. I am sorry there has been delay over that. They have been very short of staff. The people who are running it are down at Blenheim, near

Oxford, and that makes communication with them more difficult. Our Auditor has been down there, looking into that question during the past month, as to how to speed up the accounts, and I think we can guarantee that they will be submitted more promptly in future.

2716. Neither the Trading Account nor the Balance Sheet are of a very elaborate character, and I should have thought there was not really much excuse for delay in the production of a Balance Sheet for the year ended 31st March, 1945. It is really a very simple account—although difficult to understand in some respects.—Yes. I am afraid the accounts section have been bothering too much on the details of their accounts.

2717. This company, as I understand it, is to assist the export of British books by means of facilitating the changes of currency and the transport and insurance, and giving guarantees, and so on. Is that right?—That is so.

2718. It buys books, I take it, from British publishers at wholesale prices here?—Yes. It varies rather in different areas. It does that. In some areas it merely arranges facilities for transport and for guarantee of credit, and it comes in on taking over books which are not required by the booksellers concerned. If the books purchased by the booksellers in this country are of the sort which the British Council can use afterwards, if the booksellers buy those books, then the Council guarantees to take books that after a certain period they have not been able to sell, and then the Council uses them for its own purposes. In other areas we come in to cover the time lag. For instance, in North Africa and one or two liberated territories there was such a lag between the time when the books were sent out and because of currency difficulties, the time when payment could be received by the publishers in this country, that we came in to cover that time lag. We paid for the books, and then recovered later, and that was done by capitalising this company.

2719. I must confess I do not understand why our enterprising publishers should not carry on the Book export trade in the ordinary way.—We wish they would set up some sort of arrangement like this, but as things are they do not do it, and this company was set up during the war at a time when facilities had to be given by some organisation, which I do not think the publishers could have arranged for themselves.

2720. You mean to say that the demand for books in the home market is so great that the publishers have rather disinterested themselves in the export trade?—I think it is true to say that they could sell what books they have at home, and that they were not immediately interested in selling them abroad.

2 April, 1946.]

Sir ORME SARGENT, K.C.M.G., C.B.,
Mr. A. J. S. WHITE, O.B.E., and Mr. R. DAVIES.

[Continued.]

2721. Normally, in the export trade, there would be a certain amount of delay in getting payment and a certain amount of risk of not being paid, but this company appears to eliminate those risks, so far as the publisher is concerned?—In areas where we think it necessary. We would not come in if the ordinary business arrangements could prevail, in normal times and normal circumstances.

2722. The Comptroller and Auditor General draws attention to some apparent errors made in the accounts. That is right, is it not, Sir Gilbert?—(Sir Gilbert Upcott.) Yes. That was a curious anomaly which had appeared. In one case they had treated an advance of £2,000 as simply an advance remaining an asset, and in the other case the £100,000 was treated in the Council's accounts as expenditure. That has been rectified and in both cases these sums appear as advances and remain assets of the British Council.

2723. Whilst that £100,000 is regarded as an asset by the Council, may we take it that it is a good asset—that the Council will one day get its money back?—(Mr. White.) Yes. B.E.S. Limited is a thing that is very much under the control of the Council, because we have two directors on the Board.

2724. I am not clear from these accounts whether B.E.S. Limited endeavours to trade at a profit or not?—B.E.S. does not attempt to get a profit, no.

2725. If it does not endeavour to trade at a profit and if it then makes a few losses, that £100,000 will quickly disappear, will it not?—(Mr. Davies.) In any transaction which involves a loss, the British Council gives it a subsidy on the budget of its Export Publications Department to compensate it. That £100,000 will be available in full for return to the Exchequer.

2726. It seems to me a very curious arrangement. You say if any transaction undertaken by the company results in a loss, a corresponding subsidy is granted by the British Council to the company?—(May I give an example? The Foreign Secretary recently instructed that books should be sent out for sale. Some were flown by air into various countries. Obviously, they could not be sold at a price which would cover that very expensive form of transport, so the Council is bearing the transport charge on its own funds, and is not meeting the charges out of the capital of the company. The books will be sold at a price which will cover all the other charges, so that the amount expended from the capital of the company will come back to it in full. These extraordinary charges are being met by the Council from its own funds.)

2727. The company does not aim at making a profit on any individual transaction?—No, it makes no profit.

2728. And if it looks like making a loss on any individual transaction, the British Council makes it good?—(Sir Gilbert Upcott.) It goes rather further than that. If I understand the accounts correctly, they do not even meet their overhead expenses at all. There is an account called the General Revenue Account which provides for their overhead expenses, which is fed entirely by the grant from the British Council. The sum charged for the sale of books is in fact the same as the sum paid for the purchase of books.

2729. There is a subsidy from the British Council in respect of overheads, and there is also a subsidy from the British Council in respect of individual transactions which would not balance?—(Mr. White.) Yes. (Mr. Davies.) When the company was set up it traded under the aegis of the Export Credits Guarantee Department. It had no major financial liability at all in respect of transactions, except for the sale and return clause to which Mr. White has referred. Then later on, when it came to trade in North Africa, the Export Credits Guarantee Department was debarred by its statutes from taking over financial responsibility except after the books had been for three months in the hands of the purchasers and the wholesalers and the booksellers had to be paid at a much earlier date. That is why B.E.S. Limited required funds of its own to pay for books.

2730. I am not quite sure that I have followed that. I am still very troubled about the need for the existence of this company. I cannot see why the British Council cannot do everything this company does, especially as it makes good all the overheads, and makes up any deficit which may arise in the course of the transactions?—I think it was thought improper that the Council as such should engage in trading operations.

2731. But the Council does engage in trading operations, I understand. It buys a great many books?—(Mr. White.) We do not buy and sell anything else. This would be quite an abnormal activity for the Council.

Mr. Douglas.

2732. What about films?—We do get some return from films, but it is only a very small return. The whole object of sending the films out is to put Britain across. We do not do that as a commercial venture at all.

Mr. Douglas.] I see. The smaller the return the more meritorious.

Chairman.

2733. At any rate, as far as the British Council is concerned, they think they will get this £100,000 back again which they have loaned to the company?—Yes, we do, because that £100,000 is unaffected by the subsidies we make or the extra expenditure

2 April, 1946.]

Sir ORME SARGENT, K.C.M.G., C.B.,
Mr. A. J. S. WHITE, O.B.E., and Mr. R. DAVIES.

[Continued.]

that is incurred on a special transaction by the company.

2734. This Balance Sheet and Account goes only to March, 1944. I take it there will be an annual subsidy from the British Council for the administrative expenses of the company?—Yes.

2735. They will pay that every year. Is not the net result that you are selling books abroad through this company cheaper than they otherwise would be sold abroad?—Yes, but as Mr. Davies explained over those books that were flown out, if one had charged the whole cost on the individual book the price would have been so high that the books would not have sold.

Mr. Davies.] In respect of those books we are charging the normal price which would have been charged if they had been sent by any normal form or carriage—the normal commercial price.

2736. A publisher engaged in the export trade has certain overheads to meet on insurance, and so forth?—Yes.

2737. Here the company conducts the business, but the British Council pay all the overheads. Therefore, there is nothing added to the price of the book at its destination in respect of the overhead expenses?—No, that is true.

2738. Therefore, a book is surely sold cheaper than it would be sold in the ordinary course of trade?—The supposition, of course, is that the ordinary course of trade is debarred in the case of these countries. The publisher is not in a position, for example, to send books to Hungary or Czechoslovakia at the present time.

2739. This company does not send books to countries where the publishers are able to send them?—No.

Chairman.] Are there any questions on paragraph 12?

Sir Frank Sanderson.

2740. I am afraid I am still not clear who B.E.S. Limited are. Whom do they represent? Who owns these shares? The capital is shown as 100 shares of £1 each. Who in fact owns those shares? In whose name do they stand?—(Mr. Davies.) I own one of them myself, and two of my colleagues on the Council own two more.

2741. In other words, it is really a company belonging to the British Council?—(Mr. White.) Yes.

Sir Frank Sanderson.] I would like to ask you one question, Mr. Chairman, in regard to these accounts. Is it not really farcical for accounts which are already two years old to come before this Committee for consideration? What good could accrue therefrom? The time that has elapsed—over two years—is so long that anything which we could recommend in regard to them must be past history. The accounts are simple ones.

Chairman.] I have already asked Mr. White a lot of questions on this point. I have expressed my dissatisfaction—perhaps in not quite such strong language as you—that we have not the Balance Sheet for a more recent period.

Sir Frank Sanderson.] May I ask this question: It would be very difficult to imagine accounts more simple than the accounts which we are considering, and if it were any industrial concern the position would be intolerable. Indeed, the law would not permit the accounts to be presented two years after the close of the year.

Chairman.] You are putting this in the form of a statement rather than a question. Would you ask the Witness a question?

Sir Frank Sanderson.

2742. Yes. Might I suggest that in future the accounts should be presented within a reasonable time?—Yes, we will do that.

Mr. Douglas.

2743. Do I gather that the British Council makes good the losses from bad debts?—(Mr. Davies.) In respect of these exports of books to Europe we shall certainly have to make good any losses which occur.

2744. And in other cases what happens if you incur bad debts?—In the case of our exports to Latin America, the Export Credits Guarantee Department looks after the financial responsibility. The Council has no financial responsibility there at all.

2745. What premium is paid to the Export Credits Guarantee Department?—None by the Council, and I think none at all by anybody.

2746. Is that so? Do they guarantee anybody's transactions gratuitously?—I think they have to be satisfied that the purchasers are satisfactory people at the far end.

2747. Is it the case that the Export Credits Guarantee Department guarantee that all your purchasers will pay their debts in full?—(Sir Gilbert Upcott.) The normal practice of the Export Credits Guarantee Department is to charge a premium.

2748. Yes, but I am told there is no premium in this case.—(Mr. Jones.) I think a premium is payable by the company to the Export Credits Guarantee Department.

Mr. Douglas.] Where does it appear in these accounts?

Chairman.

2749. It does not look as if there was any insurance, from the accounts I am looking at?—(Mr. Davies.) The one item of books to North America has a c.i.f. price. That was the price which the Council paid to the booksellers, but there, again, once the books

2 April, 1946.]

Sir ORME SARGENT, K.C.M.G., C.B.,
Mr. A. J. S. WHITE, O.B.E., and Mr. R. DAVIES.

[Continued.]

have been delivered the Export Credits Guarantee Department assume responsibility. (Mr. Jones.) I have a letter here from the Export Credits Guarantee Department, as a specimen letter to B.E.S. Limited, which says, in paragraph 1: "You will pay to the Board of Trade the sum of 15 guineas by way of premium for the guarantees hereinafter described," and then it sets out the guarantees which are given by the Export Credits Guarantee Department. So that in this particular case there was a premium of 15 guineas due on certain transactions between the company and the Export Credits Guarantee Department.

2750. That was a case where the Export Credits Guarantee Department guaranteed the solvency of the ultimate purchaser, was it?—Yes, on shipments to French North Africa and French West Africa, and I think there must be a number of contracts of the same character between the company and the Export Credits Guarantee Department. (Mr. Davies.) That is in respect of shipments to North Africa, where the company was the actual payer of the bills to the booksellers and wholesalers, but in the case of the exports to South America the company paid nothing to the wholesalers and the booksellers. The books were exported to South America and paid for direct by the purchasers at the far end, and the wholesalers and publishers were guaranteed by the Export Credits Guarantee Department. They undoubtedly would pay whatever premium was paid direct, but the Council's company did not intervene.

Mr. Douglas.

2751. To take North Africa, is it the case that for a sum of 15 guineas the sale of £16,000 worth of books was guaranteed by the Export Credits Guarantee Department?—That was probably one consignment only.

Mr. Jones.) This guarantee covered the shipment of books from the United Kingdom in the calendar year 1945 to French North Africa and French West Africa, and the maximum amount covered by this guarantee was the sum of £25,000.

2752. It is very cheap. Are those the normal fees which the Export Credits Guarantee Department charges?—(Mr. Davies.) The list of the purchasers at the far end was carefully examined, and was passed by the local government authorities. The books were sold only to people who had been approved in that way, so that the risk had already been diminished by that scrutiny.

2753. In the case of the books to North Africa, I understand that B.E.S. Limited and, therefore, the British Council undertook full responsibility for payment to the publishers. Is that right?—We took responsibility for a time. The publishers had to

be paid three or four months after the date when the books were supplied but the delay in transport was so great that perhaps it was another five months before the books were delivered to the booksellers in North Africa, and the publishers would not wait so long for their money, so the Council intervened and paid them. When the books had been handed over to the booksellers at the far end, the Export and Credits Guarantee Department again guaranteed the Council, this time a guaranteed payment, of course, to B.E.S. Limited.

2754. And B.E.S. Limited collected the money from the purchasers?—There was an organisation in North Africa which collected the money and arranged for the transfer of currency to England.

2755. Are we to understand that the whole of the expenses in regard to this sale of £16,000 worth of books, shipping freight and insurance and collection of payments from the booksellers in North Africa, was done for the sum of £211?—A great deal of the work was, of course, done by the staff of the Council's Export Department, which is reported only for memoire in the accounts which go with the Balance Sheet. You will see an item for salaries of £1,096 6s. 10d.—and for office rent, and so on. Those people drawing the salaries were engaged in the work of these transactions.

2756. So that the general revenue account has relation to the account which appears higher up on the page, dealing with North Africa?—Yes. (Sir Gilbert Upcott.) That is the point I made just now, that it appears to me that all the overhead expenses of the trading are carried by the grant in aid and not out of the sale of the books.

2757. What price is paid to the publishers of these books sent to North Africa—wholesale prices?—(Mr. Davies.) The ordinary wholesale prices.

2758. Therefore, it appears that they were sold in North Africa at wholesale prices and not at retail prices?—Yes they were sold at wholesale prices to retailers who were going to sell them at retail prices.

2759. Who, in the ordinary course of business, would have got them not at that price but at a price plus the middleman's charges?—Of course, this is very far from an ordinary business transaction. It is to get books into a country to which one could get them by no other means.

Mr. Thurtle.

2760. I think you said that none of these books went to countries to which ordinary publishers had access? Did I understand you to say that in answer to the Chairman?—(Mr. White.) Yes, that is, broadly speaking, true.

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2 April, 1946.]

SIR ORME SARGENT, K.C.M.G., C.B.,
Mr. A. J. S. WHITE, O.B.E., and Mr. R. DAVIES.

[Continued.]

2761. As these countries become liberated and as publishers have access to them, will the Export Scheme cease to function so far as those countries are concerned?—Yes, it will, and the sooner it does so the better

we shall be pleased.

2762. And publishers can then carry on their transactions in the ordinary way?—Yes.

(Mr. White and Mr. Davies withdrew.)

Mr. J. I. C. CROMBIE and Mr. L. R. SHERWOOD, O.B.E., recalled and further examined.

Chairman.

2763. Now we turn to the Account, which is on pages 57 to 63. I have only one or two questions on the Account which perhaps Sir Orme or Mr. Crombie will answer. On page 58, Subhead P. is: "Incidental Expenses, etc." an expenditure of £75,000 as compared with a grant of £13,000. That is an excess of £62,500. The footnote to Subhead P. says: "Due to increased expenditure at posts in China on transport, motor car upkeep and rent. The Subhead includes approximately £31,000 for writing down the sterling value of currency balances held in China on the introduction of more favourable buying rates for the Chinese dollar". That is a loss of £31,000 owing to depreciation of currency held by us in China, I take it, is it?—(Mr. Crombie.) That is so.

2764. Does that show that they were holding more than was really necessary—that they might have avoided that loss?—I am not sure that I can answer that directly. I can answer it more generally by saying that there are standing instructions to all our posts abroad to hold as little currency as possible in case this sort of situation arises. The standing instruction is that they shall not hold more than three or four weeks' requirements in local currency.

2765. On page 60, Subhead HH is: "Care of British Interests in Territory under, or liberated from, Enemy Control"—a very large figure of expenditure of nearly £1,500,000. The footnote says: "The charge for the Subhead includes approximately £1,200,000 in respect of relief granted by the protecting power to British subjects". I assume that the care of British subjects in territory under enemy control must be carried out by the protecting power—there is no other way of doing it—and I should like to know whether money was spent on the care of British subjects in liberated territory, and what form that expenditure took?—When the territory is liberated it then becomes a question for our Consular officials. They take over the responsibility for the care of British citizens abroad.

2766. They give advances to needy British subjects in the liberated territories. Is that it?—That is so. You may remember, when I was dealing with balances generally, I mentioned that one of the items in the total figure of £12,500,000 was

in respect of advances by Consular officials, a total sum of £300,000 for this purpose of relief to British subjects. That is after the protecting power has ceased to operate and our Consular officials take over.

2767. All of this expenditure was unforeseeable at the time when the Estimates were drawn up?—It was not strictly unforeseeable. It was known that this would arise, but this is the process of charging to the Vote the amounts that can be certified as having been properly expended. This is the complementary action to the advances to the protecting power which are dealt with at an earlier stage. When we have scrutinised the accounts we then make a charge to the Vote diminishing the outstanding balance to the protecting power. (Sir Gilbert Upcott.) It is an established practice, of course, that there should be no Estimate for Vote of Credit expenditure.

Chairman.] Are there any questions on the Account?

Mr. Douglas.

2768. On page 63 the third item is: "Remuneration of Neutral Member of Arbitral Board". Who is this neutral member?—I am sorry, but I do not know his name. His purpose is to arbitrate on the matter of military expenditure in Egypt.

2769. Am I to understand that his remuneration for one year was £9,894?—No. That is the total remuneration probably up to 31st March, 1945. (Sir Gilbert Upcott.) He was not functioning in this year at all. There is no item at all.

2770. Then it is an item relating to one single year?—(Mr. Crombie.) No. The first column: "Expenditure 1944" has no figure at all.

2771. It is previous to 1944?—Yes. (Sir Gilbert Upcott.) It goes back to 1936.

Mr. Benson.

2772. Subhead R, on page 58, is: "Prison Expenses, Law Charges, Etc." We retain prisoners only where we have extra-territoriality. Where have we had extra-territorial responsibility during the war?—(Mr. Crombie.) I am not sure that that description is still relevant to this subhead. I do not think we do retain extra-territoriality.

2773. I took that definition from the 1946 Estimates?—May I read my note on this point: "There are at present no Consular prisoners as the small remnant of extra-

2 April, 1946.]

Sir ORME SARGENT, K.C.M.G., C.B.,
Mr. J. I. C. CROMBIE and Mr. L. R. SHERWOOD, O.B.E.

[Continued.]

territorial jurisdiction remaining in Egypt applies only as regards criminal cases to the armed forces and certain civilian employees, and is handled mainly by military courts."

2774. You still retain your Subhead and a grant?—The grant covers other items than prison expenses. We have in fact considered the desirability of altering the names of the Subhead, but there might be prisoners and there seems no particular reason in doing it.

Mr. Benson.] You want to be on the safe side.

Chairman.

2775. Is there anything, Sir Gilbert, that you want to raise on your letter to the Treasury?—(Sir Gilbert Upcott.) No. I think I explained the broad qualification.

Chairman.] Are there any further questions on the Account? May I take it that the Account is approved? (Agreed.)

VOTE 3.

LEAGUE OF NATIONS.

Chairman.

2776. I think we are one of the few contributors to the League of Nations, or one of the few contributors who pay their subscriptions?—(Sir Orme Sargent.) We are one of the few remaining contributors, but this, I take it, will be the last contribution.

2777. There is an Estimate for the current year, is there not, which will probably be the final contribution?—It is being wound up at the present moment. (Sir Gilbert Upcott.) There was a contribution in 1945, of course, and there is an Estimate in 1946. In fact the Estimate has gone up to £119,000 in 1946.

Chairman.

2778. I understood Sir Orme to indicate that the 1946 contribution would be the final one?—(Sir Orme Sargent.) I sincerely hope it will. (Sir Gilbert Upcott.) I thought he referred to this account as the final one. I am afraid the Committee will be troubled with two more accounts.

Chairman.] Are there any questions on the Account?

Mr. Douglas.

2779. We are apparently not going to get any dividend out of the assets of the League of Nations?—(Sir Orme Sargent.) There will be a valuation of their assets which they are going to transfer to U.N.O.

Chairman.

2780. Are they going to transfer the buildings and so on to U.N.O.?—Yes.

Mr. Benson.

2781. Are they transferring all their functions to U.N.O.?—Yes, I suppose they are.

2782. Are they transferring what was known as the I.E.O.? They are starting negotiations for the purpose of transferring functions this week, for the formal winding up of the League of Nations and the handing over of the remaining functions to U.N.O., together with the material assets.

Chairman.] Are there any further questions on the Account? May I take it that the Account is approved. (Agreed.) Thank you, Sir Orme. I am sorry we have been so long.

(The Witnesses withdrew.)

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

THURSDAY, 4TH APRIL, 1946.

Members present:

Mr. PEAKE in the Chair.

Mr. Benson.
Mr. Haworth.
Mr. Thurtle.

Mr. Wadsworth.
Mr. Williamson.

Sir GILBERT UPCOTT, K.C.B., Mr. D. F. C. BLUNT and Mr. C. E. I. JONES called in and examined.

AIR SERVICES APPROPRIATION ACCOUNT, 1944.

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

Chairman.

2783. I understand there is a representative of the Ministry of Civil Aviation here, is there not?—(Sir William Brown.) Yes; Mr. Evans.

2784. Will Members turn to the Air Services Appropriation Accounts, 1944. Have you the Report of the Comptroller and Auditor General in front of you?—Yes.

49852

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4 April, 1946.] Sir WILLIAM BROWN, K.C.B., K.C.M.G., C.B.E. [Continued.]

2785. I do not think there is much to ask you on paragraph 1: "Form of Account." I understand that the details of the accounts for 1939 to 1943, which the Comptroller and Auditor General states in his Report will be published as a separate paper, have in fact been published?—The paper is not actually published yet. The details are practically complete. (Sir Gilbert Upcott.) They have, of course, been taken by the Committee confidentially in previous years.

2786. Are there any questions on paragraph 1? We pass to paragraph 2: "Outcome of the Account." In the second subparagraph the Comptroller and Auditor General states that the gross expenditure amounted to £678,000,000 and receipts realised £194,000,000, against an estimate of £230,000,000. The receipts, I believe, are a good deal higher for 1944 than they were for the previous year. I think the figure for the previous year was £108,000,000 or thereabouts?—Yes.

2787. (Perhaps you can explain that when we come to the account, Sir William?—Certainly.)

2788. Are there any questions on paragraph 2? We pass to paragraph 3: "British Commonwealth Air Training Plan." In that paragraph the Comptroller and Auditor General sets out the various arrangements which have been made with the Canadian Government from time to time. The original agreement came into effect in July, 1942. The Canadian Government undertook the administration and control of the scheme. The United Kingdom agreed to pay a fixed sum representing approximately one-half of the estimated cost?—It was in fact about 720 million odd dollars.

2789. For that period?—For that period.

2790. Then the arrangements were modified, the Comptroller and Auditor General states at the top of the following page "by a new agreement under which the United Kingdom is to bear one-half of the actual cost of the organisation"?—Yes.

2791. That was to run until the 31st March, 1945. Then there is a further statement as to the arrangement dating from March, 1945. Can you tell the Committee whether the recent arrangements in regard to a dollar loan from the Canadian Government have had any effect upon the arrangements set out in this paragraph?—They have. Of course, the loan agreement between Canada and the United Kingdom is still subject to reconsideration according to what may happen to proposals being considered in the United States at present about the Anglo-American loan agreement. But the agreement in itself has been considerably modified, and, if it is not improper, I would like to say that the Dominion of Canada in particular has throughout been extraordinarily helpful over these things. The new agreement was

signed in Ottawa in March of this year, and the Government of Canada will provide a certain credit, but under the agreement an amount of 425 million dollars, which was owing by us in respect of the costs of the air training plan up to March, 1945, has been cancelled. By the modification of the 1942 agreement in July, 1945, we were relieved also of 45 per cent. share of the winding-up costs, and we have surrendered a certain United Kingdom interest in residual assets of the plan. I think I may say it is generous to us financially; it is also extraordinarily convenient administratively. It has simplified a rather intricate bit of accounting.

Chairman.] Are there any questions on paragraph 3 of the Report of the Comptroller and Auditor General?

Mr. Benson.

2792. Was the 700 million dollars the total cost of the air training plan, or was that our share?—That was our share.

2793. That amounts to about 45 million pounds a year?—Yes.

2794. What exactly did Canada supply for that? Did they supply the planes?—We made certain contributions in respect of aircraft and engines, but they supplied one half of the total cost, less a contribution which was obtained from Australia and New Zealand for their liability in training their pupils. A balance was due under that at the time it was cancelled to Canada from us of 225 million dollars.

2795. Forty-five million pounds per annum: how many men did they train for us for that, in round figures?—The costs are very difficult to compare with individuals. The cost of training varies according to the amount of time a man has to spend on the particular thing for which he is being trained, although it is true that that applies much more in the case of advanced training. The cost of training pupils varies considerably. It was worked out on a sort of man-power basis of costs. Might I put in a note to the Committee on the numbers actually involved?

2796. No. If you had had it available, well and good, but if not it does not matter. I notice that there is no reference here to the training that went on in Southern Rhodesia?—That was dealt with quite separately. There, again, Southern Rhodesia herself contributed quite generously, but the bulk of the cost was a charge on our Votes. Much the major part of the British Commonwealth Air Training Plan was the Canadian scheme, and that is why the Comptroller and Auditor General has drawn particular attention to that. (Sir Gilbert Upcott.) I have mentioned the Rhodesian scheme in earlier reports. (Sir William Brown.) It has been discussed, I think, before this Committee in the past. I am not sure if I can extract the particulars of the Rhodesian scheme.

4 April, 1946.] Sir WILLIAM BROWN, K.C.B., K.C.M.G., C.B.E.

[Continued.]

2797. I was wondering why it was not dealt with here?—It was very much smaller.

Chairman.

2798. Are there any further questions on paragraph 3? I have no questions on paragraph 4. Has any Member any questions on that paragraph? We pass to paragraph 5: "Advanced Air Training of Royal Canadian Air Force." In the second sub-paragraph the Comptroller and Auditor General states: "The amount payable by Canada under the agreement is assessed on the basis of the average *per capita* costs of training." I am not quite clear whether any payments due by Canada under this scheme for advanced training have been cancelled by the loan agreement or are going to be cancelled by the loan agreement which we have been discussing?—They are. Again, the Canadian Government in this case was very generous. Under the 1942 agreement they had no liability to pay for the advanced training of Royal Canadian Air Force personnel in this country, but they agreed to bear such costs later. There was outstanding a claim for 10½ million dollars against the Canadian Government which has been cancelled as part of that agreement.

2799. In the second sub-paragraph Sir Gilbert states: "The amount payable by Canada under the agreement is assessed on the basis of the average *per capita* costs of training at the various advanced training units in the United Kingdom." I do not know whether the same answer applies to this point as to the point Mr. Benson has just raised. I do not know whether you can give us the average *per capita* cost of any of the forms of training?—It varied. This, if I may say so, is a very interesting example of the difference in cost of training for the Air Force. To train a heavy bomber pilot cost £7,000 odd. To train a flight engineer cost £400. So it varies *per capita* according to what the men were doing. That figure of £7,000 is one which surprised me when I first realised it.

2800. Do you include in that the number of bombers he crashes?—Yes, We write those off separately. Sometimes his training costs no more when he does that. The cost of training is loaded to cover aircraft crashes.

Mr. Hawcrth.

2801. Is that £7,000 odd calculated on the number of successful candidates? Does it take account of the cost of unsuccessful ones, which is very high?—It bears the cost of unsuccessful candidates as well.

Mr. Wadsworth.

2802. We have heard that the cost of training bomber pilots is this fantastic figure of £7,000?—It is a hard fact—not fantastic, however much it sounds so.

2803. This payment is based upon the average *per capita* charge. I wonder what

the average charge was?—If I may interpret what was in the Comptroller and Auditor General's mind in using the word "average," it is the average in categories, and, as I say, it varies in particular categories from £7,000 to £400. (Sir Gilbert *Upcott*.) It is not an overall average.

Mr. Thurtle.

2804. This figure of £7,000 is only for the training at the advanced training centre, is it?—It is the advanced training that is concerned in this paragraph. It is the advanced training given to people who had gone through their general training, and only advanced training, of late years, has been given in this country. It is the people who had gone through the Empire Training School—the Canadian Training School—and then came here, and they needed the advanced training, and it is the advanced training that cost this amount.

2805. It does not include the general preliminary training?—No.

Chairman.

2806. Does it include the cost of a pilot crashing a couple of practice machines?—I think that is covered where it occurs. That is an average reached after analysis of the number of people who went through the course and the total expenditure.

2807. Are there any further questions on paragraph 5? We pass to paragraph 6: "Reduction in the Standard of Departmental Audit." This is on pay. In the second sub-paragraph the Comptroller and Auditor General states: "The Air Ministry recently informed the Treasury that, in order to provide staff required for increased work arising from the release of Royal Air Force Personnel and the payment of certain war gratuities, it had been necessary to abandon temporarily the departmental audit of the pay accounts of airmen serving in units at home. In substitution for this audit the pay accounts of airmen passing through dispersal centres on the way to release are subjected to a current audit." Could you tell us what was the nature of the departmental audit which has been temporarily abandoned?—I am very sorry to appear before the Committee and admit that our standards of audit are not as strict and complete as they have been, but I trust the Committee will accept it, that the recruiting of clerical staff, particularly at certain centres in the Provinces, and the overwhelming demand for dealing immediately with the release scheme, have made it impossible for us to keep up the same standards which I hope the Air Ministry have had in the past. We had account branches in London and in a number of localities. Then we had the accounts branches in Worcester and in Stroud. In Worcester the payment of all allowances—family allowances, dependants' allowances, voluntary allotments, and so forth—was

4 April, 1946.] SIR WILLIAM BROWN, K.C.B., K.C.M.G., C.B.E.

[Continued.]

carried out, and the administration of personal effects and the estates of deceased officers and general procedure. The strict audit work which was carried on there it became impossible to carry on owing to the shortage of people. The actual audit work at Worcester, which was on the pay accounts of airmen and airwomen serving at home, had to be abandoned to provide for the executive work of the issue of allowances and the administration of estates. I hope we have compensated for it to some extent, and the Treasury at any rate have agreed with us in the circumstances that it was the best we could do. We have compensated for the abandonment of the audit of the home pay accounts by a current audit, as the Comptroller and Auditor General points out, which is, I am afraid, only a percentage audit of the pay accounts of airmen and airwomen when they pass through the dispersal centres.

2808. Let me get this clear. Does the current audit as and when a man passes through the dispersal centre cover all cases or is that only a sample?—It is a percentage only.

2809. What sort of percentage?—I do not know. It is somewhere between 10 per cent. and 30 per cent., but I could not say exactly. We tried to institute a percentage check which selects, from time to time, different accounts, so as to get a general view of the whole field, without trying what was impossible, namely, to do every separate account.

2810. Can you tell the Committee what results this sample check on dispersal has given you?—At the moment I think I should not be going too far if I said we were rather pleased with the result—in fact, distinctly pleased. It seems to show that the thing works. There is another check. Pay accounts have certain internal checks in the actual Royal Air Force pay offices, and that has, perhaps, helped to make sure that the thing is all right.

2811. Have the Treasury any observations to make on the abandonment of this departmental audit and the substitution of the current audit?—(Mr. Jones): We agreed with the Air Ministry that in the circumstances with which they were faced they were wise to use their limited manpower for the purpose of catching these people before they finally got out of the Royal Air Force, rather than to carry out a current audit on a limited basis of pay accounts several months in arrears, of people who, by the time the errors were discovered, would already have left the Royal Air Force.

2812. Is the principle of that that so long as a man is still serving in the Royal Air Force, if he has been over-paid you may be able to recover something from him, but, if he has been demobilised, your chances are rather slight?—Yes, that is the principle.

2813. Sir William has told us they are only applying the audit to about 25 or 30 per cent. of those being demobilised, so that a great many people will escape the meshes of the net, so to speak.—I think we recognise that that is inevitable, given the position with which they are faced in not having the staff available. The current audit that used to be done before the war was only on a percentage basis. It never purported to cover a complete independent check of the pay accounts of every airman serving in the Royal Air Force.

2814. Sir Gilbert, have you any observations to make on this paragraph?—(Sir Gilbert Upcott.) I appreciate the difficulties of the Air Ministry, which I think are actually outside their own control. I agree with the Treasury that to address themselves to the audit of as many cases as possible at the dispersal centres is the right way of tackling the difficulty. The higher the percentage check is the better, but I would agree, also, that it is not possible to do more than a percentage, owing to the difficulties at the present time. My officers have made a small test at a few centres, and, as far as I could judge from that, I would agree with what Sir William said that it is a reasonably effective check.

2815. Your position will be greatly eased, Sir William, I suppose, when the great rush of demobilisation has passed?—(Sir William Brown.) Indeed. The present pressure on the staff and on the Department generally, both civilian and uniformed, is obviously intense. When you think that we have to do perhaps a million postings of airmen in this year, the trouble of keeping accounts and checking everything is enormous.

2816. I see from the Report of the Comptroller and Auditor General that you are going to give a report on the position at the end of this year to the Treasury?—Yes. Might I say one other thing on that? The pay accounts of personnel who are serving overseas (and that was about half the Royal Air Force) are still audited on the old system, which is more complete.

Chairman.] Are there any questions on paragraph 6?

Mr. Haworth.

2817. Your audit staff is entirely civilian, is it?—You do not have any Royal Air Force staff?—There is a Royal Air Force accounts branch. The Senior Service Accountant has officers and N.C.Os., but he is advisory rather than executive.

2818. You will be affected by the demobilisation, or that section will be affected by losing members of their own staff?—That is very much so. There, as in other quarters, the rapid rate of release—which is a decision of policy with which of course we do not grumble—has made it very difficult to keep the people who have to do various functions connected with the release of their colleagues.

4 April, 1946.] Sir WILLIAM BROWN, K.C.B., K.C.M.G., C.B.E.

[Continued.]

2819. It has made a lot of trouble for us, if I may say so.—If we demobilised everybody, the last one to be demobilised would be someone who kept accounts of some sort, so he would have to keep the accounts of the last man but one who was released.

Mr. Benson.

2820. I should like to ask the Comptroller and Auditor General whether his test audit that was made was of accounts that had been audited, or was it of accounts haphazard?—(Sir Gilbert Upcott.) We make a selection. It might, in some cases, be the accounts which had been examined and in some cases not. We should not be guided by that criterion.

2821. I do not know whether you can answer this question, Sir William. What was the general outcome of your correction of errors? Was it for or against the personnel?—(Sir William Brown.) It works out fairly evenly—just about fifty/fifty. Of course, we hear more complaints where it is against the airmen than we do where it is in his favour.

2822. Can you give any idea of the percentage of errors? How many accounts were correct? In what percentage of accounts were there major errors?—A very small percentage indeed.

Mr. Thurtle.

2823. Was it foreseen that there would be this great pressure on the accounting staff when demobilisation took place?—Yes, but we had not foreseen the exact moment at which demobilisation would begin, nor, I admit, the speed with which it would proceed.

2824. I wondered whether, if you had foreseen this difficulty, you had taken steps to increase the number of accountants who would be available for work by remustering trades, or in some such manner?—The bulk of the audit falls on civilian staff, and the actual practical difficulties, which I expect a number of Accounting Officers have had to apologise to this Committee for, of getting the civilian staff to do this, made it impossible for us to get more than we actually did.

(British Overseas Airways Corporation, Report and Accounts for year ended 31st March, 1943.)

Mr. C. W. EVANS called in and examined.

Chairman.

2831. We turn to paragraph 7 of the Report of the Comptroller and Auditor General, which deals with the British Overseas Airways Corporation. We will consider with this paragraph the typescript volume of accounts which has been circulated, the British Overseas Airways Corporation Accounts for the year ended 31st March, 1943. It is rather past history now. In the second sub-paragraph of his Report the Comptroller and Auditor General

Mr. Wadsworth.

2825. You lost a good deal of your local staff, did you not?—We did, indeed; when we closed down certain provincial offices, we lost people who were locally engaged.

Mr. Thurtle.

2826. As the result of this pressure you have had, I believe, to keep the accounting staff in service beyond the proper dates of their release groups, have you not?—Service people only, and I would hesitate, if you will forgive me, to accept the expression “proper date.” Nobody is strictly entitled to release at the same date as people in other branches. There is a provision in the scheme generally known as the Bevin Scheme for retention of some people for special needs, without even going into the special military necessity clause. But still, they are behind the average.

2827. You hope, before long, I take it, to get the accounting staff up to the average?—I do not think we shall ever be able to get them up to the average, and we are increasing the facilities for training airmen of other trades for accounting. We have considerably increased and are increasing our training facilities for those men who are likely in any case to remain in the Air Force for a considerable time. I am afraid we cannot hope to do more than mitigate the position of the accounting staff in uniform.

Mr. Benson.

2828. May I put another question? I did not quite understand an answer you gave. Have you a finance branch equivalent to the one in the Army?—Not exactly corresponding to it, but there are uniformed people who deal with the accounts as well. But the great bulk of the accounting work is by civilian service.

2829. I believe in the Army there are parallel organisations running right through the Army. There is a dichotomy. There is a service side and a finance side?—It is not quite the same with us. I think I am right in saying that the balance is rather more civilian with us.

2830. Is your financial structure comparable with the size of the Army structure?—Overall, yes.

states that the examination by the Air Ministry of the audited accounts of the Corporation for this year which we are discussing has now been completed. He goes on to say that one large selected block of expenditure was examined. Would you tell us what that one large selected block was?—(Sir William Brown.) In this year it was the operational expenditure.

2832. I am now speaking of the year 1943?—In the year concerned, I mean—this year of reference; it was operational

4 April, 1946.] Sir WILLIAM BROWN, K.C.B., K.C.M.G., C.B.E.,
and Mr. C. W. EVANS.

[Continued.]

expenditure. By agreement with the Treasury we instituted a particular form, a rather broad examination of British Overseas Airways Corporation accounts some years ago. It included a regular continuous scrutiny over some items of expenditure which experience or commonsense has told us are liable to abuse, such as travelling allowances, subsistence, *ex gratia* payments and entertainment allowances and a different major block in the accounts to be taken each year for examination. In this year under reference it was operational expenditure.

2833. A little lower down the Comptroller and Auditor General states that the Treasury sanctioned the charge to Air Votes of the net deficit for the year, amounting to £2,173,000. If you turn to the back page of the typescript account, which is an account of the revenue and expenditure, you will see at the foot of that account a balance of £6,070,000. Then there are some footnotes, the first of which explains to some extent the difference between the £2,173,000 sanctioned to be charged to Air Votes by the Treasury and the £6,000,000 shown as the balance of deficit for the year in the company's accounts. The main item, apparently, is their revenue arising from the carriage of air mail which accrues to the Air Ministry, and is never paid into the accounts of the British Overseas Airways Corporation. Is that right?—Yes.

2834. Since the purpose of accounts is to try to show an actual picture, a picture that means something to somebody, could you tell us why £3,000,000 from the carriage of air mail is never put into the British Overseas Airways Corporation accounts?—I am very happy to say that I have no responsibility whatsoever for civil aviation any more—and never had in fact personally—but what we had to pay to the British Overseas Airways Corporation for their operation under the direction of the Secretary of State was the deficit that arose on their accounts on their operations, and this money came into our pockets, as it were, but it never appeared as anything that they had lost. Am I right Mr. Evans? (Mr. Evans.) That is so.

2835. If Mr. Evans can give us an answer on some of these questions affecting the British Overseas Airways Corporation, we shall be very grateful.—(Sir Gilbert Upcott.) I think what the Committee really want is a reconciliation of that figure of £6,000,000 with the £2,173,000, which Sir William or Mr. Evans can quite easily give. (Sir William Brown.) In that year the cost of services rendered to the Air Ministry and the Ministry of Aircraft Production was £6,000,000 odd. The amount reimbursed by the Ministry of Aircraft Production—that is, the actual cost of engineering work carried out on their behalf—was £2,000,000, thus leaving £4,000,000. The payments received from the General Post Office for the carriage of

mails were nearly £2,000,000. The balance was the deficiency which we had to meet, a deficiency of £2,173,000, which is the figure quoted in the report before you. The actual cost of services rendered to the two Departments was £6,000,000. The Ministry of Aircraft Production repaid the actual cost of engineering work, which was £2,000,000. The General Post Office paid nearly £2,000,000, leaving £2,173,000 as a deficit on the total operation.

2836. That still does not explain to me why a deficit of £6,000,000 is shown in the account of the British Overseas Airways Corporation, when the real deficit is so very much less.—That balance of £6,000,000 is the net expenditure on all their activities, and represents a total sum due from the two Ministries to the British Overseas Airways Corporation. I am not sure if I have explained it now—I hope so. It is actually what has been the expenditure overall, and the total sums due by both Ministries.

2837. It appears that the Air Ministry have received £3,000,000, or more than £3,000,000, presumably, from the Post Office for the carriage of mails, which they have sat on—which they do not ever hand over to the British Overseas Airways Corporation.—When we are handing over to the British Overseas Airways Corporation which pocket we take it out of, except in the accounting sense, which is important, does not matter, and it is done on what we have ascertained is the actual amount due to them, taking into account what we have been paid by the General Post Office. (Mr. Blunt.) I think I am right in saying that in the following year's accounts the sum due from the Ministry of Aircraft Production has been deducted. (Mr. Evans.) That is so. The sum due from the Ministry of Aircraft Production does not appear in the Air Ministry Account for the following year, 1943-44. (Mr. Blunt.) It has been deducted to arrive at the net deficit in the following year.

2838. I should like to ask the Treasury representatives whether they are satisfied (I take it they are, as they have sanctioned this amount) that the deficit was £2,173,000.—Yes. The procedure we arranged with them, as Sir William has explained, has been carried out. They have examined this large block of expenditure, and they have given us a report to say that has been done, and that they have found no extravagant or wasteful expenditure, and in accordance with the arrangements we felt able then to sanction the grant. I may say that we have received a similar assurance from the Ministry of Civil Aviation for the later year, and we have also sanctioned the grant for that year. (Sir William Brown.) For the completeness of the record may I say this? I did explain the system adopted for checking the Corporation's expenditure, and I said there was a regular and continuous

4 April, 1946.] Sir WILLIAM BROWN, K.C.B., K.C.M.G., C.B.E., [Continued.
and Mr. C. W. EVANS.

scrutiny of certain specific items which we thought might be liable to abuse; there was also a detailed examination of a major block of expenditure each year. But also we undertook to the Treasury that we would satisfy ourselves—and we hope the Treasury—at regular intervals that the Corporation's own system of internal financial control was good, sound and properly administered. It is only after we have satisfied ourselves to that extent that we have given the particulars to the Treasury.

2839. Will you just look at the accounts once more? Footnote 3 on the back page says: "one member of the Corporation has been paid a remuneration at the rate of £750 per annum . . . no remuneration under this section" (that is Section 1 of the British Overseas Airways Act, 1939) "has been paid to the members of the Corporation." That looks a little as if all the members of the Corporation gave their services for nothing, but I assume some of them are paid. Is the Chairman paid?—(Mr. Evans.) None of the other members are paid as members, but the Chairman is paid a salary as Chairman. The Director-General is paid a salary as Director-General.

2840. Could we be told the figures of salaries? They have been published, have they not?—(Sir William Brown.) Yes.

2841. There is no secrecy about them?—I think not—none. Perhaps the best thing would be if I could supply a note to the Committee on that.*

2842. Perhaps you will furnish the figures of salaries to us, will you?—Yes, in conjunction with the Ministry of Civil Aviation.

2843. The ordinary members of the Corporation, apart from one, draw no payments?—They draw no payments.

Chairman.] Are there any questions on paragraph 7 or on the accounts of the British Overseas Airways Corporation for the year ended 31st March, 1943?

(British Overseas Airways Corporation Report and Accounts for the year ended 31st March, 1944.)

Chairman.

2847. We pass to paragraph 8 of the Report of the Comptroller and Auditor General, together with the printed accounts of the British Overseas Airways Corporation for 1944. The Comptroller and Auditor General states that the audited accounts for the Corporation for the year ended 31st March, 1944, are under examination by the Ministry of Civil Aviation.—(Mr. Blunt.) That has been completed. We have heard from the Ministry, and we have given authority for the charge. That has been cleared since this report.

2848. You have given authority for a deficit payment to be made?—That is so. That has now been cleared.

* Information supplied: not printed.

Mr. Wadsworth.] I am still not very clear as to what is going to happen in the future in respect of the point you raised. The Balance Sheet shows very clearly that the British Overseas Airways Corporation had received a revenue from the carriage of mail. If we refer to the last page—

Chairman.] You are on the printed accounts for the next year?

Mr. Wadsworth.

2844. Yes, the 1944 accounts. It still states in note 1: "Revenue received from the carriage of mail accrues to the Air Ministry", etc. I think it would be a lot simpler if these accounts could be so arranged that this revenue is shown in the British Overseas Airways Corporation Balance Sheet. I think that is the point to which you, Mr. Chairman, were addressing your question?—(Mr. Evans.) As from the 1st April, 1946, that will be done.

Mr. Wadsworth.] That is the assurance I needed, and I am quite happy about it.

Mr. Benson.

2845. Is the deficit on these years exaggerated, due to war conditions?—(Sir William Brown.) Very much. When we took over the control of the British Overseas Airways Corporation they had to do just what they were directed to do. They had to provide services for this, that and the other, not on a commercial basis at all. The compulsory agreement they entered into early in the war made them do what the Air Ministry told them to do, and in return they were told: "For what you lose on that, for doing what is desirable in the circumstances of war, but is not commercial, we will pay."

2846. In fact, a considerable amount of their activities were ancillary to the war?—Almost entirely.

2849. Can you tell us what the amount is?—Just under £1,000,000. (Sir William Brown.) £980,000.

2850. That is a substantially smaller figure than the year before?—(Mr. Blunt.) Yes. (Sir William Brown.) The payment for mails went up again. That, again, is largely why. Air mail revenue has gone up very much.

Mr. Benson.

2851. Due to an increase in the rate or an increase in the volume?—In the volume mostly—almost entirely.

Mr. Williamson.

2852. Has there been any transport of ordinary civilians, without charges being made to the revenue account of the British Overseas Airways Corporation?—(Mr.

4 April, 1946.] Sir WILLIAM BROWN, K.C.B., K.C.M.G., C.B.E.,
and Mr. C. W. EVANS.

[Continued.]

Evans.) Only those civilians travelling on official business.

2853. What was the method of collecting revenue in those cases?—No revenue has been collected.

2854. So that you have transported people without receiving any revenue?—Yes.

2855. Very approximately, what proportion of the deficit would you consider that to be responsible for?—Are you speaking of civilians or Service and civilians? For both Service and civilians I should think about 60 per cent. of that charge.

Chairman.

2856. One more question on the printed accounts. Mr. Blunt has told us that the agreed deficit for this year was about £1,000,000. The figure given on the back page of the printed accounts is £4,740,000. That, again, is very much larger, as for the previous year, than the actual agreed deficit. Could you give us the reconciliation of those figures, as you did for the previous year?—The figure in the printed account is £4,741,795. As I said before, the Ministry of Aircraft Production expenditure is not included in that. There is added to that a sum of £269,000 in respect of work done by the British Overseas Airways Corporation. You have to add also a sum of £250,000 paid in respect of aircraft and engine spares which were consumed. That brings us to a total of £5,261,000. The payments received during the year from the General Post Office for the carriage of mails was £4,278,000, the difference between those two figures being the £983,000, which is the deficit for the year.

2857. You say that as from the end of March of this year the receipts from carriage of mails due from the Post Office to British Overseas Airways Corporation will no longer be intercepted by the Air Ministry *en route*?—As from the 1st April, 1946.

Mr. Williamson.

2858. This deficit is because, to a large extent, British Overseas Airways Corporation has been performing services for which they have received no real revenue?—That is the case.

2859. In the transport of probably mail and passengers?—(Sir William Brown.) Yes. They have merely been carrying out Government instructions to carry so and so here and carry this there, and carry so and so to such and such a place.

(Mr Evans withdrew.)

Chairman.

2868. I think now we may pass on to paragraph 9: "Store Accounts. General." In the last sentence of the paragraph the Comptroller and Auditor General states: "Owing to the difficulties created by war conditions, a number of the accounts

Chairman.

2860. The accounts as from the 1st April this year will—?—be on a commercial basis.

2861. They will give a proper picture of whether the British Overseas Airways Corporation operates profitably or unprofitably?—That is so. (Mr. Blunt.) The Committee may have noticed, on page 9 of the report, that the British Overseas Airways Corporation have attempted an estimate of what the real net deficit would be after taking into account all forms of revenue, after charging up, I think, for the cost of aircraft supplied, and so on. That second column is their estimate—£607,000—of what the cost to His Majesty's Government of the air services provided by the Corporation amount to. That is not an audited figure, I expect, at all. It is an estimate. (Mr. Evans.) It is an estimate. (Mr. Blunt.) It is an interesting estimate, anyway.

Chairman.] Thank you, Mr. Blunt.

Mr. Wadsworth.

2862. On page 9, the last column: "Total (including estimated value of free provisions)"—that is the column, is it not?—That is the one I was referring to.

2863. This is surely an old estimate, because it includes sundry losses due to enemy action of £72,000. So was that statement really relevant?—(Sir William Brown.) In March, 1944, this account finished. It is a year behind.

Mr. Williamson.] The war was still on.

Mr. Wadsworth.

2864. Yes. I thought your remarks applied to some future period?—(Mr. Blunt.) No, I was saying in respect of this particular year.

Mr. Benson.

2865. In the previous year you examined a specific block of expenditure, and you adopted the same method in the current year—that is the year under review—but did you take the same expenditure?—(Mr. Evans.) No, we selected a different block each year.

2866. Which block did you take this year?—Administration expenditure in 1943/44. That involved head office expenditure—all the premises, buildings, rent, pension funds, salaries, and so on.

2867. Was that equally satisfactory?—Yes.

examined have not yet been finally allowed, but I understand that, so far as can be judged, no matters of importance are outstanding." Can you confirm that?—(Sir William Brown.) I can quite definitely confirm that. We have made certain progress with the further examination of accounts,

4 April, 1946.] Sir WILLIAM BROWN, K.C.B., K.C.M.G., C.B.E.

[Continued.]

and in fact, for war conditions, there is a satisfactory percentage of accounts dealt with and examined. We are not very much behind the peacetime standards in that. (Sir Gilbert Upcott.) I make an exception in the case of the South East Asia Command. (Sir William Brown.) The Comptroller and Auditor General draws special attention to the South East Asia Command.

2869. Are there any questions on paragraph 9? It might be convenient to take the next five or six paragraphs together. On paragraph 10: "Incompletely Vouched Accounts," the Comptroller and Auditor General refers to difficulties experienced in relating consignments of equipment returned to depots by units to the particular vouchers received from the consignors. What was the nature of the difficulty?—In 1939/40 the troubles began, when we were returning to depots all equipment held by units in excess of their requirements. We got a sudden flood of equipment which could not be unpacked promptly, checked with the relevant vouchers and taken into stock. A considerable number of uncleared vouchers accumulated. I have some figures here of the numbers received at depots. The vouchers received at depots, and the returns from units grew at an alarming rate. In 1941 there were 456,000; in 1942 there were nearly 800,000; in 1943 there were nearly 1,000,000, and in 1944 there were 1,400,000. Most of the work fell on seven aircraft equipment depots. One got congestion of consignments; there was shortage of accommodation. Consignments were getting mixed, and there was the difficulty of identifying the relevant vouchers afterwards, which, with the general pressure of reissue, meaning that you had to unpack and bin consignments at once at the expense of checking and linking with vouchers, we did get, if I may put it colloquially, into a mess. We made a change in the system in 1942. We got Treasury advice on organisation, and we made a change in the system. We decided that the particular system we were trying, but to some extent failing, to follow wasted clerical effort without any real corresponding gain to the public scrutiny of the accounts.

2870. Are you of opinion that the modified system introduced in 1942 is satisfactory?—It is satisfactory in the circumstances. I should hate to say it was completely satisfactory. (Sir Gilbert Upcott.) The central point of the new system is that the dispatching unit does not receive any proof that what it has dispatched has been received. (Sir William Brown.) That is so.

2871. It does not receive any acknowledgment?—(Sir Gilbert Upcott.) It does not receive any acknowledgment, so to speak. Therefore, it is left to assume that what has been dispatched has been received. (Mr. Blunt.) It is negative rather than positive. (Sir Gilbert Upcott.) That does involve a risk. (Sir William Brown.) It does involve

a definite risk, as the Comptroller and Auditor General says.

2872. In the last sub-paragraph Sir Gilbert states that: "the Treasury agreed in November, 1945, that further attempts to clear the residue of outstanding vouchers for the period up to 31st March, 1944, should be abandoned." That was the only thing to do, I suppose, was it?—(Mr. Jones.) The Air Ministry had gone to a lot of pains to test selections of these uncleared vouchers, and over the percentages which they had tested they were generally satisfied that the errors were accounting errors and not actual loss or theft of the stores. In 1941-42 there were some 6,000 vouchers uncleared; in 1942-43 there were 16,000, and in 1943-44 26,000. We agreed that they should discontinue their efforts to track these down. (Sir William Brown.) I may say that, fortunately, in the year 1944 which is under consideration the final figure of uncleared vouchers will be considerably below that for 1943. (Mr. Blunt.) It is a surprisingly low figure of uncleared vouchers, in the circumstances. (Sir Gilbert Upcott.) I perhaps ought to say that the Air Force is not alone in this difficulty. (Sir William Brown.) Thank you. (Sir Gilbert Upcott.) I do not think, in the case of the Army, there will ever be any possibility of ascertaining that stores which have been dispatched have reached their destination. (Mr. Blunt.) It has been the bugbear all through the war. It has been impossible to get a receipt from consignees. (Sir Gilbert Upcott.) In the case of the Army the difficulty is greater because they are on the move, whereas the Air Force generally has stations. (Sir William Brown.) With certain qualifications, which I think the Comptroller and Auditor General knows quite well.

Chairman.] Are there any questions on paragraph 10?

Mr. Williamson.

2873. We all appreciate the difficulty there, and I will not pursue that. On whose authority was the checking up of the vouchers relinquished at some stage?—That was in agreement with the Treasury.

Mr. Wadsworth.

2874. I have a constituent who has an account owing from 1942 on stores. I wondered what advice I could give him?—I should hate to suggest it, but perhaps if he wrote to me it would be as good as writing to the Minister concerned.

Chairman.

2875. Paragraph 11 deals with stock-taking and equipment depots. There is a difference between "equipment" and "stores," is there not?—No. It is the same thing.

2876. Do they mean the same thing?—Yes.

4 April, 1946.] Sir WILLIAM BROWN, K.C.B., K.C.M.G., C.B.E. [Continued.]

2877. So that "equipment" really includes all sorts of consumable goods, does it?—It does.

2878. Tins of bully beef and things of that sort? Or perhaps you do not serve that in the Air Force?—We get most of our rations through the kind offices of the Army, so I expect we get our rations of "bully" all right.

2879. Bottles of lime juice and gin?—More lime juice than gin, I fear, Sir!

2880. That all counts as equipment?—Yes.

2881. Here, again, there has been a good deal of difficulty owing to shortage of staff. The Comptroller and Auditor General states: "The difficulties in regard to man-power have persisted in the year under review and, with Treasury authority, the practice of accepting adjustments in the accounts without investigation or valuation has been extended to cover discrepancies revealed as a result of stocktakings up to 31st March, 1945." What has happened as regard stocktakings after that date? Is this process to be continued?—Since the 31st March, 1945, we have gone through and valued deficiencies, and we are taking the normal write-off procedure and starting clear again with proper checks from then on.

2882. You are making a clean start from the end of March, 1945?—That is so. The losses statement does record the loss during 1944, but I am afraid that I could not possibly ask the Committee to take any particular account of that item in the circumstances. We just do not know.

2883. If we glance, at this point, at page 24 of the Account (which we shall come to in a moment) item No. 65 in Appendix 1 is "Deficiencies of Stores found on checking Stocks at various Maintenance Units during the year 1944". There is simply a blank?—Yes.

2884. You cannot insert any figure?—It is impossible to say and I think the Committee, a year ago, took the same view on this item. (Sir *Gilbert Upcott*.) The Committee accepted the situation last year, when there was a similar entry.

2885. Are there any questions on paragraph 11? Paragraph 12 is "Middle East". The Comptroller and Auditor General states that the progress of stocktaking since his last report cannot be regarded as satisfactory. I think in 1945 your predecessor, Sir Arthur Street, informed this Committee that the position was improving all the time. The Comptroller and Auditor General at February, 1946, is unable to record this progress as having continued at all. (Sir *William Brown*.) That was, I think, a quite reasonable hope at the time. I would never accuse my predecessor of unreasonable optimism, but it was optimistic. Early in 1945 the Command concerned reported that special stocktaking parties had been established for stocktaking at the five larger

depots. There were considerable difficulties. They were moving about in the Middle East rather rapidly, owing to the activities of the enemy. One depot was actually bombed, and the whole stocks were sent somewhere else. They had to be moved elsewhere. In 1945, as I say (and this was the information on which my predecessor reported to the Committee last year) the Command reported that special stocktaking parties had actually been established for stocktaking at the five larger depots, and they hoped that they would go through the whole work in two years. Then, unfortunately, from this point of view, came the peace, and the sudden disappearance of man-power made it quite impossible to find sufficient airmen with the necessary experience to maintain those special stocktaking parties; and we have only been able to do stocktaking to the extent to which we could use storekeepers who were also engaged on normal storekeeping duties. There has been a great influx throughout depots of surplus stocks, which has made more work for them than they have saved by the reduction in their ordinary day to day issues to units. The accumulation of surplus stocks had made a great deal of trouble. The Command have just had to modify that continuous stocktaking programme and revert to a system of special checks.

2886. Whilst you cannot repeat Sir Arthur's assurance that the position is improving all the time——?—I cannot.

2887. That it is getting every day better and better, can you hold out any hope for the future as regards the progress of stocktaking in the Middle East?—There are two troubles. First of all, there is the man-power problem. That is our main trouble in these things throughout. The second difficulty is that we want to get rid of the surplus stocks as quickly as we can, anyway.

2888. You mean to say you had better sell them before they automatically vanish to the black markets?—I hope not much of that is going on; but it is a danger, obviously.

Chairman.] Are there any questions on paragraph 12?

Mr. Benson.

2889. In fact, your real improvement in stocktaking will be when you hold no stocks?—That will be the ideal position for those who have to keep the records. Perhaps I could say that when demobilisation is finished, and we have got down to a permanent Air Force, we shall know better where we are.

Chairman.

2890. We pass to paragraph 13: "North Africa, Italy and Malta." The Comptroller and Auditor General says: "In the case of the two depots transferred from North Africa to Italy, to which I referred in paragraph 12 of my last Report, the Air Ministry have been informed that, owing to the pressure of current transactions and

4 April, 1946.] Sir WILLIAM BROWN, K.C.B., K.C.M.G., C.B.E.

[Continued.]

shortage of staff, it has still not been possible to reconcile the stocks held with the balances at the time of transfer", and he states that you propose to seek Treasury authority to waive the adjustment. Has that authority been granted?—We have asked for it. (Mr. Jones.) The formal letter has not gone out, we are prepared to approve this. It seemed to us to be almost an operational move of these two equipment depots from North Africa to Italy, and in the circumstances one would expect shortcomings like this in the accounting arrangements.

2891. Are there any questions on paragraph 13? We pass to paragraph 14: "South-East Asia." I should like to know what proportion of the store accounts were examined?—(Sir William Brown.) There were 140 units that maintained what we call formal store accounts, and now there are only 18 that have not been audited for the full year.

2892. Are there any questions on paragraph 14? We turn to the Account. Are there any questions on Vote 1 or Vote 2? On Vote 3 I should like to ask a question on Subhead J: "Receipts". That is in respect of technical and warlike stores. It is a figure of £146,000,000. There is a footnote which gives some details of that. This is supply of aircraft in the main, is it?—Aircraft and equipment, and in some cases services. The main item in that £146,000,000 is £116,000,000 received for equipment supplied and, in some cases, services rendered to Dominion and Allied Air Forces who were operating with the Royal Air Force. There is also an item of £17,000,000 in respect of aeronautical equipment which we sold to Dominion Governments for use in their own territories. I think the only other large item would be certain aeronautical equipment sold to contractors for embodiment in the machines they were producing, and sales of aviation petrol for sale to Government contractors.

Chairman.] Are there any questions on Vote 3?

Mr. Benson

2893. The sales are an extraordinarily high proportion of the costs. Does this Subhead D of Vote 3 include the cost of the manufacture of aircraft?—No. That is on the Ministry of Aircraft Production Vote entirely.

2894. What exactly does Subhead D consist of?—I can give you some particulars of the major items. That expenditure is now almost entirely petrol and oil which is the major store; the expenditure on aircraft, etc., being quite separately accounted for by the Ministry of Aircraft Production.

2895. Included in your receipts are receipts from the sale of aircraft which have been supplied to you by the Ministry of Aircraft Production? You have credited the receipts to your account rather than to the Ministry of Aircraft Production?—

Yes. There is no Vote adjustment there. (Mr. Blunt.) It is not a good trading account. (Sir William Brown.) It is not at all.

2896. It is an excellent one from the point of view of Sir William?—From my point of view it is a good one. (Sir Gilbert Upcott.) From the Exchequer point of view it saves unnecessary accounting.

Chairman.

2897. Are there any further questions on Vote 3? We pass to Vote 4. On the right hand side of the page are the details of Subhead N.—Receipts. There is a miscellaneous item of £673,000. Could you give the Committee any details of that?—(Sir William Brown.) The receipts which appear under Subhead N, in the accounts we are now considering, are not so large an item as you would expect. There are receipts there for a large number of miscellaneous things. There are rents from tenants of Air Ministry estates and farms, and so on; receipts from letting and grazing rights; sales of timber. Those are all small items. Then there is hire of Royal Air Force transport lorries, and receipts in respect of certain sales of lands and buildings. There are receipts of repayments by Dominion and Allied Governments for technical accommodation provided for their Air Force operating with the Royal Air Force. The major item there, again, would be from Canada, because Canada, as I said earlier, agreed to repay the costs of further training and so forth, of Royal Canadian Air Force men employed with the Royal Air Force in this country. That in itself is the major item in those receipts—the receipts from Canada.

2898. Is that in the item: "Miscellaneous receipts", No. 3?—Yes. (Sir Gilbert Upcott.) Receipts from Canada are in No. 4. (Sir William Brown.) I beg your pardon; they are in No. 4. No. 3 is the £673,000 item. That is the hire, mainly, of Royal Air Force transport lorries and plant used by contractors working on airfields and elsewhere. There are also in that sales of certain surplus works stores which were under Vote 4.

2899. Would you look at the footnote to Subhead MM. Subhead MM is: "Extra-contractual Payments to Contractors", an expenditure of £894,000. The footnote says: "Includes *ex gratia* payments to contractors", and that amounts to £91,000. It says they "have been made on grounds of hardship due to the extra costs of wages and materials over prices quoted before the war". Then the second one is: "payments for extra costs incurred as a result of poor quality of labour and shortage of labour". It must be very difficult to assess or to calculate what is the proper payment to make to a contractor above his contract price on account of the poor quality of the labour he has engaged?—It is extremely difficult, but this possibility first

4 April, 1946.] Sir WILLIAM BROWN, K.C.B., K.C.M.G., C.B.E.

[Continued.]

arose early in 1943, when a number of contractors represented that they had incurred costs due to serious labour difficulties which they could not have foreseen when they quoted for the contract. They said, first of all, because of the scarcity of labour which they could not have foreseen, and, secondly, because, owing to the direction of labour the more efficient people were grabbed for other purposes by the Ministry of Labour, and they had a low standard left to them. That was the result, as I say, of the general call-up. Sometime in 1942 there was a special call-up which took away a number of foremen, changehands, and so on, and then there was general control of labour. They got a low priority for their contracts, which they had not foreseen at the time, and in some cases they had to use craftsmen as labourers just to get along. After discussion with the Treasury the Contracts Co-ordinating Committee obtained Treasury approval to deal with the claims *ex gratia* under the two main headings, scarcity of labour and the poor standard of efficiency of the labour available.

2900. Did you get Treasury approval in each individual case?—Yes, each individual case; but there were general rules laid down by the Treasury. (Mr. Blunt.) We gave authority up to £5,000. (Sir William Brown.) Yes.

Chairman.] Are there any questions on Vote 4?

Mr. Benson.

2901. Subhead B is "New Works". It is a figure of £54,000,000. Could you break that down in order to give us some of the larger items?—This Subhead, incidentally, is different from previous estimates, in that it includes items under £2,500, which used to be separately specified under Subhead C, and will be again in the future. Of this £54,000,000, about £13,000,000 is overseas stations. At home, £7,500,000 is runways—resurfacing and so forth. It is a very expensive thing to keep a runway up and a terrible figure to construct it. £2,000,000 to £3,000,000 odd is for the development of three separate stations, which were developed for very heavy bomber standards which had not been foreseen when the stations were built. £1,500,000 was expenditure on airfield lighting facilities and things like that. A number of items, which came to a very large total, were in the accommodation of the United States Army Air Force in this country, because they used about 125 airfields, and the buildings to go with them. Our guess at the total cost over some years on accommodating the United States Army Air Force was £125,000,000.

2902. That was reverse lease-lend?—Yes.

Chairman.

2903. Are there any further questions on Vote 4? We pass to Vote 5: "Medical Services". Is there any question on that Vote? Vote 6 is "Educational Services."

Here, again, there is a very substantial miscellaneous charges item under Subhead T. It is almost as large as the expenditure on educational staff. Could you break that down for us?—One reason why the disproportion appears between the two items is that a large part of the expenditure on educational staff appears in Vote 1. In the expenditure under Subhead T: "Miscellaneous Charges" there is the deferred pay scheme for teachers: there is the superannuation scheme for certain officers who entered the Royal Air Force at certain dates and wanted to come under the special scheme. There was another scheme for officers of a certain period, who paid 5 per cent. of their salaries to a deferred pay scheme, and they then collect, when it accrues, a total capital sum. There are payments to universities for special courses, and to other people for courses for the training of wireless mechanics, the instruction of W.A.A.F. personnel in telegraphy—particularly high speed telegraphy—at technical institutions. There is instruction in motor driving. There is a certain preliminary training of air crews by local authorities. The instruction of R.A.F. personnel at contractors' works in the care and maintenance of airframes, turrets, guns, and that sort of thing. There is the short special university course for air crews. There is an item of fees to examiners which are paid at the usual academic rates. They mark papers for the aircraft apprentices' examination or for the selection of air training corps candidates for short university courses. There is a certain expenditure on laboratory and lecture room apparatus for technical training. It is a large number of items. As I say, it does seem rather extraordinary that the miscellaneous charges should be so large a proportion, but a large part of the expenditure on educational staff appears in another Vote. (Sir Gilbert Upcott.) I think I am right in saying that the major amount is on the instruction of R.A.F. personnel at manufacturers' works. (Sir William Brown.) That is the biggest. That is where they are given the experience in maintenance and handling.

Chairman.] Are there any further questions on Vote 6? Are there any questions on Vote 7? Has any Member any questions on Vote 8: "Civil Aviation"?

Mr. Benson.

2904. Apparently, on this Vote you spent £1,000,000, but the actual aircraft operational costs were £1,000,000, under Subhead JJ.—That was the cost of a special scheme now long gone. It started at the beginning of the war. It was a scheme called the National Air Communications Scheme. It ran internal air routes.

Chairman.

2905. We pass to Vote 9, Subhead J, is: "Compensation for Losses, etc." The note

4 April, 1946.] Sir WILLIAM BROWN, K.C.B., K.C.M.G., C.B.E.

[Continued.]

to Subhead J says: "Includes a payment of £31,365 9s. 11d. for injuries and damage caused by the accidental bombing of neutral territory." The Committee would like to know where the bombs dropped.—That was in November, 1943. There were some bombs dropped at a place called Lund in Sweden. The Swedish Government made representations and after investigations the Royal Air Force had to accept responsibility and pay compensation. The claims for compensation were examined by the Swedish War Damage Board, and we were represented before it by our Air Attaché as well as a Swedish lawyer. The final assessment was made, and the Swedish Government expressed themselves in the end satisfied that we had done the right thing, though they did not express any feeling that we had been over-generous. It is fortunate that there have been few of these claims.

Chairman.] Are there any questions on Vote 10?

Mr. Williamson.

2906. On Subhead A, which headquarters staff is this? Is this at Kingsway?—The headquarters staff is in Kingsway, King Charles Street, and in a number of buildings scattered round London, as well as certain staff outside London which is still headquarters.

Chairman.

2907. Are there any further questions on Vote 10? Are there any questions on Vote 11? Then we pass to Appendix No. 1 which is a losses statement. On page 18 is a list of losses due to theft, fraud or gross negligence, and item No. 1 is: "Theft of cash from the Garrison Engineer's office at an overseas station. An officer who, it was considered, had not taken adequate precautions to safeguard public funds was reprimanded." Is that a form of punishment exclusively confined to the Air Force. The expression used to be "reprimanded," when I was in the Army. Perhaps reproof is rather a smaller degree of blame?—I think you are correct. I am rather new at the disciplinary procedure; but I think it is the same thing. At any rate, it is on his record. There were very considerable, what could be called, in another place, extenuating circumstances. (*Mr. Blunt.*) I think the expression "incurring displeasure" is another form used by one of the Services.

Chairman.] I can imagine anybody incurring displeasure who loses £6,000!

Mr. Williamson.] Was it repaid?

Chairman.

2908. Perhaps you will explain the circumstances?—(*Sir William Brown.*) It took place at Sharjah, in the Persian Gulf. The nearest banking facilities were more than 300 miles away, and there was no regular land or sea communication between the two places, so this balance was carried there

for the payment of wages, and for the local purchase of material. There was Air Force constructional work going on. The money could only be delivered monthly by air, so there was always a substantial sum. In this case it was £6,000 in cash there. It was not in a permanent Royal Air Force Station. The buildings which were used as offices were wooden buildings, and although locked when unoccupied, anybody could really force their way in. It was the Garrison Engineer who was concerned. It was in his office in a sunken concrete chamber with a wooden door flush with the ground, secured with a padlock, etc. Although there was a guard about, there was no guard at night specifically to look after that particular point of danger. It was found in the morning that someone had broken in through the back; the hasp had been broken and the money removed. The quarters of all the personnel employed there and of all the people in the vicinity were searched; all the native quarters, too, were searched, and a watch kept on channels by which money might leave the district, which I understand is possible in places like that. But there was absolutely no trace whatever of who had it. The fact that there were these special local difficulties at this remote station was taken into account when deciding that the officer concerned should only be reprimanded, but at the same time we made arrangements to provide cash once a fortnight instead of once a month, so that there would be less cash kept. A new concrete sunken chamber with a steel door was constructed. So there is less money and it is better guarded.

Chairman.] Are there any questions on Appendix 1?

Mr. Haworth.] We have a number of "reprimands" and "severe reprimands", so evidently "reproving" is a milder term.

Chairman.

2909. It does not leave any permanent stigma.—It is on his record.

Mr. Benson.

2910. Item 2 is a large sum, in respect of the misappropriation of public funds overseas by falsification of pay sheets by three officials. What type of officials were they?—Those were works officials. The three of them worked in collusion—the Clerk of Works, the Station Engineer and a local Pay Clerk. They carried out the dodge not unfamiliar to some contractors in this country of having fictitious names on pay sheets. After that we did make arrangements to make it less easy for that sort of thing to happen, by prohibiting anyone responsible for making up pay sheets or handling pay to act as a witness at the works pay parade; we have also additional supervisory staff. However, they at any rate were dealt with, as the Committee will see, pretty thoroughly. There was a general court martial, conviction, a term of imprisonment, and dismissal.

4 April, 1946.] Sir WILLIAM BROWN, K.C.B., K.C.M.G., C.B.E.
and Mr. L. J. BANFORD.

[Continued.]

2911. How comes it that in the case of item No. 4 the thief escaped? Was he an Englishman?—No, he was an African clerk employed in the works office in a station in West Africa. He was arrested and a certain amount of money was found on him and recovered. A certain amount of money was recovered from a boatman who was assisting him in his escape. The native corporal disappeared and the thief escaped.

2912. The native corporal disappeared?—Yes. He has not been found since.

Mr. Williamson.

2913. Item No. 13 on page 19 is: "Failure of an imprest holder to account for money entrusted to him for making payments to Royal Air Force personnel on board a transport", a figure of £100. We are not told there what happened. We are told in item No. 1 that the person concerned was reproved. Could we be informed what happened in this case?—Unfortunately, while this was still outstanding he was tried by court martial and found guilty for negligently performing some other duties as assistant embarkation officer, and was sentenced to be cashiered. When cashiered he disappeared and we were unable to find him and get any explanation

Mr. L. J. BANFORD called in and examined.

Mr. Banford.] It was necessary, in putting these huts on the sites, to telescope two, or sometimes three, and it meant that there were certain spare parts. These huts were being erected on numerous airfields, and it became necessary to arrange for the care of these parts, and this contractor was asked to put them in his central depot and account for them. I am afraid the Department was rather at fault in not issuing full instructions to the various units at the time, with the result that some of the stores arrived at the contractors without proper vouchers, and there was great difficulty in his maintaining his accounts.

2916. What was the nature of the stores?—The ends of these Blister hangars, the parts not wanted when, say, two or more were put together. The units could not handle them. We had no equipment unit which could undertake the work, so we got this contractor to do it.

(Sir William Brown and Mr. Banford withdrew.)

CIVIL APPROPRIATION ACCOUNTS, 1944.

CLASS III.

VOTE 12.

POLICE, SCOTLAND.

VOTE 13.

PRISONS, SCOTLAND.

as to what happened to this particular imprest account. He has no retired pay and he was not eligible for any war gratuity, so nothing was recoverable. We could have caught him if he had had a gratuity or retired pay due, but he had not.

Chairman.

2914. Are there any further questions on Appendix No. 1? Appendix No. 11 is on page 25. That is a Statement of Equipment Accounts which, with Treasury Sanction, have been dispensed with. We have already dealt with this, I think, on the Report of the Comptroller and Auditor General?—(Sir Gilbert Upcott.) With the first item.

2915. Yes. The second item is: "Equipment accounts maintained by a contractor, covering the period October, 1942, to May, 1944, under a contract for the receipt, storage and issue of Blister Hangar spares were abandoned as unreliable, due to causes over which the contractor had little control. A complete stocktaking in May, 1944, disclosed large discrepancies but there was no evidence that any actual loss had occurred." Would you tell the Committee a little about that item?—(Sir William Brown.) Might I ask the Deputy Director of Contracts to tell the Committee about that? I am not familiar with that one.

2917. I do not understand the statement: "A complete stocktaking in May, 1944, disclosed large discrepancies but there was no evidence that any actual loss had occurred"?—No, they were not the sort of things that anybody would wish to make away with. (Sir William Brown.) You could not find vouchers to tie up. The vouchers did not tie up with the receipts. Some vouchers could not actually be traced, so he could not identify the particular consignors. (Mr. Banford.) There were surpluses of some types and deficiencies of other parts.

Chairman.] Are there any further questions on Appendix II? Are there any questions on Appendices III, IV or V? I think that completes the Account. May I take it that the Account is approved? (Agreed.) Thank you very much, Sir William.

4 April, 1946.]

[Continued.]

VOTE 14.
APPROVED SCHOOLS, ETC., SCOTLAND.

VOTE 15.
SCOTTISH LAND COURT.

VOTE 16.
LAW CHARGES AND COURTS OF LAW, SCOTLAND.

VOTE 17.
REGISTER HOUSE, EDINBURGH.

VOTE 19.
SUPREME COURT OF JUDICATURE, ETC., NORTHERN IRELAND.

VOTE 20.
IRISH LAND PURCHASE SERVICES.
(On these Accounts no questions were asked.)

LAND PURCHASE ACCOUNT, 1944, OF THE SUPREME COURT OF
JUDICATURE, NORTHERN IRELAND.

Chairman.

2918. I wanted to ask Mr. Jones a question in regard to this Irish Land Purchase Account. It is an account in respect of the functions transferred under the Northern Ireland Land Purchase (Winding-Up) Act, 1935. It seems that a good many years have elapsed since 1935 without the Account being in fact wound up. There is

still a sum of £120,000 odd to be disposed of, although all the money has been received in the Account?—(Mr. Jones.) I wonder if we could let you have a note about that?*

2919. Yes, please?—(Sir Gilbert Upcott.) This, of course, is the task of distribution.

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

IRISH LAND PURCHASE FUND ACCOUNTS, 1944.

(On this Account no questions were asked.)

CIVIL APPROPRIATION ACCOUNTS, 1944.

CLASS IV.

VOTE 2.
BRITISH MUSEUM.

VOTE 3.
BRITISH MUSEUM (NATURAL HISTORY).

VOTE 4.
IMPERIAL WAR MUSEUM.

VOTE 5.
LONDON MUSEUM.

VOTE 6.
NATIONAL GALLERY.

VOTE 7.
NATIONAL MARITIME MUSEUM.

VOTE 8.
NATIONAL PORTRAIT GALLERY.

VOTE 9.
WALLACE COLLECTION.

* Circulated to Members; not printed.

4 April, 1946.]

[Continued.]

VOTE 13.

PUBLIC EDUCATION, SCOTLAND.

VOTE 14.

NATIONAL GALLERIES, SCOTLAND.

VOTE 15.

NATIONAL LIBRARY, SCOTLAND.

(On these Accounts no questions were asked.)

CLASS V.

VOTE 2.

BOARD OF CONTROL.

Mr. *Williamson*.] What is the Board of Control?

Chairman.

2920. It looks after lunatics, does it not, Sir Gilbert?—(Sir *Gilbert Upcott*.) Yes.

Mr. *Williamson*.] Is this the cost of asylums?

Mr. *Benson*.] No. This, surely, is the cost of administration?

Chairman.] Let us turn to pages 201 and 202 of the Civil Appropriation Account.

Mr. *Williamson*.

2921. Some proportion of this is paid by local authorities, is it not?—The State institutions are for mental deficient who are regarded as dangerous, not for the ordinary harmless lunatics who are in local asylums. There are two State institutions, one at Rampton in Nottinghamshire, and the other at Moss Side, where they take

care of lunatics who are not criminal lunatics but are dangerous.

2922. Are these asylums which are under the control of certain local authorities? There is one at Rainhill?—There, there would be contained the harmless lunatics. (Mr. *Jones*.) I think that is a local government responsibility, and not the responsibility of any Department of State.

Mr. *Haworth*.

2923. I was one of the Governors of the particular one mentioned, which is under the local authority. It is under the Lancashire Mental Hospitals Board. I presume the national side will come under the Ministry of Health and will get a grant from that Ministry?—And will be taken over under the new Health Services Bill.

Chairman.] Are there any further questions on the Account?—May I take it that the Account is approved?—(Agreed.)

VOTE 3.

REGISTRAR-GENERAL'S OFFICE.

VOTE 4.

NATIONAL INSURANCE AUDIT DEPARTMENT.

VOTE 5.

FRIENDLY SOCIETIES' REGISTRY.

VOTE 16.

BOARD OF CONTROL FOR SCOTLAND.

VOTE 17.

REGISTRAR-GENERAL'S OFFICE, SCOTLAND.

(On these Accounts no questions were asked.)

Chairman.] The last item on our agenda is the Civil Appropriation Accounts, 1944, Class V, Vote 18, Commissioner for Special Areas (Scotland). We will reserve consideration of that Account because the

statement of loans and other expenditure in respect of which a return to the Special Areas Fund may be anticipated arrived only this morning, and Members have not had time to look at it.

(The Witnesses withdrew.)

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

THURSDAY, 11TH APRIL, 1946.

Members present:

Mr. PEAKE in the Chair.

Mr. Benson.
Mr. Cuthbert.
Lieut.-Colonel Alan Dower.
Mr. Haworth.

Mr. Hector Hughes.
Mr. Wadsworth.
Mr. Williamson.

Sir GILBERT UPCOTT, K.C.B., Mr. D. F. C. BLUNT and Mr. C. E. I. JONES called in and examined.

TREASURY MINUTE ON PARAGRAPHS 12 TO 14 OF THE REPORT OF THE COMMITTEE OF PUBLIC ACCOUNTS, 1945.

Sir ERIC SPEED, K.C.B., K.B.E., M.C., called in and examined.

Chairman.

2924. I think it might be for your convenience, Sir Eric, if I said that we were not going today beyond the end of paragraph 15 of the Report of the Comptroller and Auditor General on the Army Appropriation Account, 1944. We begin today with the Treasury Minute on paragraphs 12 to 14 of the Report of the Committee of Public Accounts, 1945. This is dealing with the purchase of oranges for the Army in Palestine. The Treasury in their Minute state: "Their Lordships are confident that the Army Council will take all possible steps to recover any excess costs which may be shown by costing investigations to have resulted from the payment for the 1943 crop in full at the maximum contract prices." This is rather a long story and rather an old story, is it not, but, as several Members of the Committee are rather new to it, you might just explain the background of the story a little?—(Sir Eric Speed.) The background of the story is that prices were agreed with the Citrus Marketing Board, which was an organisation set up by the Government of Palestine—

2925. If I might stop you there, I understand it is not really a marketing board in the sense that it actually does the marketing, like the Milk Marketing Board does in this country?—That is so.

2926. It is a body set up by the Governor of Palestine—really to look after the orange interests of the country?—A part of this price build-up was the payment to the growers of £6 per ton for the fruit on the tree. After the orders had been placed the Ministry of Food, who were also in the market, cancelled or withdrew a proportion of their orders, and some of the growers, being frightened, proceeded to offer their fruit at £3 or slightly more per

ton on the tree instead of at £6. (Sir Gilbert Upcott.) This is the year of account 1943, of course. (Sir Eric Speed.) Yes, this is the year of account preceding the one with which we are dealing. This Committee learned from me in evidence last year that the whole contract price had been paid by the War Department for their contracts without taking advantage of the costing clause which was in the contracts, and I expressed regret last year that that should have been so. The military authorities ought to have withheld a percentage of the price in order to cover any excess profit which might be discovered as the result of costing.

2927. That is to say, the Army were paying their contractors at prices of about £11 or £12 a ton?—Yes.

2928. Of which the grower was to receive £6 a ton?—That is so.

2929. Those were maximum prices?—Yes, those were maximum prices.

2930. Both of them; and there was a costing clause in the contract?—Yes. The Committee expressed in its report the desire that the Army Council should recover excess profits if it could, and the Treasury Minute repeats that. The facts are these. There were 47 contracts in that year, and, of those, 14 were costed. The value of the 14 contracts was £189,000. The Palestine Government's Cost Accountant, who carried out the costing on our behalf, reported that there were excess profits on these 14 contracts totalling £9,000 odd. In arriving at that conclusion he allowed a profit element of 5 per cent. on cost, and he assumed that the price paid for oranges to the growers on the Army contracts was the average of the price paid by contractors to the growers on all their contracts. The contractors had

11 April, 1946.]

Sir ERIC SPEED, K.C.B., K.B.E., M.C.

[Continued.]

many other contracts besides the Army contracts. The question is whether steps should be taken to recover or to attempt to recover that £9,000.

2931. It is a comparatively small sum in regard to the amount of money involved in the 14 contracts as a whole?—It is a small sum. In my opinion—and subject to any strong view expressed by this Committee—I should propose to disregard that excess profit. I should say that in 1944, in the succeeding year, we have in fact withheld 10 per cent. of the contract price in order that this sort of thing may not occur again.

2932. You said that 14 out of 47 contracts had the costing clause in?—No, they all had the costing clause in, but only 14 were costed. The reason was the limitations of time and staff. We excluded contracts which were direct with growers, because in those cases it was in our hands to pay the growers the £6. We also excluded contracts of a minor value, of £1,000 or less in the case of single individuals, or £2,000 or less in the case of groups of individuals.

2933. It was a shortage of staff which prevented you costing the whole of the 47 contracts, was it?—Yes. We did not think it was reasonable to ask the Palestine Government to cost 47 individual contracts. The work is extremely difficult. It covers the processing and the costs on the farm.

2934. Were the 14 which were costed picked out on any special system, or just taken at random?—Apart from the exclusions which I have mentioned, seven of them were for a type of orange known as Shamouties, and the other seven were for a type of orange known as Valencias. We split the investigation among the differing types.

2935. The result of the investigation was that on contracts valued at £189,000, there was £9,000 which was unjustified?—Which was excessive, yes, on the assumptions which I have given, the second of which, of course, is one which casts doubt on the figure of £9,000, because the quality of oranges required for War Department contracts is higher than the average quality required. Therefore, it is probable that some of that £9,000 ought to be reduced and not regarded as an excess profit.

2936. You say that in the light of that examination it is hardly worth while trying to recover any part of this £9,000?—That is my provisional view, yes.

2937. You have been dealing with the 1943 crop, have you not?—That is so.

2938. Could you tell the Committee what were the arrangements in regard to the 1944-45 crops?—In 1944—that is for the crops delivered in February, 1945—the price per ton on tree was £8. There was

some evidence that the proper price to ensure the proper cultivation of the groves was £11 a ton, but the Palestine Government was not prepared to swallow that.

2939. Were the 1944 contracts placed on the basis of £8 a ton to the grower?—Yes.

2940. It seems high, compared with what I believe was the price before the war of about £3 per ton?—It is very high indeed, but, as you know, prices in Palestine for labour and everything else are sky high at the moment.

2941. I think you said just now that 10 per cent. of what was due on the 1944 contracts has been withheld?—Yes. That is to allow, on costing, recovery in cases where we can recover. There, again, we shall not attempt to do a 100 per cent. costing.

2942. Could you say something about the 1945 crop, or is that not harvested yet?—The 1945 crop was delivered in February. That is governed by an agreement made by the Ministry of Food, with Treasury approval, to buy at a fixed price which we, with Treasury approval, have adopted for our own purposes. I do not know what the price is, but the costing provision disappears and we pay a fixed price. Our orders are one-sixth of the Ministry of Food's orders this current year.

2943. So that the placing of the contracts for the 1945 crop has really passed into the hands of the Ministry of Food?—We actually place our own, but we pay a price which has been negotiated by the Ministry of Food.

2944. Mr. Blunt, can you tell the Committee what is the price agreed by the Ministry of Food for the 1945 crop?—(Mr. Blunt.) It is a fixed price of 13s. a case. It is the same price as in 1944. It is quite true, as Sir Eric has said, that although this Minute, in the last sentence, asks the War Office to let us know what arrangements they propose, matters did take rather a different course, as the Ministry of Food were by far the bigger purchasers, and they fixed the price, with Treasury approval, after consultation with the Colonial Office, and we told the War Office that they might go ahead on the same basis. So that, as Sir Eric says, it is really the Ministry of Food which has made the 1945 price, and it is a fixed price. (Sir Gilbert Upcott.) I understand that 13s. a case is equivalent to about £15 10s. a ton. (Mr. Blunt.) Yes, I think that is so. (Sir Gilbert Upcott.) That makes it possible to compare the figures with the figures in the Report of last year.

2945. Is that the delivered price?—That is the delivered price.

2946. Mr. Blunt, have the Treasury any observations to make upon Sir Eric's proposal to go no further in regard to the

11 April, 1946.]

Sir ERIC SPEED, K.C.B., K.B.E., M.C.

[Continued.]

£9,000?—(Mr. *Blunt*.) I should have thought that was reasonable. As he says, it is a small amount. It is now rather ancient history. They have their 10 per cent. retention in 1944, so that year is safeguarded, or should be, and I should have thought it would be reasonable to let 1943 go. As he says, too, it might be shown that the £9,000 was itself rather a high figure.

2947. With regard to the final paragraph of the Treasury Minute, you have been kept informed, of course, as to the arrangements proposed for the 1945 crop?—Matters took a rather different turn. Instead of telling us what they proposed to do, we have told them what they might do.

Chairman.] Are there any questions of the Treasury Minute in paragraphs 12 to 14 of our Report of last year?

Mr. Benson.

2948. Did the 14 contracts out of the 47 represent roughly the same proportion of the total value of the contracts as the numbers?—(Sir *Eric Speed*.) No, the value of the 14 is very much greater than the numerical relation of 14 to 47. It is £189,000 out of £386,000.

2949. In other words, they represented roughly half the total value, so that your maximum refund would be about £18,000, assuming you got it all?—£368,000 was the overall value of the 47 contracts, and this is £189,000 out of it.

Chairman.

2950. I thought you estimated last year, Sir Gilbert, that the value of the contracts was round about £600,000?—(Sir *Gilbert Upcott*.) That was only a very hasty calculation made while the Committee was sitting. I do not think you can attach any sanctity to it at all. It was nothing more than a guess.

2951. You are prepared to accept Sir Eric's figure of £368,000?—The War Office are in possession of the exact facts. (Sir *Eric Speed*.) The figures are £265,000 for Shamouties and £103,500 for Valencias, which makes £368,500.

Mr. Benson.

2952. Your costing was on the assumption of £6 per ton on tree, was it not?—No. The costing found out, or attempted to find out, exactly what had been paid to the growers per ton on the tree.

STATEMENT OF EXCESS, 1944.

ARMY APPROPRIATION ACCOUNT, 1944.

Chairman.

2960. We turn to the Statement of Excess for 1944, and I think we had better take with this the second paragraph of the

Lieut.-Colonel *Alan Dower*.

2953. The price per ton of fruit on tree has increased to a colossal extent, from £3 to £11?—Yes.

Chairman.

2954. It is not £11 now?—It is something over £8 now. I suppose it is about £10.

Lieut.-Colonel *Alan Dower*.

2955. It is quite possible there might be a fall in the price. I am trying to think of the sources of demand for the oranges. The demand might decline according to demobilisation, and many other things. Are you satisfied that the 10 per cent. which you have in hand will be sufficient?—That 10 per cent. in hand relates to oranges which were delivered in February, 1945. It is finished.

2956. The facts of which you know?—Yes. The loss of market and the consequent fall of price to which you refer will or may affect the next lot, as to which there will be further negotiations, I take it, by the Ministry of Food with the Palestine Government over the fixed price.

2957. Therefore, you are satisfied that 10 per cent. (you have far greater information than I have on the subject) will be quite sufficient to meet all eventualities?—I can hardly say that I am quite satisfied. I should very much hope so. There ought not to be any retention, of course. The maximum price ought to be so calculated as to be the actual price. But 10 per cent. is a pretty large proportion of a contract. It would have represented in this year of account £36,000, and only a few contracts would have been found to make an excess profit. (Mr. *Blunt*.) And it is the normal rate of retention on a maximum price contract.

2958. We have found out from time to time considerable wastage, and it is our duty to explore whether we are able to obtain a further increase or not. You are of opinion that 10 per cent. is the full amount which we can reasonably expect?—(Sir *Eric Speed*.) Which it would be reasonable to withhold, yes.

Chairman.

2959. Sir Gilbert, you have not anything to add on this question of the orange purchases?—(Sir *Gilbert Upcott*.) No. It is scarcely practical to carry it any further at the present time.

Chairman.] Are there any further questions on the Treasury Minute on paragraphs 12 and 14?

Report of the Comptroller and Auditor General on the Army Appropriation Account 1944, which relates to the same matter. In that Account Members will find the

11 April, 1946.]

Sir ERIC SPEED, K.C.B., K.B.E., M.C.

[Continued.]

Report of the Comptroller and Auditor General at the beginning. In the first paragraph: "Form of Account," the Comptroller and Auditor General states that the present account contains details of expenditure under Votes and Subheads with explanation thereto. "Details of expenditure for the years 1939 to 1943 will be published later as a separate paper." Can you tell us whether those details have yet been published?—(Sir Eric Speed.) They have not yet been published. They are practically ready for publication. I understand they will not be laid before Parliament, because they have already been before this Committee. They will be published, I think, as a Command Paper.

2961. Quite shortly?—I believe so. I do not know the date, but I think they will be published shortly.

2962. Are there any questions on paragraph 1? We pass to paragraph 2: "Excess of Expenditure over Grant." Members may like, in conjunction with paragraph 2 of the Report of the Comptroller and Auditor General, to turn to pages 2 and 3 of the account, in the same volume. It appears, Sir Eric, that you under-estimated your receipts during the year ended March, 1945, by about £11,000,000. You estimated your receipts at £160,000,000 and they turned out to be £171,000,000?—That is so.

2963. The Comptroller and Auditor General tells us in the third sub-paragraph of paragraph 2, that the excess was attributable mainly to certain receipts from Canada and from sales of stores. Could you give the Committee a few more particulars about that?—I ought first to say that I very greatly regret the existence of this excess, which was due to two mistakes made in my own Department which ought not to have been made. The first one was that we knew we should be paid a sum of £12,000,000 from Canada in respect of stores transferred in the previous year, and by a mistake we did not take it into account. The payment had not been made in the previous year; we had reason to assume it would be made in this year of account, but allowance was not made for that assumption, which in fact turned out to be correct. It was paid in this year. The other mistake was the omission of a sum of £8,000,000, representing the receipt for the sales of warlike stores on Commands overseas. That ought to have been foreseen in part or in whole; but it was not. In the Estimate we took a margin of £21,000,000 to meet unexpected variations, but that was not sufficient to cover the sum of these two major items which I have mentioned, and various smaller variations on our individual Estimates. The two cases I have mentioned form the burden of the excess.

2964. These two items were not taken into account when you were forming your

Estimate of £160,000,000?—That is so. They should have been but they were not.

2965. There was £12,000,000 for the sale of stores in Canada?—Services and supplies to Canada.

2966. Services and supplies?—Yes.

2967. In Canada?—To Canada—probably to their Forces over here.

2968. The remainder was due to sale?—of stores under Vote 9, mainly in Overseas Commands.

2969. What kind of materials were sold?—Ammunition, sandbags, building material, barbed wire, and so on.

2970. Did you allow something in your calculations for the sale of warlike stores?—Yes, we did, but only Headquarters sales. We did not allow for local Commands selling.

2971. The account at page 2, in items 8 and 9, "General Stores" and "Warlike Stores", shows two smallish items of receipts.—There is £1,000,000 on warlike stores; but I think these receipts were taken in Vote 1. That is included in Vote 1 receipts, which are £144,000,000.

2972. You have very frankly acknowledged these two mistakes. It did seem to me a little strange that in presenting your estimate of receipts—which I think was done in February—these two items should have been overlooked.—It is strange, yes. It is quite inexcusable.

2973. Because the Estimate was only made a few weeks before the end of the financial year?—Yes.

2974. Somebody in the War Office had a "raspberry" over this, to put it technically?—Two, yes—one each. I hear a suggestion from the Treasury that it was an orange on this occasion!

2975. I would like to ask Mr. Blunt or Mr. Jones to explain the procedure in regard to this excess Vote.—(Mr. Blunt.) It is a bit puzzling to those not familiar with it. This is a highly technical matter. It is what you might call a manufactured excess. It would have been possible to let these excess receipts of £11,000,000 just flow into the other side of the Exchequer, in which case the War Office would not have had to come for an excess Vote at all. But we did not want that; it is misleading. This £11,000,000 is the sort of money which ought to offset Vote of Credit expenditure, and, therefore, we took steps to ensure that that money was in fact used to offset it. The only way we could do this was by restricting the issue from the Vote of Credit by the same amount. That is to say, although the War Office could have drawn on the Vote of Credit to the extent of £1,077,000,000, that being their expenditure, we restricted that to £1,066,000,000, and, therefore, left them short on their gross Vote of £11,000,000, with the inten-

11 April, 1946.]

SIR ERIC SPEED, K.C.B., K.B.E., M.C.

[Continued.]

tion that an excess Vote Estimate should then go to the House, authorising them to use those excess receipts of £11,000,000 to meet that short fall on gross expenditure of the same amount. It is, as I say, a highly artificial procedure, and it is done with the object of not allowing the income side of the Exchequer to be unduly swollen.

2976. All these excess Votes which come from time to time before us require the approval of the Public Accounts Committee before they can be presented to the House. Is that not so?—That is so. I may say that the same reason why we are asking for this excess Vote of £11,000,000 applies in respect of the original Supplementary Estimate of £160,000,000. That also was an artificial Estimate in a sense, in order that £160,000,000 should be applied as an offset against expenditure.

2977. The rather unusual feature about this excess Vote is that it is brought forward not in the financial year falling next after the year in which the excess was made, but in the second financial year, so to speak, after the excess?—That is so. The general arrangement I think is that in the case of Civil Votes, the Comptroller and Auditor General's Report and Certificate are available before the end of the financial year. In this case, with the present wartime delays, that would not have been possible in the case of a Defence Department.

2978. Erskine May apparently lays it down that "demands for excess grants are presented to the Committee of Supply in the form of a single resolution, and the grants should be voted and the money made available before the end of the current financial year, in order that the irregularity may be set right at the earliest possible moment."—We have had at least one case during the war, or two cases, of excess Votes, where the matter has come before the Committee only in the further financial year. That was the Ministry of Supply. The Committee then raised no objection, and gave us authority, after having reviewed the circumstances, to present the Estimate, which we did.

2979. Sir Gilbert, have you anything to add, particularly on the point as to why the excess Vote was not presented in the year following the year in which the excess was incurred?—(Sir Gilbert Upcott.) Yes—I will deal with that in a minute, if I may. First of all, I should like to say that, of course, in peacetime an excess Vote is regarded by this Committee, and always has been regarded, as a serious matter, because it means usually that the Department has, either knowingly or unwittingly, exceeded the grant allowed by Parliament, and therefore it is a matter which the Committee has always referred to seriously, and I think the utmost possible steps are usually taken to avoid it. But in this case, under Vote of Credit procedure, relating to

a Service or a Supply Department, as the Treasury have explained the excess Vote is a pure technicality, the object being to avoid inflating the revenue and expenditure. It is very regrettable that, owing to errors in the War Office, it should be necessary to adopt this procedure, because it gives unnecessary trouble and wastes the time of Parliament. In the case of the Ministry of Supply which was before the Committee in 1943, and I think in one later year, the Committee accepted the procedure proposed by the Treasury, and indicated orally at the hearing that, while they regretted it had happened, the Committee had no objection to the excess Vote, but said they would deal with the matter in their subsequent report. In peacetime it is usual to report specially, but that has not been thought necessary in the case of a Vote of Credit Service during the war. I wanted to emphasise the fact that there is a wide difference between an excess Vote which arises in circumstances such as this, and an excess Vote which is incurred under peacetime conditions when Parliament has granted fixed sums. If I may, I will proceed to the question of the failure to deal with this matter in the year following the year of the excess. For that I must take entire responsibility, because it is due to the fact that my audit of the account was not completed in time for it to be certified and presented with my Report to Parliament before the financial year was approaching its completion. In fact, my Report is dated the 20th March. Of course, that is a considerable time after the statutory date at which it is my duty to present audited accounts to Parliament. Sir Erskine May, I think, wrote in times when world wars were not envisaged, and certainly it would be totally impracticable, during wartime, for me either to obtain, or to complete, the examination of the Appropriation Accounts of the Service Departments and Supply Departments before the statutory dates of their presentation. For that I can only express regret. What the sanctions are I cannot say.

Chairman.] Are there any questions on the Statement of Excess or on paragraph 2 of the Report of the Comptroller and Auditor General?

Mr. Benson.

2980. Was the Ministry of Supply surplus a similar surplus to this, arising on an excess appropriation?—(Mr. Blunt.) Just the same.

2981. Is there any precedent for this method, other than the precedent of the Ministry of Supply, or are these two rather unique?—It can only happen in wartime anyway.

2982. It can only happen in wartime?—It can happen only on Vote of Credit procedure. (Sir Gilbert Upcott.) There were two occasions with the Ministry of Supply.

11 April, 1946.]

Sir ERIC SPEED, K.C.B., K.B.E., M.C.

[Continued.]

2983. The Ministry of Supply, or whatever Department is selling off our surplus stores, cannot very accurately estimate its receipts?—(Mr. *Blunt*.) They were in much the same position as Sir Eric. They presented an Estimate in, say, February, and had the same opportunity of getting a good Estimate. (Sir *Gilbert Upcott*.) Sir Eric has done a great deal better than the Ministry of Supply. Sir Eric has given reasons for the failure to estimate. The Ministry of Supply were unable to furnish reasons for the very wide variation between the Estimate and the expenditure.

2984. Sir Eric always scotches us by giving good reasons! I was thinking rather of the future. The Ministry of Supply, or whatever Department is dealing with surplus stores, will have to sell off very large quantities of stores, and it is unlikely that any accurate estimate of receipts can be made—(Mr. *Jones*.) The surplus receipts in 1946-47 are to go to the Exchequer. They are not to go as Appropriations in Aid. Therefore, the Vote Estimates are not affected.

2985. How do they deal with the excess receipts which are handed over separately? Do they go into Miscellaneous Receipts?—(Mr. *Blunt*.) They go into Miscellaneous Revenue. May we go ahead on this occasion with the presentation of the Estimate? The War Office will want to be able to present it.

Chairman. Are there any further questions?

Lt.-Colonel *Allan Dower*.

2986. I would like to ask for confirmation of the statement that this could not occur except in wartime.—This set of circumstances could only arise when there is a Vote of Credit; that is to say, when there is a war.

2987. So that the whole situation is over now?—That is so.

Chairman.

2988. I think the Committee, whilst reserving their right to comment upon this matter if they feel so inclined in their Report, approve of the Excess Vote going forward. Is that agreed? (*Agreed*.)—(Sir *Eric Speed*.) Thank you.

2989. In paragraph 3 of his Report, the Comptroller and Auditor General deals with military expenditure overseas in North-West Europe. In subparagraph 2 at the top of page iv, he states: "The Army's local requirements in stores and services have, in general, been provided free of charge, in the liberated countries by the Allied Governments concerned under mutual aid agreements, and in Germany by the German authorities." He goes on to say: "local expenditure has consisted mainly of issues of pay." When the Comptroller and Auditor General speaks of the local ex-

penditure being mainly issues of pay, are there some other items beyond issues of pay?—Yes, if I may answer for the Comptroller and Auditor General. Although we normally get our local supplies of food and other things through the French, or whatever the country is—through their agencies there are occasions when it is convenient ourselves to go to the markets and buy for cash. That is one exception. The other is mainly the payment of claims for torts—for running over a child, and that sort of thing, by an Army lorry.

2990. They are not covered by mutual aid agreements—No. We prefer to settle them ourselves.

2991. Have these arrangements now come to an end?—Yes, They came to an end in November, 1945.

2992. In the last subparagraph of paragraph 3 the Comptroller and Auditor General states: "In Germany the Army use currency notes printed by the Allies which fall to be redeemed by Germany. Expenditure out of these notes is charged against Army Votes"—that is to say, whatever currency notes are issued through the Army and spent in Germany are debited against you as expenditure.—As though they were provided in sterling. (Sir *Gilbert Upcott*.) There is a corresponding appropriation in aid. (Sir *Eric Speed*.) It is explained in the next sentence, that it is balanced by an Appropriation in Aid.

2993. Could you tell the Committee what sort of rate of expenditure there is by means of this printing of German notes? What is the sort of global figure over a period—I do not think I could say. The expenditure by the troops in Germany expressed in sterling is very much the same as it is in other parts of the world.

2994. Are the British troops in Germany drawing their full pay in German money?—If they want to do so—but they do not. They under-draw their pay, as they do in most theatres abroad.

Chairman. Are there any questions on paragraph 3?

Mr. *Benson*.

2995. I take it your estimates of the amount of expenditure in Germany must have been rather haphazard, surely, in the past year?—Yes.

2996. You cannot be very accurate. That, again, means that you cannot be very accurate as to the offset Appropriation in Aid. Does that mean we shall get another excess next year?—(Sir *Gilbert Upcott*.) That is the calculated sum. (Sir *Eric Speed*.) This is an account figure.

2997. I am not quite clear. What is a calculated sum?—(Sir *Gilbert Upcott*.) The Appropriation in Aid.

2998. This paragraph refers to a year in which we were still financing the Army out of the Vote of Credit, and your

11 April, 1946.]

Sir ERIC SPEED, K.C.B., K.B.E., M.C.

[Continued.]

Appropriation in Aid is a very fluctuating sum?—(Sir *Eric Speed*.) The actual cash expenditure in Germany is paid for out of notes which we print, which cost us nothing but the printing. Therefore, we balance that expenditure of marks. All the expenditure is charged to the Votes as though it were sterling expenditure. As there has been no sterling expenditure the sum is balanced by an Appropriation in Aid of an equivalent amount.

2999. Exactly, but your Appropriation in Aid is, therefore, as in the case of the last Appropriation in Aid, not likely to be accurate?—I think so. We know how much money we have drawn and to what purpose we have put it.

3000. Your error in the last year was due to the fact?—That was a receipt we made a mistake about.

3001. All Appropriations in Aid are receipts?—We are not receiving anything here at all in cash. (Mr. *Blunt*.) This is a contra entry. (Sir *Eric Speed*.) All we are doing is balancing.

3002. You make each side balance?—We charge it to the Vote in order to bring it to the attention of Parliament.

Chairman.

3003. It is really self-balancing expenditure?—Yes. (Sir *Gilbert Upcott*.) And to make it subject to audit?—(Sir *Eric Speed*.) Yes.

Mr. Benson.

3004. I am sorry to revert to this matter, but it has some bearing on what I am trying to get at. The Appropriation in Aid of £160,000,000 was too little. When was that figure given to Parliament?—The £160,000,000?

3005. Yes.—February, 1945. It related to the year ended April 1st, 1945.

3006. Have you given to Parliament now the figure which relates to this?—It is in the account.

3007. Is it in the Appropriation Account?—Yes, on page 5.

3008. The previous trouble arose because, by error, it was missed out of the Appropriation Account?—The Appropriation in Aid, yes.

3009. That was missed out of the Appropriation Account?—Yes. In this case you will find it on page 5, item 3a.

Chairman.

3010. That is the amount I was talking about, is it not?—Yes.

Mr. Benson.] I think I have it.

Chairman.

3011. It is a figure of £8,500,000 in this financial year?—That is Reichsmarks and other local currencies drawn from enemy Governments, other than Italy.

Mr. Wadsworth.

3012. I am not quite clear about the last subparagraph. The Comptroller and Auditor General states that the Army use currency notes printed by the Allies which fall to be redeemed by Germany. Do we get anything back from this expenditure in connection with the Army of Occupation?—We get the services for it. We get the German labour, a little German food, German buildings are requisitioned, and so on. Ultimately, the redemption of those notes hangs on the German Government, so that all our expenditure in Germany in German currency will ultimately be a burden on the German people.

3013. Ultimately?—Ultimately.

3014. It is a long-term policy?—That does not cover our sterling expenditure outside, of course.

Mr. Haworth.

3015. I do not know whether Sir Eric is the appropriate person to whom to address this question, but I am wondering why, if we can do this with the Army, we are spending £60,000,000 for the Control. Cannot we do something on the same lines?—(Mr. *Jones*.) That is external expenditure, not in German currency. It is what we have to spend in dollars and pounds sterling to export goods into Germany. (Sir *Gilbert Upcott*.) We can print German notes but we cannot print dollar notes.

Mr. Cuthbert.

3016. To follow up this point of the redemption by Germany, I take it we have spent a certain amount of sterling in creating these notes. When the time comes for redemption, if it is not to be in services, etc., I take it the sterling will be repaid?—(Sir *Eric Speed*.) The notes were printed in America, and we pay the American Government our share of the cost of producing them. I suppose one could say that ultimately we ought to bill the German people for them, but as they will not have any sterling or dollars, or, if they have, they will be quite insufficient to meet the other claims, I do not think this small sum will be worth while. It is an insignificant sum in proportion to the face value of the notes.

3017. What I am trying to get at is this, that there will be a certain number of mark notes put down in our account that we have expended in Germany. When the time comes to repay, there will be no question of a difference in exchange. We shall get back the equivalent in sterling that we spent in making the marks?—No, those

11 April, 1946.]

Sir ERIC SPEED, K.C.B., K.B.E., M.C.

[Continued.]

notes are in Germany and the Germans will ultimately hold them all. The redemption of them, therefore, will automatically fall upon the German Government. They will have nothing to do with us at all. Those notes will exist in Germany and will be legal tender in Germany. The British people will not be concerned with them, nor the British Exchequer.

Chairman.

3018. The position is very similar to the famous case of the Bank of Portugal, when several million escudo notes printed in error by Waterlows got into circulation in that country. Is not that so?—I do not know about that.

Mr. Williamson.

3019. Is there any control of or limit to the number of notes issued, or the amount issued?—For Army purposes?

3020. Yes?—There is exactly the same control as is exercised in this country for the issue of sterling to the Army or anywhere else. The controls are exactly the same in Germany.

Mr. Benson.

3021. Is not the truth of the matter that we have inflated the German currency?—That is what it amounts to.

Chairman.

3022. Are there any further questions on paragraph 3? We pass to paragraph 4 which deals with expenditure in Iraq and Persia, and with the use of the facilities of the Port at Basra. I am afraid I am so ignorant that I do not know in what country Basra is situated?—It is in Iraq.

3023. In the case of the Iraq railways, the original arrangement was to pay 65 per cent. of the civil tariff rates, and that in your view gave the railways considerably more than the cost of the services rendered. Then the payment was reduced to 50 per cent., and against those advances the value of Army stores supplied to the railways was to be recovered. In the next sentence in his Report the Comptroller and Auditor General states that this recovery was completed by March, 1945. Can you tell the Committee what was the arrangement as from March, 1945?—Yes. At the risk of being tedious, I think I had better go back before that, if I may. I should like to say, as regards both Iraq and Persia, that we are negotiating with Sovereign States. In Iraq we started off by paying 65 per cent. of the local tariff, but at the same time we were providing personnel and a certain amount of stores, the value of which may be put at 15 per cent. of the local

tariff. So in fact we were paying 80 per cent. of the local tariff. The next stage was that towards the end of 1944 it was agreed that we should reduce our payments to 50 per cent. of the local tariff, with effect from the 1st April, 1943. We were still giving the personnel and stores equivalent to 15 per cent. of the tariff, and therefore, in fact, we were paying 65 per cent. of the tariff, as compared with the previous 80 per cent. We are now negotiating to pay 55 per cent. There is a general settlement with the Iraqi Government on much larger financial issues going on, and there is the question of excess depreciation of the railways, as the result of war user, and in our view—and more particularly in the Treasury view—if we can clinch at 55 per cent. over the whole period, we shall have done reasonably well.

3024. You said 55 per cent. over the whole period. That is going back right to the outset of the use of the railways?—The whole period up to 31st March, 1944. I ought to say we have made no payments since July, 1944, because we found we were over-paying.

3025. The paragraph goes on to deal with the Persian railways. The situation there is somewhat similar, I think. In the last sentence the Comptroller and Auditor General says: "Agreement has not yet been reached as to the rates payable for the period to 30th June, 1945, and as to the incidence of the total charges as between the various Allied Governments concerned." Could you tell the Committee if any progress has been made there?—In consultation with the Treasury and the Foreign Office we have decided to endeavour to reach a settlement based on payment of the actual operation costs, plus the net annual profit which the railways made before the British Army entered Persia. The sums we have already paid to them are about equivalent to that calculation. There has been great difficulty in reaching an agreement, because in the first place we tried to get the Russian Government and the United States Government to join with us in it, but we failed.

3026. Shall we, therefore, ultimately pay all the costs of transporting military supplies to Russia through Persia?—We have paid it. The only question is whether we shall get any of it back. It has been agreed between the United States Government and the British Government that there shall be no adjustment between those two partners.

3027. That is part of the general arrangement for the liquidation of mutual aid, is it?—Yes. As regards the Russian Government, it is possible that the Treasury may bear this in mind in their general financial negotiations with that Government. In fact they will bear it in mind, I have no doubt.

11 April, 1946.]

Sir ERIC SPEED, K.C.B., K.B.E., M.C.

[Continued.]

3028. I understand we have built a railway in Persia, actually, have we not?—Yes, we have.

3029. What is the future of that railway? Will that pass to the Persian Government?—No. We hope to sell it to the Persian Government. On the other hand there is a contra claim for excess depreciation of their own railways; so I do not know how it will come out in the end.

Chairman.] Are there any questions on paragraph 4?

Mr. Wadsworth.

3030. Since October, 1945, no further payments have been made to the Iraq railway?—Since July, 1944.

3031. Up to October, 1945, no further payments had been made?—I beg your pardon.

3032. Up to October, 1945?—Yes. No further payments have been made.

3033. How is the position now? Are we going to be able to recoup all our losses?—We have not made any losses.

3034. We have made over-payments.—It is a matter of opinion whether we have made over-payments. As compared with what our payments would have been on a strict cost basis we have spent £1,000,000 more than we need have on a total expenditure of £7,500,000. But on any ordinary commercial dealings with a friendly but foreign Government one would hardly expect to get away with just paying their actual costs. One would expect some contribution towards depreciation, for example, some interest on capital, and it may be, in some places, some profit to the Government. There is none there on our figures. There will be because they are getting this extra £1,000,000.

3035. To what extent are we going to pay any further money?—We have finished paying. We have already paid the figure which I gave of £7,500,000.

3036. There is no arrangement now that the traffic of war stores has come to an end?—It is practically naught now. In Persia it is nothing. Nothing is going there at all.

3037. What it means is that we have paid £1,000,000 really for depreciation and overhead expenses?—Yes.

Mr. Haworth.

3038. I think it would be better not to put the question I was thinking of putting. It might be embarrassing. I was going to ask—but the Witness need not reply how this compares with our method of paying the British railways?—I am afraid the Witness cannot reply.

Chairman.

3039. Are there any further questions on paragraph 4? We pass to paragraph 5, dealing with Italy and North Africa. The arrangements in regard to local currency there are similar to those we have already discussed, are they not?—Yes.

3040. In paragraph 6 the Comptroller and Auditor General recalls that he "mentioned that the Army were taking steps to ensure that the prices they paid under local contracts were fair and reasonable, and it was explained to the Public Accounts Committee of 1945 in evidence that these steps consisted of the introduction of costing provisions into the larger contracts and the pre-costing of the prices of the smaller contracts." I think it would be convenient if you explained to the Committee the difference between those two systems?—The pre-costing of a contract is the assessment by officers who have been accustomed to buy that class of goods—cabbages, lettuces or whatever it may be, all over the world—of what would be a reasonable price to pay for those articles in the particular country. The contract is then made at, let us say, £1,000, and the contractor knows that he cannot spend more than £1,000. The post-costing system is that there shall be a maximum price more than which the contractor shall not get. In any case, his contract will be costed and he may get less. In Italy we were far more concerned with the economy of Italy than we were with the prices that the Army were paying, because the Army was buying in lira which cost the British taxpayer nothing. It did not really matter. The serious thing was that we did not want to increase the enormous inflation in Italy unnecessarily by paying very high prices for what we bought in Italy. That was one of the objects of the pre-costing system. In point of fact I was unable to effect any costings because I had not any cost accountants. If I had had I should have preferred to send them somewhere where they would be saving the British taxpayer's money. But the steps described in the last two paragraphs were taken, and the Italian Government have shown some modest amount of activity in fixing maximum prices for some commodities, which will have their effect on keeping down inflation.

3041. You confirm what Sir Gilbert says in his last paragraph, that it has not been possible to arrange for a costings officer to investigate certain contracts which had the costing clause?—Yes. Frankly, I have not the men to do it, and as I said before, if I had I should wish to send them to some other place where their work would be of use.

3042. What are these Provincial Price Committees which are mentioned?—They are part of the organisation of the Italian Government. They are Italian Committees.

11 April, 1946.]

Sir ERIC SPEED, K.C.B., K.B.E., M.C.

[Continued.]

Local purchasing officers consult them as to what the prices ought to be and bargain with them by way of reduction of prices.

Chairman.] Are there any questions on paragraphs 5 and 6?

Mr. Benson.

3043. With regard to the question of these prices, as it does not cost us anything, surely the Italian Government should have been far more concerned about inflation effects than ourselves?—They should have been

3044. Were your local Provincial Price Committees price regulation committees or what?—I am afraid, without looking at the Italian terms of reference, I cannot tell you. They certainly established maximum prices within their own districts for certain commodities, and, therefore, they were price controlling, but I think they were mainly advisory. There is very little control of any sort in that country.

3045. What puzzled me was your phrase that you had to "bargain" with them?—I meant suggesting to them that the price they were allowing for a certain product was disgracefully high in their interests. That is all I meant.

3046. It was so essentially a matter of their interests and not ours that one would assume that they themselves would have taken the initiative?—One would have assumed so.

3047. The assumption would have been wrong?—It would.

Mr. Hector Hughes.

3048. May I ask a question with regard to the last sentence of the last subparagraph of paragraph 6: "my officers were informed that it had not been possible to arrange for a costings officer to investigate certain contracts which had the costing clause." Does that mean because they had a costing clause?—No.

3049. Or because there was difficulty about having people to do it?—Yes. In spite of the fact that they had a costing clause we have not availed ourselves of that clause. We were entitled to do so under the terms of the contract, but we decided not to do so.

3050. The clause does not preclude you from doing so?—On the contrary, the clause permits us to cost it.

3051. Where it was not found possible to do that, does that mean that there is danger of excessive prices being charged? Yes.

3052. Was that to a large extent?—I should think quite probably yes.

3053. Could you put a figure on it?—I am afraid not without notice.

3054. Would it be thousands or tens of thousands of pounds?—I should not like to commit myself, but I repeat that it does not fall on the Exchequer.

3055. Why?—Because the payment is made in local Italian currency which we secure without charge.

Mr. Williamson.

3056. Why should we worry as to these prices?—We worry because we have assumed some responsibility for the future and present prosperity of Italy.

3057. It is from that point of view?—We had a Control Commission there which was endeavouring to put them on their feet.

Mr. Cuthbert.

3058. I do not know whether this question is relevant to this matter at all. If I am out of order no doubt you will tell me. We are told that these special currencies do not cost us anything, as it were, so I take it that all the salaries being drawn by our troops in Italy, shall we say, in currency have really cost this country nothing except the cost of making the paper? I do not know whether that question is allowed here, but it is a rather interesting point, in view of what my friend across the way said about the cabbages, and so on. The officers have been drawing part of their pay, as they do, to spend in Italy with special currency that has been manufactured by ourselves but issued in Italy. Am I right in saying that that part of their salary so drawn has really cost the Exchequer nothing?—The first point is that the officer and the man have had value for it.

3059. That is true. I grant you that. I am thinking of what it has cost our Exchequer. The officer has nothing to grouse about at all?—(Sir Gilbert Upcott.) It costs us nothing only so far as he does not draw sterling.

3060. Only so far as he does not draw sterling, but officers, as we know, have drawn a certain amount in lira in Italy.—(Sir Eric Speed.) It is a saving to the Exchequer.

3061. That is the point I wanted to get at.—(Sir Gilbert Upcott.) It is in fact planting the occupying Army on the occupied country. (Sir Eric Speed.) It is a form of reparations, in a way, without any overseas value.

Chairman.

3062. I take it the Treasury are keenly interested in the question of economy of expenditure of this character on account of the disturbing effect it will have on the Italian economy?—(Mr. Blunt.) Yes, on a long view I suppose that would be so. I do not know whether, on a short view, it makes much difference.

3063. Are there any further questions on paragraphs 5 and 6? We pass to paragraph 7: "East Africa", which is a little more specific. It would appear that a contract was placed at some earlier stage during the war with a local corporation involving

11 April, 1946.]

Sir ERIC SPEED, K.C.B., K.B.E., M.C.

[Continued.]

expenditure of close upon half a million pounds a month for the transport of stores by road in Abyssinia, British Somaliland and Somalia. In December, 1945, the Comptroller and Auditor General's officers were informed "that the circumstances in which the contract was placed were still under investigation, that no tenders were called for as it appeared that there were no other contractors in the area capable of carrying out the contract and that the rates of hire, which had been twice reduced since the contract was placed in January, 1944, were now considered by the Civil Affairs Branch to be fair and reasonable, local trade rates being about 50 per cent. higher. The contract contains no provision for costing." Would you mind telling the Committee a little more about the details of this contract and how it came to be placed?—(Sir Eric Speed.) Yes. I think the first point is whether the local Command was entitled to place a contract of that magnitude. In my opinion, the technical answer is that they were. They are entitled to place a contract of any magnitude at competitive tendering. In this case there was nobody to compete. This firm was the only firm in existence which could get near the job that was required. Therefore, technically, competition not being possible, the Command was entitled to place the contract. On the other hand, it is for a very large sum of money per month, as stated in the Comptroller and Auditor General's Report, and in my opinion they would have been well advised to consult the War Office.

3064. Do you have a financial adviser somewhere in the Middle East?—Yes. If they had reported it to the War Office I think the result is likely to have been exactly the same. The supplies for these districts come in mainly through the Port of Jibuti which is on the Addis Abbaba railway, and are railed up to a place called Diredawa where the main depot is. They are thence distributed mainly in a southward direction for distances of 2,000 to 2,500 miles over tracks. The 3-ton British Army lorries started falling to pieces, and the lorries which were best calculated to do this work had been introduced by the Italians before the war in Ethiopia, and a firm—whose name I can give you if it is required—had operated those lorries, with their main supply and repair depot at the same place, Diredawa. It seemed reasonable, therefore, to employ this firm which possessed Diesel 6, 7 and 10-ton lorries, which I take it were designed for this sort of work, and which carry four times the load of the British Army lorry, instead of employing British Army lorries and drivers. The costs are admittedly high, but the wear and tear on the vehicles is naturally also very high, and the company accepts all liability for loss by pilferage or breakdown. Even so, I think the prices are high, and we are negotiating to have them reduced. We are also considering whether it might be

worth while to cost the contracts, though I ought to say to the Committee that costing in Somaliland is not quite the simple procedure that it is in London.

3065. Is the railhead, where the stores were disembarked to be placed upon lorries, in British territory?—It is just outside the border of French Somaliland. Jibuti is in French Somaliland, and it is just after the railway crosses the border, to the best of my knowledge.

3066. Crosses the border into what country?—I am not sure whether British Somaliland curls round the corner or Ethiopia?—(Sir Gilbert Upcott.) Ethiopia.

3067. It is in Ethiopia?—(Sir Eric Speed.) Yes.

3068. So that this firm was an Ethiopian firm, I suppose?—I do not honestly know what its origin was. It does not appear in the Companies Register at the Board of Trade. It is not a British firm, at any rate. I take it it came into being when the Italians were in occupation in Ethiopia.

3069. I was wondering why the military authorities on the spot had not just requisitioned these lorries?—We could have got to Addis Abbaba 900 miles up country and requisitioned a fleet of lorries (most of them were there) in somebody's else country; but it would be a very unusual step to take. A large number of these 6-ton and 7-ton lorries existed all over Ethiopia in the hands of individual farmers, and this particular company knew where they were, having probably sold the lorries to the farmers, and they proceeded to buy them back and make this fleet for us.

3070. In fact, the fleet of lorries had been dispersed?—They were all over the country, but there was a group in Addis Abbaba, the capital of Ethiopia.

3071. You are satisfied that this was the only way to get the goods transported?—I am satisfied that it was the best way to get them transported. I cannot say I am particularly satisfied with the price; but without being out there and seeing the conditions I can well believe that a high price is inevitable. (Sir Gilbert Upcott.) You asked what was the date of the contract just now?

3072. Yes?—It ran from the 1st January, 1944.

Chairman.] Are there any questions on paragraph 7?

Mr. Hector Hughes.] I see nothing in these paragraphs under the heading "East Africa" on anything like the same lines as the pre-costing and post-costing observations under the heading "Italy and North Africa." Does that mean that there was nothing done in the way of pre-costing or post-costing in East Africa?

Chairman.

3073. No; I think it means that the Comptroller and Auditor General did not

11 April, 1946.]

Sir ERIC SPEED, K.C.B., K.B.E., M.C.

[Continued.]

think it necessary to draw attention to those matters. Is not that right, Sir Gilbert?—I receive reports from my officers in Egypt, and I should think there were probably very few costed contracts in that part of the world. . . . (Sir *Eric Speed*.) This is not one of them.

Sir *Gilbert Upcott*.] . . . for the reason that Sir *Eric* gave. This is not one of them, as he says.

Mr. *Hector Hughes*.

3074. What check was there on costs in East Africa, if there was neither pre-costing nor post-costing?—(Sir *Eric Speed*.) I do not agree that there was not pre-costing. Pre-costing does not mean much. It means that when you decide to ask the firm to do services for you you bargain with the firm as to what you will pay them for it, and with your own expert knowledge of what lorries cost you arrive in your own mind at a pre-costing of what you should pay. There is nothing more to it than that.

3075. To use the analogy you used a little earlier about lettuces, pre-costing means, does it not, that you ask in advance how much will the lettuce be? Post-costing means, does it not, that you buy the lettuce and pay the bill when presented to you *post hoc*?—Within the maximum price which you had already agreed.

3076. Is not pre-costing the best way, therefore, of achieving an economical bargain?—That is as it may be. In this case pre-costing was adopted. There was no post-costing in this contract, which is referred to by the Comptroller and Auditor General.

3077. Coming to that particular contract in East Africa, the Comptroller and Auditor General states that it was a contract with a local corporation. What does "local corporation" mean? Does it mean a local authority, a private firm, or an individual?—It is merely a business. It was a firm.

3078. A firm running for private profit?—Yes.

3079. I gather—am I right—from paragraph 7 that that was the only firm available to do this work in East Africa?—Yes.

3080. So that we were entirely in the hands of that firm?—Unless we chose to do it ourselves with Army lorries.

3081. Would that not have been cheaper?—No, that is why we did not do it, because the 3-ton lorry is not designed to run enormous distances over almost non-existent roads. The 6, 7 and 10-ton lorries which this firm owned were so designed.

3082. Does it amount to this, that we were entirely in the hands of this one firm? We employed them without any pre-costing, and had to pay what they chose to charge us after the work was done?—We were certainly in their hands, to the

extent that no other firm was available, but if the costs had been considered wholly out of proportion I suppose we could have continued to operate our own 3-ton lorries and taken the cost ourselves. One is always in the hands of a single entrepreneur.

3083. Was it for that reason that the investigation was undertaken, because it was thought by us that the price was excessive?—This is the report of the investigation undertaken by the Exchequer and Audit Department's representative out there. They investigate anything arising out of their audit which they think requires investigation, and this very naturally caught their attention, and they investigated it. The result is the Comptroller and Auditor General's comment.

3084. As a result of that investigation the prices were twice reduced?—Not as a result of the investigation, no. They have been reduced. I hope they will be further reduced now.

3085. Why were they reduced?—Because I suppose it was agreed out there that the prices were unnecessarily high to start with.

3086. They must, surely, have been very much too high, having regard to the fact that they were reduced not once but twice?—Yes, they may have been much too high.

3087. Are you satisfied they have now got down to a price which is fair and reasonable?—I am not satisfied but I hope to be soon. (Sir *Gilbert Upcott*.) My officers, of course, do not necessarily form a final judgment that prices are too high. They will not have the necessary knowledge to do so. But when they come across a contract which appears to require justification, they ask for the reasons for it being placed, as they did in this case, and whether the prices are considered reasonable. It is a matter for the War Office to investigate, and the results of that Sir *Eric* has given. I ask questions.

Mr. *Hector Hughes*. Thank you very much.

Mr. *Benson*.

3088. Are these Italian lorries?—(Sir *Eric Speed*.) I do not know that they are, but I think they must be. They are not British lorries.

3089. Is there any other basis of freight rates with which you can compare your prices? All you have is the local freight rates, which would be pushed up by your demand for the lorries. The demand would tend to raise the local freight rates?—The local rates are 50 per cent. higher than the ones we pay.

3090. The local freight rates are not independent variables. The local freight rates would be affected by your demand?—I could compare them with the United Kingdom road haulage scheme, but I do not think the comparison would be worth while.

11 April, 1946.]

Sir ERIC SPEED, K.C.B., K.B.E., M.C.

[Continued.]

3091. Was there any established freight rate for this type of work prior to our appearing in East Africa, or prior to the outbreak of war?—There must have been, under the Italian Government.

3092. You have not any idea what those rates were?—No. (Sir Gilbert Upcott.) I might, perhaps, interpose one remark in addition to what I said just now. The reductions in price mentioned in my paragraph were not a consequence of the inquiries made by my officers. The reductions were made in December, 1944, and in August, 1945; that is before the questions were asked by my officers. They were made by the Army authorities as the result of their experience of the working of the contract.

Chairman.

3093. You cannot tell us the extent of the reductions, can you?—Yes, 35 cents per ton per kilometre was reduced to 32 cents from December, 1944, and from the 1st August, 1945, to 30 cents for loaded vehicles and 23½ cents for unloaded vehicles.

3094. The reductions were not, then, of a very substantial character?—They are not very large.

Mr. Benson.

3095. Did you say from 35 cents to 30 cents?—35 cents to 32 cents. (Sir Eric Speed.) The ultimate reduction was about one-seventh.

3096. How much is a cent?—There are 100 to a shilling.

3097. So your price is roughly 4d. per ton per kilometre?—I have worked it out at mileage rates. It is 3s. 4d. a mile for a 7-ton vehicle.

3098. About 6d. per ton mile that will be?—Yes, that is right.

Mr. Hector Hughes.

3099. That is a standard by which you could test whether the price was fair and reasonable?—There is nothing against which you can put that figure. There are no other costs which you can compare it with in that country. If you compare it with any civilised country it is a high price.

3100. Would not a way of testing it be to run a limited number of lorries of our own, and find out what it cost to run them, and then compare the cost with the charge of the contractor?—That is what we had done before we entered into this contract at all. It was the result of our own experience with our own lorries that drove us to accept this contract. We had that much to compare,

Mr. Benson.

3101. It is not very excessive. A big lorry ought to earn £3 a day. It is not an outrageous price, taking into consideration the type of territory, is it?—I do not think it is, taking into account the territory. You have to take that into account.

Mr. Benson.] Compared with what it costs to run a big lorry in this country, and having regard to the mileage covered, it is not very outrageous.

Mr. Wadsworth.] I think a British firm would think it outrageous if they were asked to pay anything like it.

Mr. Benson.] You must make considerable allowances for going over tracks. There would be enormous wastage.

Mr. Hector Hughes.] We do not know that.

Chairman.] Have you any further questions, Mr. Benson?—(Mr. Benson.) No.

Chairman.

3102. We pass to paragraph 8: "South East Asia." On that paragraph I have no questions. Has any member of the Committee any questions on paragraph 9? We pass to paragraph 9: "Foodstuffs." This paragraph deals with various schemes organised, I rather gather, in order to maintain the morale of the troops rather than to add to much needed food supplies?—It is partly to get fresh supplies of food. I have a report of one in Ceylon. They are all minor undertakings of no importance. I have asked for reports on the others. The general indication in the report is that the scheme in Ceylon is running at a small profit.

3103. Comparatively small amounts of money have been frittered away here, have they not? That is what it amounts to?—No, money has not been frittered away at all. The proceeds of the farm have been used to take the place of rations.

3104. You mean in compiling the accounts any credit has been taken for the value of the goods supplied to the troops?—It has been taken into account. It merely shows that, allowing all expenditure on the one hand and the value of the goods on the other, the balance is slightly in credit. It has been slightly worth doing.

3105. I understood that there had been considerable losses upon some of these ventures?—I only have information about one of them.—(Sir Gilbert Upcott.) I may say that I mentioned this not because it is a very grave matter, but because the local reports seen by my officers were very pessimistic, as the result of these operations.

3106. Perhaps you have some information beyond that available to Sir Eric on this matter?—Of course, they were not final trading results, but they were estimated losses and failures—for example, that the

11 April, 1946.]

Sir ERIC SPEED, K.C.B., K.B.E., M.C.

[Continued.]

main consignments of potato seed arrived in an advanced state of decomposition, and, therefore, the potatoes were not useful; there was a heavy mortality amongst goats and ducks. (Sir Eric Speed.) The Comptroller and Auditor General has more information than I have. (Sir Gilbert Upcott.) My officers in Egypt make peregrinations and see the reports of the local financial adviser on these matters. (Sir Eric Speed.) This is South East Asia. (Sir Gilbert Upcott.) My paragraph says: "My officers have asked for information about the costs and financial results of these schemes but have not yet received a reply." Sir Eric says he is in possession of information about only one scheme.

3107. I do not think the Committee had better pursue this matter any further.—I do not regard this as a serious matter. I think it must be the case that the schemes have not been financially profitable as a whole.

3108. I myself should hardly have expected them to be.—(Sir Eric Speed.) I should prefer to wait and see what the report says.

3109. Perhaps you will have some more information about this on a future occasion. We will pass to paragraph 10: "Pay Allowances of Families and Dependants of Officers and Men reported missing in the Far East." I think it might be of interest to the Committee to know how many persons whose families have been provided with these special allowances are still missing. That is to say, of those originally missing no doubt very large numbers have now turned up again, but there may be some cases where no information has yet come through as to whether the personnel are alive or dead.—I am afraid the results are that the very great majority of these missing referred to here are dead. That has been announced in Parliament.

3110. Could you tell us how many cases there were in which these special allowances were being paid?—In the second subparagraph of paragraph 10 the Comptroller and Auditor General says that the "allowances were replaced by allowances at pension rates"—that is something under 3,000 cases, and under the last part of that subparagraph the number is something under 1,000—about 900, where the relations or parents passed from the allowance system to the pension rate, because there was every reason to suppose that the soldier concerned was dead.

3111. The special allowances were more favourable, generally speaking, than the pension allowances, were they not?—Yes. The special allowance is composed of family allowance, plus the man's qualifying allotment, and any voluntary allotment he was giving before he was posted as missing. In the case of the officer, it is the family lodging allowance plus two days pay a week. It is two-sevenths of the officer's pay.

3112. Are there any questions on paragraph 10? We pass to paragraph 11: "Overissues of Balance of Civil Pay." In the last part of the first sub-paragraph the Comptroller and Auditor General tells us that "the Treasury had authorised remission in certain circumstances of part of the larger debts outstanding at the 29th August, 1942." Could you tell us—or if not, perhaps one of the Treasury witnesses can—upon what principle the amount to be remitted was arrived at, if there was any principle—or was it done *ad hoc* on the merits of each individual case?—The recovery from the soldier was limited to an amount equal to half the total of six months' pay, including his balance of civil pay. If his gross pay, including his balance of civil pay, was £600 in six months, then the recovery was limited to £300. (Mr. Blunt.) I do not think it was an automatic assessment. I think in some cases it was left to the discretion of the War Office, if they thought fit, to insist on a larger recovery than that; but that was the ceiling.

3113. Had the Service Departments a general authority to make these remissions?—They were given discretion, yes. In such a case as this, of £600, they could limit it to £300 if they thought fit, but it was left to them, also if they thought fit, to make it £400.

Mr. Hector Hughes.

3114. It was limited to what sum? I did not hear?—One half the net military pay, plus the balance of civil pay. They were given discretion to write off half, roughly. This was done in 1942, and at that time I think it was estimated that the total amount which might have to be written off would be somewhere about £35,000, and the total amount written off to 31st March, 1945 was, as you will see, somewhere within that estimate. It worked out pretty close.

Chairman.

3115. These sums are over-payments by civil authorities?—Yes.

3116. It may be a local authority or it may be a Government Department?—Not a local authority. These are moneys falling on the Exchequer and they were largely caused by delays in notification of promotions, and so on.

3117. The method of recovery was to take the money off the man's service pay. Is that right?—Yes, that is right.

3118. I suppose it is for that reason that the amounts submitted are brought into the Service account at page 37?—That also is the reason why the recovery was limited to half the pay, because the War Office represented to us very strongly that a man would not be a very good soldier if you left him with less than half his pay.

11 April, 1946.]

Sir ERIC SPEED, K.C.B., K.B.E., M.C.

[Continued.]

3119. I am sorry to be rather tiresome about this, but I have had a case brought to my notice of this character, where the Service Department is the Admiralty, and the Admiralty; while themselves refusing to make any remission of the debt for the over-payment, have informed me that the last word in these matters rests with the Post Office. Can you explain that to me?—(Mr. Jones.) This concession was made only in respect of arrears which had accumulated up to August, 1942. From that time onwards all over-payments were to be recovered with the exception of those special Indian cases which were belated. Normally, from that date, once that concession had been made, the civil servant is supposed to have any over-payment of his balance of civil pay deducted from his military service pay. (Mr. Blunt.) It would still be open to the Post Office, if they thought fit, to put a case to the Treasury. (Mr. Jones.) On grounds of hardship.

3120. How do they come into the picture?—(Mr. Blunt.) I am assuming that they were the employer in that case.

3121. So that even where the Service Department does not think any remission is proper, it is still up to the previous employing Department finally to take a decision?—As Mr. Jones has said, I think this case to which you are referring must have been one that has arisen after August, 1942, and, therefore, this remission procedure would not apply. It would take its ordinary course. (Sir Gilbert Upcott.) It is the Civil Department that pays the balance of civil pay. (Mr. Blunt.) This was a very special arrangement, and was designed to get rid of a tremendous mass of arrears. The War Office pay offices were flooded out. We had a good deal of discussion with them, and we decided we must have some arrangement to get rid of that mass of arrears.

Mr. Hector Hughes.

3122. I do not quite understand what a remission is. Does it mean that where there is an over-payment to a civil servant, he is forgiven that over-payment?—No, he would not be forgiven the whole of the over-payment. In the first place, as I said, this is a special arrangement at 1942. It does not apply throughout the war. It applied to that particular period, when there was a very large amount of arrears to be dealt with, and they were blocking everything up. The arrangement was then that the amount of recovery should be limited to half the value of his net military pay, plus his balance of civil pay, for a period of six months. He was put on half pay for six months, and then the rest of the debt was forgiven.

3123. How does that work out ultimately? Does he refund the whole amount of the

over-payment ultimately?—No. To the extent that it is not covered by cutting off half his pay for six months it is forgiven.

3124. There is a loss to the State?—Certainly. This records it. (Sir Gilbert Upcott.) The loss is the sum of £32,877, mentioned in the last two lines of my paragraph.

3125. That is the aggregate loss?—The aggregate loss in that case in question. (Mr. Blunt.) If a man were owing £300 and cutting off half his pay for six months produced the sum of £150, the balance would be written off and would be included in this figure of £32,877. (Sir Gilbert Upcott.) That is the amount which certain civil servants serving in the Army have been over-paid.

Chairman.

3126. Are there any further questions on paragraph 11? We pass to paragraph 12: "Civil Affairs. Civil Administration in Occupied Territories in Africa." There is some delay in accountancy in these occupied territories in Africa, and the Comptroller and Auditor General states that steps have been taken to bring the accounts more up-to-date. Can you confirm that, Sir Eric?—(Sir Eric Speed.) Yes. The combined accounts up to the 31st March, 1945, were given to the local representatives of the Exchequer and Audit Department last September. (Sir Gilbert Upcott.) No accounts have been received since that date. (Sir Eric Speed.) They would not be.

3127. Would you expect any accounts since that date, if the accounts up to March, 1945, had been submitted in September?—I should hardly have expected any more to arrive yet. (Sir Gilbert Upcott.) I should hope for the next six months' accounts fairly soon.

3128. It seems as if a considerable improvement has taken place.—(Sir Eric Speed.) I will hasten them.

3129. Are there any questions on paragraph 12? Has any member any questions on paragraph 13? We pass to paragraph 14: "Somalia." I understand this paragraph deals with loans made to certain farmers, mainly Italians, to enable them to redevelop certain irrigated lands which had been evacuated during the campaign. "The crops were to be sold to an official marketing organisation at prices fixed by the Administration and the loans recovered from the proceeds of such sales, but no written agreements were entered into, defining the conditions of the loans, and there was no provision for payment of interest." There appears to have been some difficulty in getting the crops from the growers. Are you satisfied that these arrangements were proper, and were necessary and wise?—I

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49852

11 April, 1946.]

Sir ERIC SPEED, K.C.B., K.B.E., M.C.

[Continued.]

do not think the arrangements were very good, but the upshot was extremely satisfactory. It is worth remembering that these territories are about four times the size of the United Kingdom. They have not local authorities dotted about and inspectors all over them. At that time we had just entered an enemy territory where the Italian locals were not friendly to us. One had to remember, too, that the greater number of the Italians in the towns at any rate had suddenly become destitute and would require, therefore, relief; that we desired to avoid importing food, and, therefore, we wished to turn every Italian we could on to producing food. Therefore, the local authorities made arrangements to advance money to Italians in order to start their production of maize and rice. It is quite true that they ought to have got written agreements and all the rest of it, but a written agreement, an undertaking, from a pauper is not a whole lot of use. Nevertheless, they might have done it and they might have charged interest; but they did not. Both things are now being done. The total of the advances made in the period stated up to June, 1945, was £139,000. At the 30th June, 1945, bad debts were put at £15,000. That is bad debts of £15,000 on an advance of £139,000. If you look at the other side of the picture, which is not mentioned in the Report, we made profits from selling petrol, oil and lubricants to the farmers of £9,700, and we made profits on selling the grain which they produced of £2,745. The total profit, which would not have existed in the absence of these claims, was £13,000, which very nearly balances the bad debts. In the meantime, we have avoided a large quantity of public relief, we have produced food, and I should regard this exploit as wholly defensible.

3130. You tell us that out of £139,000 advanced you only regard £16,000 as being bad debts?—That was the estimate at 30th June, 1945.

3131. That does not mean that the remainder of the loans have been repaid? It means that you estimate the borrowers are solvent?—Yes. We shall never see the £15,000 again.

3132. But you estimate you will get the whole of the remainder back?—Yes.

3133. In what currency do you think these advances were made? Are we dealing with French Somaliland here or Italian Somaliland?—Italian.

3134. If these advances were made in currency printed for us in the United States it would not cost us very much?—No. East African currency was running there all that time—although there is every sort of currency under the sun in those parts, of course. (Mr. Blunt.) I might add that we have had a full report from the War

Office on this, and we have sanctioned the write-off of the £16,000 which has been mentioned.

3135. Are there any questions on paragraph 14? We pass to paragraph 15; which deals with the position as regards tobacco in Eritrea and Somalia. That, obviously, was a State monopoly, and I understand that the operation of that monopoly has been handed over by our military authorities to one of the main tobacco companies?—(Sir Eric Speed.) That is so.

3136. The tobacco company "paid the Administration 25 to 45 per cent. of the proceeds of sales of various types of cigarettes and 33½ per cent. of the proceeds of sales of tobacco, other than locally grown tobacco. Later the War Office entered into an agreement with the company, operative from 1st May, 1943, under which the company became exclusive licensees of the monopoly in Eritrea and Somalia, and the Administration were to receive 33½ per cent. of the proceeds of sales in Eritrea and the existing shares of the proceeds of sales in Somalia. From September, 1943, the company voluntarily increased the percentage paid to the Administration in the case of Eritrea to 50 per cent. on imported cigarettes and tobacco." Is Eritrea the larger market of the two? I take it it is?—Yes, I think so.

3137. The Comptroller and Auditor General says: "From the figures available it appears that the profit accruing to the company under the agreement is high." Have you been into that?—Yes.

3138. Could you tell the Committee about it?—I ought to make it clear that this is not a contract for the supply of tobacco or cigarettes to the British Army. It has nothing to do with the British Army. It is a contract entered into by the Local Government—that is the Military Government for these areas—for the supply of tobacco and cigarettes for the civilian population. From that point of view the company which undertook the contract is entitled to expect ordinary commercial terms. The total sales effected from May, 1943, to the end of December, 1945, were valued at £1,105,000. From that the Government took £454,000, which is 41 per cent., and the firm took, as profit, £180,000, which is 16 per cent.

3139. Is that on the value of the retail sales of tobacco?—That is the retail sales, £1,105,000. I think it is reasonable to say that the Government, having gone in for a consumption tax, which this was, it is logical that they should leave the sellers of the product with a strong incentive to increase consumption, and the incentive was 16 per cent. of retail prices on the average. It varied between 14 per cent. and 19 per cent.

3140. The proportion of the ultimate price obtained by the Military Administration is rather small compared with the

11 April, 1946.]

Sir ERIC SPEED, K.C.B., K.B.E., M.C.

[Continued.]

proportion taken by the British Government from sales of tobacco in this country, is it not?—I should think very small, yes. (Sir Gilbert Upcott.) The actual profit is measured by the difference between the prices and the cost.

3141. The figure you gave us of what—16 per cent.?—(Sir Eric Speed.) Yes.

3142. —was based on the ultimate retail prices of the tobacco to the consumer, which no doubt would include a margin for the distributor—the actual seller?—I do not know, but I think they effected their own distribution. It is quite irrelevant, but they paid tax of 12½ per cent. locally, and full United Kingdom tax as well. So it

did not mean anything to them at all. It is insignificant in comparison with their overall takings in the world. It is chicken feed. At that time we were very busy losing the war, and it was a distinct risk with them that they would lose all their stocks and such machinery as they imported into the country.

3143. You will keep this matter under review?—We are in negotiation with them now to reduce their share further.

Chairman. Are there any questions on paragraph 15? I think that is as far as we will go to-day. We will resume on Tuesday next.

(The witnesses withdrew.)

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

TUESDAY, 16TH APRIL, 1946.

Members present:

MR. PEAKE in the Chair.

Mr. Benson.
Mr. Cuthbert.
Mr. Douglas.

Sir John Mellor.
Sir Frank Sanderson.
Mr. Thurtle.

Sir GILBERT UPCOTT, K.C.B., Mr. D. F. C. BLUNT, and Mr. C. E. I. JONES, called in and examined.

ARMY APPROPRIATION ACCOUNT, 1944

(continued).

Sir ERIC SPEED, K.C.B., K.B.E., M.C., called in and examined.

Chairman.

3144. We had reached paragraph 16 of the Report of the Comptroller and Auditor General when we adjourned last Thursday. In paragraph 16 the Comptroller and Auditor General tells us: "During the year under review the Army have continued responsible for civil administration in Burma." Could you tell the Committee, Sir Eric, whether the present position is the same?—(Sir Eric Speed.) No. We have been handing over since last October to the civilian Government, and the hand-over was practically complete on April 1st last.

3145. Are there any questions on paragraph 16? We pass to paragraph 17, in which the Comptroller and Auditor General states: "Vouching for charges and receipts in the cash accounts has been defective and from replies to inquiries by my officers it

appears that, owing to conditions arising out of active operations, the accounting for the supplies has not been satisfactory." This is also dealing with the administration in Burma, I think?—Yes.

3146. Has there been any improvement since the date of the Report of the Comptroller and Auditor General?—I hope that from the 1st July, 1945, there may have been an improvement. The country, as you know, is extremely difficult—river, marsh, forest and mountain—and I can only plead the reasons which the Comptroller and Auditor General gives in his Report for the failure of the accounting.

3147. In the next sub-paragraph Sir Gilbert states: "It was proposed to open new store accounts as from 1st January, 1945, on the basis of a complete stocktaking at that date, but as orders for stocktaking failed to reach some depots and were not

16 April, 1946.]

Sir ERIC SPEED, K.C.B., K.B.E., M.C.

[Continued.]

carried out at others it was necessary to postpone the date to 1st July, 1945." That was the date for opening new store accounts?—Yes.

3148. Were those accounts opened at that date?—Yes, to the best of my knowledge.

Chairman.] Are there any questions on paragraph 17?

Mr. Douglas.

3149. What has the river, marsh and other things you mentioned, Sir Eric, got to do with the failure to produce vouchers for cash payments?—It is mainly in the store accounting that those conditions obtain. The failures of vouchers to arrive at the same place as the stores went to, I do not think has much to do with the cash accounting.

3150. What is the reason for the failure to vouch the cash accounting?—I cannot give you detailed reasons. (Sir *Gilbert Upcott.*) I think the form of receipts was very often largely improvised on scraps of paper, which perhaps is readily understandable in the circumstances in which they carry on operations.

3151. It does not matter whether they were scraps of paper, they may be quite good vouchers, nevertheless. I understand from this that there were no vouchers?—(Sir *Eric Speed.*) My report here is that as far as the Department is concerned we have had only two cases of unvouched expenditure, and each arose from a loss of records; but I am unable to support that because I have not the full report about the circumstances.

3152. You are making more inquiries?—I believe the instance is of very minor importance, but I will make further inquiries. (Sir *Gilbert Upcott.*) I do not say there were no vouchers, but that vouching was defective.

Chairman.

3153. Are there any further questions on paragraph 17? Are there any questions on paragraph 18? Paragraph 19 is narrative. Paragraph 20 deals with store accounts and stocktaking at home. Sir *Gilbert* states: "Regular stocktaking has been generally maintained at depots but in the case of one large depot the discrepancies revealed had not apparently been satisfactorily cleared." Could you tell us which is the depot referred to there?—(Sir *Eric Speed.*) It was the clothing depot at Branston, which is near Burton-on-Trent. The discrepancies have now been accepted, and have been found to be due to accounting errors, and have mainly vanished; that is to say the disparity between the physical stocks and the record of stocks on correction turned out to be very small.

3154. In the last sub-paragraph of paragraph 20 the Comptroller and Auditor General states: "Certain accounts for periods to 31st March, 1945, have not yet been

allowed by the Army Auditors." Could you indicate to us what proportion of the total accounts is represented by those not yet allowed by the Army Auditors?—I cannot say what the proportion is, but naturally always some accounts are carried over, and the number in this account was about 250, which compares with 400 at the corresponding date last year. I do not know whether that is an improvement or not, but it looks on the face of it to be an improvement. I am afraid I do not know what the total number of accounts is.

3155. Are there any questions on paragraph 20? Paragraph 21 is dealing with the same matters abroad. In the last sub-paragraph the Comptroller and Auditor General states: "Substantial quantities of stores have been issued from Army stocks to meet the needs of the civil population of various European countries. It has not yet been possible to claim repayments, mainly owing to the difficulty in fixing prices for the stores issued." This is dealing with supplies of all kinds?—The civil relief programme.

3156. Could you tell the Committee how difficulties arise in fixing prices?—The stores concerned come from three main sources. One is the United States of America, another is Canada, and another is this country. It is impossible to identify their country of origin by the time they reach their destination, because many of them are channelled through this country in any case, and, therefore, in billing the European countries we have had to agree in Washington an average landed price for each commodity. That has not been an easy task, but up to the 30th June, 1945 we had put in bills for stores to the value of 292 million dollars, which includes a very large proportion of the supplies procured up to that date. We are in fact making progress, though somewhat in arrears.

Chairman.] Are there any questions on paragraph 21?

Mr. Cuthbert.

3157. When you say repayment, they would be repaid in dollars, I take it?—Repaid in the proportions which have now been agreed between the three Powers, that is to say, the United States, Canada and ourselves. Each paying country will pay a certain proportion in American dollars, another proportion in Canadian dollars, and a third in sterling. The announcement of the agreement I believe is shortly to be made.

Sir Frank Sanderson.

3158. In sub-paragraph 2 the Comptroller and Auditor General states: "In a few cases accounts have been lost," etc. Do I take it that the loss is consequential on the war, that it is due to causes beyond their control, or is there any special significance in the expression that some accounts

16 April, 1946.]

Sir ERIC SPEED, K.C.B., K.B.E., M.C.

[Continued.]

have been lost?—No, I think there is no special significance. I think you may take it that it is due to war circumstances.

3159. Another minor point is this. At the top of page ix the Comptroller and Auditor General states that considerable attention is being paid to the question of stocktaking. Last year a good deal of discussion took place on the Committee in regard to stocktaking. Could you give the Committee any assurance that the general system has been improved since last year?—I could give the Committee an assurance that I hope it has been improved, and that I am sure it will be more improved when the Army settles down to a permanent content, and officers do not leave units every other day to be replaced by new officers. I think, perhaps, the Comptroller and Auditor General's Report may be a little optimistic in this context.

Sir *Frank Sanderson*.] I am sure not only I but the whole of the Committee does appreciate the difficulties.

Chairman.

3160. Are there any further questions on paragraph 21? We pass to paragraph 22. Towards the end of the second sub-paragraph the Comptroller and Auditor General states: "It had not, however, by September, 1945, been found possible to establish an effective chain of accounting control on stores while in transit from the United Kingdom to the store depots on the Continent; considerable numbers of issues from depots were unsupported by receipts from the consignees, and there was some failure to take appropriate action on deficiencies reported by consignees." Would you agree with the statement of the Comptroller and Auditor General's?—Yes, I would.

3161. The difficulty, I take it, is in keeping an accurate check on goods in transit actually moving from one place to another on the Continent?—Yes. It is a world-wide difficulty. Whereas in peace you consign stores from Liverpool to Ceylon, and the stores go to Ceylon, during the war they go to somewhere entirely different, and it is not easy to make sure that the vouchering, the paper stuff, keeps pace with the physical movement of the stores. It is particularly difficult in this context, North-West Europe, to ensure that stores are checked from the port of unloading, where they are unloaded from the ship up to the final depot, particularly when the unloading point, which was Antwerp, is under fly bomb and rocket attack during the period in question.

3162. Some improvement here could be expected from the cessation of bombing?—Yes, by all means.

3163. Are there any questions on paragraph 22? Paragraph 23 is dealing with Egypt and Palestine, and the Comptroller

and Auditor General states "the War Office have now approved that the quantities as found by stocktaking March, 1944, to January, 1945, should be taken as the opening entries for new accounts, without further investigation." Are these accounts now being properly maintained?—I hope so. They at any rate have started fair from this point.

3164. Are there any questions on paragraph 23? We pass to paragraph 24: "Iraq." There is reference to a base ordnance depot. Could you tell us the situation of the depot concerned here?—Yes, that is at Shaibah.

3165. In the next sub-paragraph the Comptroller and Auditor General tells us what was happening during 1944 and 1945, and states: "It has now been decided to segregate from the existing stocks those required for the troops in Iraq and to open new account cards for these stores. Action will be taken to obtain reasonably accurate accounting information concerning the balance of stocks remaining available for disposal, but it is expected that it will be necessary to dispense with adjustment of discrepancies between stock and ledger balances." Has the action which is described been taken to obtain reasonably accurate accounting information concerning the balance of stocks remaining?—Yes. The Financial Adviser's Office at Baghdad has now been closed down, but I have sent three Audit Officers down to Shaibah, to this depot, for the special purpose of clearing up this particular depot, which ought, by the way, to be closing down about this moment.

Chairman.] Are there any questions on paragraph 24?

Sir Frank Sanderson.

3166. At the end of the second sub-paragraph the Comptroller and Auditor General states that it is expected that it will be necessary to dispense with adjustment or discrepancies between the stock and ledger balances, but the first part of paragraph 24 states that the stocks held are excessive at this depot. May we be told whether anything is being done to reduce those excessive stocks and bring them down to near what may be regarded as normality?—Yes. Where the stocks are worth taking away, they are shipped away to other theatres, and where they are not worth taking away we endeavour to sell them locally.

3167. On the whole, you would say that the stocks are being reduced materially?—They are certainly being reduced. They will be reduced to nothing, I hope. (Sir *Gilbert Upcott*.) The point was that the stocks were sent out there for a much larger force than was there at the time when they arrived.

Sir Frank Sanderson.] I appreciate that.

16 April, 1946.]

Sir ERIC SPEED, K.C.B., K.B.E., M.C.

[Continued.]

Mr. Douglas.] The point also is that it has taken three years to produce any result at all.

Chairman.

3168. Are there any further questions on paragraph 24? We pass to paragraph 25: "East Africa". Here, again, the accounting at ordnance depots has been unsatisfactory. Are there prospects of improvement in East Africa?—(Sir Eric Speed.) Yes, again depending upon better staff, and more permanent staff.

3169. You are going through a particularly difficult time owing to the demobilisation of experienced staff, I imagine?—Demobilisation of staff, but they were by no means experienced. They were mainly wartime officers and men, not regulars.

Chairman.] Are there any questions on paragraph 25?

Sir Frank Sanderson.

3170. On that paragraph the same point arises as in regard to Iraq. I take it the remedy has been taken in a like manner?—Yes.

Chairman.

3171. We pass to paragraph 26: "South East Asia". In the last sub-paragraph the Comptroller and Auditor General states: "The lines of communication areas have reverted to Indian control, and with the changed conditions supply from India is now effected by sea." Does that indicate that the responsibility in regard to the depots and stores and so forth in South-East Asia has passed to the Indian Government?—No. It indicates that the War Office responsibility starts at the port, from the ship's hold, up to the War Office depot. The responsibility before that is with India, up to the port of unloading.

Chairman.] Are there any questions on paragraph 26?

Mr. Thurtle.

3172. As between the stores issued and the stores received, it says here it has not been possible to establish the extent of loss in transit. If it were known how much was sent out and how much was received, would it not be possible to establish that?—It is received at hundreds of different points.

3173. I mean finally, where the final place is?—You are reading the last sentence of the first sub-paragraph.

3174. Yes?—I think the meaning of that is that in the ordinary way a consignment of stores would be accompanied by a consignment of vouchers showing what is in the convoy, or whatever it may be. The vouchers have not arrived, and the stores have been taken on charge by writing a voucher at the point of receipt, merely saying: "We have received 100 bales of" whatever it may be. Instead of having a

document from the issuing place further back, saying: "We have sent you 100 bales—here they are, and you can accept on that voucher," they have been manufacturing their own vouchers at the point of receipt. It is called here a certificate voucher. In the ordinary way, if you were expecting a consignment from the base, with it would come a piece of paper saying: "Herewith 100 things," and if they all arrived you would write your initials on it and send it back again. But the paper has not arrived. Therefore, all they can do is to write on a piece of paper: "I have received 100 things," and send it back to the issuing depot. I think that is all that sentence is intended to convey. (Sir Gilbert Upcott.) It breaks the link between the receiver and the recipient, so there is no security that what is issued is received.

Mr. Douglas.

3175. It has the consequential effect that the description upon the *ad hoc* voucher may not agree with that on the duplicate original voucher, and, therefore, it is very difficult to reconcile the account. (Sir Eric Speed.) Yes.

Mr. Benson.

3176. Have you any idea—it is a very vague question—as to how much material you have sent out is unvouched? Is it 50 per cent., 25 per cent. or 10 per cent.?—It is all vouched when it goes out.

3177. Vouched for receipt?—I am sorry—I have not. I do not know whether the Exchequer and Audit Department could say anything about that. (Sir Gilbert Upcott.) I should say it probably means that most of these stores which have gone out in this way are not correctly vouched.

3178. I assume it is quite impossible to assess what percentage of your stores have leaked into wrong channels. Obviously, it is more important that your stores should get into the right channels than that they should be strictly accurately vouched for? I quite agree. The vouching gives you the only means of telling whether they have. I would rather enter into that investigation in European theatres than in the Far East.

3179. What is your general impression? As I say, it is an extremely vague question, and I shall expect only a vague answer. Has there been a heavy leakage?

My general impression is that in the more so-called civilised theatres like Europe and the Middle East there has been considerable leakage; that is, stores going to persons they are not intended for. I should say that in Burma there is much less of that sort of thing, because the rewards for dishonesty are not so high. There is nothing very much that you can buy that is really expensive in Burma. There are a great many things which you can buy which are really expensive in the Middle

16 April, 1946.]

Sir ERIC SPEED, K.C.B., K.B.E., M.C.

[Continued.]

East. Therefore the inducements to dishonesty are greater. That would be my personal opinion. (Sir Gilbert Upcott.) A good deal of this stuff might have been dropped from the air, and you cannot get your receipt when you drop something from the air.

Chairman.

3180. Are there any further questions on paragraph 26? We pass to the Accounts. I should like to ask a question on Vote 1, on page 4, Subhead PW: "Prisoners of War," an expenditure of £6,105,000. That is the expenses of maintaining prisoners of war in this country, or is it the total expense of maintaining all prisoners of war in all theatres?—(Sir Eric Speed.) It is the total of all enemy prisoners of war.

3181. It is linked, I suppose, with the Appropriations in Aid of £2,500,000 odd which I take it are receipts from hiring out prisoners of war labour to farmers and other people?—Yes.

3182. They are hired out, are they, at ordinary civilian rates?—The farmers pay the ordinary rate for the job. In point of fact, when you speak of farmers, the receipts there go to the Ministry of Agriculture and not to this Vote. The receipts to this Vote are non-Vote of Credit Departments, not the Ministry of Agriculture.

3183. So that we do not see the whole picture here?—No, you do not. (Sir Gilbert Upcott.) The £6,000,000 is pay, I think. (Sir Eric Speed.) It is the actual working pay of the prisoners. Their other expenses are found on other Votes.

3184. What is the sort of basis of pay?—I think it is 6d. a day, with a maximum of 1s. in special circumstances, speaking from memory. That is only if they work, of course.

3185. In the Details of the Receipts on the opposite page, in "Contributions from Colonies," there seems to be quite substantial contributions from Ceylon and the Sudan. Could you tell the Committee what is the basis of these contributions? I take it they are purely voluntary gifts, are they?—Yes. In the case of Ceylon there is a special arrangement under which they pay 30 million rupees a year, of which the Army gets 27 million rupees. The other Colonies' contributions are based on the amount of their pre-war Defence Budgets, plus 25 per cent., generally speaking.

3186. All these Colonies set out here have accepted that basis?—Yes, and some of them have paid more than they need have paid under the agreement.

3187. Why is the contribution from the Sudan so large in proportion to its economic state?—I think in Sudan there was a special arrangement, but I have not a note of it here.

3188. When we come to receipts from Dominions below, the great bulk of the £99,000,000 there shown comes from Canada, does it not?—Yes—£88,000,000 from Canada.

Chairman.] Are there any questions on Vote 1?

Mr. Benson.

3189. With regard to the payment of prisoners of war, I believe, under the Hague Convention, a prisoner of war is entitled to receive his normal Army pay from the holding country while he is in prison. Is that not so?—Yes.

3190. On what Vote would that be borne?—That is not so in the case of other ranks. That is in the case of officers, is it not? (Sir Gilbert Upcott.) Other than protected personnel. (Sir Eric Speed.) Other than protected personnel. I do not think other ranks get any pay unless they work. (Sir Gilbert Upcott.) That is so.

3191. "Protected personnel" is a term referring to—?—(Sir Eric Speed.) The Royal Army Medical Corps—dressers, and that sort of thing.

Sir Frank Sanderson.

3192. On page 4, Subhead PW is "Prisoners of War," an item of expenditure of £6,000,000 odd. You stated that where prisoners of war are engaged in agriculture they receive whatever the amount is—I think somewhere about 6d. a day—when they are working?—Yes.

3193. But the farmer pays the full amount?—Yes.

3194. The difference between the two amounts is paid to the Ministry of Agriculture?—No, the whole of the amount is paid to the Ministry of Agriculture.

3195. A considerable number of these prisoners of war are working in factories, producing goods, and the owner of the factory pays them this 4½d. or 6d. a day, but the factory pays whatever are the regular wages for that particular industry?—Yes.

3196. To what account is that money credited?—To this account.

3197. There is no indication here of money received from industry by the Government in payment of the work done by the prisoners of war?—Yes. If you look at the Appropriation in Aid at the bottom of the table on page 4: "PW," that is the receipts side as far as the Army is concerned.

3198. Yes—£2,518,000. Does that represent the whole of the wages received for prisoners of war?—No, nothing like it. I cannot at the moment find the note in the account, but the fact is that the credit here is only in respect of prisoners of war lent to non-Vote of Credit Departments. The

16 April, 1946.]

Sir ERIC SPEED, K.C.B., K.B.E., M.C.

[Continued.]

receipts for those Departments which are on the Vote of Credit in this year of account went to those Departments' Votes and not to the Army Vote. You would find corresponding entries in the other accounts for the other Departments.

3199. Probably the Board of Trade or some other Department?—Or the Ministry of Agriculture.

Mr. Thurtle.

3200. One question on the differentiation between the officers and other ranks in the practice of paying. Is the differentiation based upon some Geneva Convention?—Yes, a Geneva Convention.

Chairman.

3201. Are there any further questions on Vote 1? Has any member of the Committee any questions on Vote 2? We pass to Vote 3, on which I have a question in regard to the extra-contractual payment referred to in the foot note to Subhead FF. It is an expenditure of £9,804. Could you tell us something about that?—It was a contract for the supply of anti-gas gangrene drug. During the currency of the contract the firm applied to the Ministry of Supply for the deletion of the costings clause and for the substitution of a fixed price, based on the actual cost of production. Eventually, the Treasury agreed that the contractor should be paid his actual loss, which amounted to £9,804. The contractor pleaded that he had tendered on a wrong assumption as regards the material required, and that his costs were increased by the intensive methods of production which were necessary to meet the urgency of the War Office requirements.

3202. The £9,804 is actual loss on the fulfilment of the contract?—That is so.

3203. So that even with the *ex-gratia* payment, there was no profit in the business for him?—I am not absolutely clear about that. I think he was allowed his profit on the original price.

3204. Can you confirm that, Mr. Jones?—(Mr. Jones.) I think it was the actual cost only. (Sir Gilbert Upcott.) That is my information.

Chairman.] Are there any questions on Vote 3? Are there any questions on Vote 4.

Mr. Douglas.

3205. On Vote 4, I see there is a note: "C. to J.—The pay, etc., of officers and other ranks is charged against Vote 1." What about items A and B? Are we to understand that the expenditure against those items includes pay and other expenses of these two colleges?—Items A and B are both closed. This is the civil staff and other establishments.

Chairman.] We pass to Vote 5. Are there any questions on that Vote?

Sir Frank Sanderson.

3206. On Vote 5, in the Details and Receipts there are: "Sea transport receipts," "Land transport receipts" and so on. What form do those receipts take?—(Sir Eric Speed.) They are mainly for the selling of locomotives and hiring of War Department rolling stock.

Chairman.

3207. We pass to Vote 6, on which I want to ask a question, first of all, about the footnote to Subhead A, which says: "Includes payments to N.A.A.F.I." of just under £15,000,000, "being the cost in 1944 of the concessions made to members of the three Services in the United Kingdom under which they are enabled to purchase certain quantities of cigarettes and tobacco free of the additional duty imposed by the Finance Acts, 1942 and 1943." Could you tell the Committee what those arrangements are?—Yes. They date from the 1942 Budget, when the Government decided to maintain the existing price of some tobacco and cigarettes for members of the Army, Navy and Air Force. The original arrangement was that the members of those Forces should get from 35 to 40 cigarettes a week at the pre-Budget price, tobacco being included on the basis of 30 cigarettes being equivalent to one ounce of tobacco. As a matter of convenience, this supply was made through N.A.A.F.I., who purchase the supplies of cigarettes and tobacco at the post-Budget wholesale prices and sell them at the pre-Budget retail prices. They are reimbursed the cost of the duty by payment of the difference between the pre- and post-1942 Budget wholesale prices. The cost in that year was £14,000,000, and in the coming year it will be about £9,000,000.

3208. Have you devised any method of checking whether this is abused, as regards the numbers of cigarettes or the taking up of cigarettes by non-smokers, and questions of that sort?—They are always taken up by non-smokers.

3209. Whatever are available are taken up?—Yes, but there are not very many cigarettes about.

3210. I thought they all went to the Services?—They do not seem to be coming back from them now the Services are diminishing.

3211. You think you have succeeded in keeping this item down to what is a reasonable figure?—Yes. I have no doubt about that, because the number of privileged price cigarettes and tobacco is limited. We do not sell more than that number in the year.

3212. I want to ask a question about the second part of the footnote, which refers to abortive expeditions. Would you explain that matter?—During the early years of the war, in 1940, 1941 and 1942, the War Office asked the N.A.A.F.I.

16 April, 1946.]

Sir ERIC SPEED, K.C.B., K.B.E., M.C.

[Continued.]

Corporation to arrange supplies for the dispatch of goods and personnel overseas to destinations which were unknown to the Corporation. Some of these exploits did not take place, and, therefore, the expenditure which N.A.A.F.I. had incurred in preparing for them was abortive, and they asked that we would refund them £67,000 in respect of wasted expense. In the up-shot we paid them the sum quoted here of £43,000, which was based on their actual extra cost, excluding handling charges and excluding overheads. It was a preparation for military undertakings which did not in fact take place.

3213. You are satisfied that they incurred these losses?—I have no doubt they incurred these expenses; there is no doubt about that.

3214. What I had in mind was this. If the supplies never went overseas, they still had the supplies in hand for sale elsewhere?—Yes, but they were responsible, I imagine, for special packing and transit charges down to the ports, and it may be—I do not know—for the engagement of personnel which were ultimately discharged.

Chairman.] Are there any questions on Vote 6?

Mr. Douglas.

3215. Is it proposed to continue the policy of supplying cigarettes and tobacco at less than the present prices?—That is a matter for the Government.

3216. You do not know whether any change is contemplated?—I do not know. I am not sure that I should be at liberty to say if I did, but I do not know.

Mr. Thurtle.

3217. I wonder, as a matter of language, whether it is not unfair to the fighting forces to describe expeditions as "abortive" if they never actually took place?—It is not a very good word, is it?

Chairman.

3218. Are there any questions on Votes 7, 8 or 9? On Vote 10 I have a question in regard to Subhead W: "War Services in the Field"—this Vote carries the works, buildings and land—an expenditure of £59,000,000. It seems a rather large figure. Perhaps you could give us some explanation of it?—It covers all building services all over the world for 3,000,000 troops. I can divide it approximately into theatres: The Middle East, £23,000,000; South-East Asia, £16,000,000; Sicily and Italy, £6,500,000. Those are the major items. It includes, of course, works services in the way of aerodromes for the Air Force. I am unable to say exactly how much money is involved in that, but it is a large sum.

3219. Most of these will not be permanent structures?—The great majority are the temporary structure which is suitable to the place, either huts, or, in the Middle East, stone, with corrugated iron roofs.

3220. The footnote to Subhead CC states that there is rather a substantial extra-contractual payment of £38,000. Could you tell us about that?—This was in respect of a contract valued at £621,000, placed in January, 1939, for the construction of an ordnance depot at Longtown. The contractor sustained a loss of £80,000, and, with Treasury authority, the contractor's claim was settled at a total of £58,560. This included an interim payment of £20,000, which was in an earlier account, so that the net amount is £38,000, as shown here.

3221. The contractor in this case getting not only his loss made up, but some profit on his contract?—No, the loss was £80,000 and he only got £58,000.

3222. I beg your pardon; I misheard you. I thought you said the loss was £8,000. It was £80,000?—Yes.

Chairman.] Are there any questions on this Vote?

Sir Frank Sanderson.

3223. Subhead K is "Hire of Buildings not in a Theatre of War," an item of £10,000,000. That amount seems somewhat substantial. Is this country regarded as a theatre of war or not, for this purpose?—Not for this purpose.

3224. Could you give any indication of the sort of building for which this amount was expended?—I think it would cover cases where we have requisitioned a house, and subsequently entered into a hiring agreement, or have entered into a hiring agreement before requisitioning. As you know, the great bulk of our requirements were met by requisitioning, but in some cases we entered into a hiring agreement by mutual consent, instead. I think this Subhead would cover that. It would also cover the hiring of public buildings in Cairo, for example. (*Sir Gilbert Upcott.*) Nearly all that £10,000,000 in the year in fact relates to requisitioning of buildings.

3225. It would include the requisitioning of property and houses in the United Kingdom?—(*Sir Eric Speed.*) Yes.

Chairman.

3226. We pass to Vote 11. I have a question on the footnote to Subhead H, which is "Miscellaneous Charges," an item of £9,000,000. The main items are compensation for losses, damage, etc., postage, and an item of special operations amounting to £2,500,000 odd. Could you give the Committee an explanation of the phrase "special operations"?—Yes. The principal item in that is £1,500,000, of which £281,000 is for the supply of currency in

16 April, 1946.]

Sir ERIC SPEED, K.C.B., K.B.E., M.C.

[Continued.]

purses which were provided for Royal Air Force pilots in case they had to make forced descents over enemy territory. The other £1,500,000 is currency in purses issued to United States airmen for the same purpose.

3227. This money is returned, I take it, at the end of the operational flight, if it has not been utilised?—Yes.

3228. I suppose you never receive any account of what happens to the money in the case of those airmen who have to descend overseas?—No, nor do we ask for it.

3229. Was it a substantial quantity each airman used to carry?—It was either £10 or £20 in the local currency, and sometimes in gold.

3230. I wanted to ask a question on the footnote to Subhead N. It speaks of "payments to certain countries in respect of the estimated U.S. lend-lease element contained in the stores, etc., purchased from the U.K." It is rather difficult to understand exactly what that means. I should like to have it clear?—When we sold stores to a Dominion or another country it was extremely likely that some of those stores had been acquired from the United States under lend-lease. Therefore we had not paid for them, and, therefore, it was unreasonable to charge the new owner the full price, and this describes that an abatement was allowed to meet that possibility.

3231. The amount of abatement is charged as an expense amongst the outgoings in your Account. Is that right?—Yes. (Mr. Blunt.) It was done on a global basis. It was impossible to give an individual abatement in respect of a particular store. I think it was done on the basis of a general analysis, and payment made to particular countries. (Sir Gilbert Upcott.) The Treasury prescribed a percentage for the given year, I think. (Mr. Blunt.) Yes, that is so.

Chairman.] Are there any questions on Vote 11?

Mr. Douglas.

3232. Why did it fall to the War Office to provide these purses for airmen?—(Sir Eric Speed.) I am not quite sure. I think it was because we had a section in the War Office whose sole business in fact was to deal with foreign exchange problems, and as a matter of convenience, I think, more than anything else, we packed the purses and unpacked them for the other Departments.

Sir Frank Sanderson.

3233. In the explanatory note to Subhead L, the last sentence states: "Two cases of theft of stores beyond local powers of disposal arose," an item of £3,359. That seems rather a substantial amount for two cases of theft. One would imagine it must represent a rather substantial bulk, not easy

to remove. Can you give any indication of what that represented?—One was a sum of £150 in respect of a Fiat saloon car which was stolen outside the Savoy Hotel at Asmara. It was impossible to discover the thief, and, therefore, approval was obtained for writing off the loss. The other was of stores valued at £3,208, which were piece goods intended for the civil populations of Cyrenaica and Tripolitania. They were loaded into two ships at Alexandria, one for Cyrenaica and the other for Tripolitania. When they arrived at their destinations a number of bales was missing, and others showed signs of having been tampered with. The Special Investigations Branch were unable to discover the thieves, and the loss had to be written off.

3234. They were bales of cloth, were they?—Yes.

3235. Is it not somewhat unusual to send out bales of cloth? Is it not customary to send out ready made garments?—These were in the piece. They buy them by the yard and drape themselves with them. The easy way to steal them is to tip them over the side of the ship before you get to port and have a rowing boat to pick them up—so I am told.

Chairman.

3236. Are there any questions on Votes 12, 13, 14 or 15? We come to the Appendices? Are there any questions on Appendix I or on Appendix II? We pass to Appendix III: "Losses Statement." I have a question on page 33, No. 53 in Losses due to other causes. "An imprest holder in Java was evacuated in February, 1942, owing to enemy action, and his final account showed a balance of £66,390 19s. 2d. as transferred to a naval cashier." It seems a very big sum for an imprest holder in Java to be holding?—This was after the evacuation of Singapore by the Headquarters of the South-West Pacific Area. They went to Java and took with them this sum of £66,000. Since this statement was written I have had further information, which states that the money was not handed over to a naval cashier, as is suggested here, but to an Army Paymaster, who was left behind in Java. He was imprisoned. He has now got back to this country, and I hope to be able to find out more particulars of what happened to the money. But the information in the note is wrong.*

3237. I am much obliged. You may in fact be able to recover some of this money, which may be buried somewhere?—It is possible; or it may, of course, have been properly spent. I do not know.

3238. On page 39, No. 97A is: "Loss of currency during the landings in North Africa in 1942, attributed (except for £284 errors on conversion) to enemy action. British paymasters were detailed to the troopships, to convert on board the holdings of British and U.S. troops in sterling

* See Appendix No. 8.

16 April, 1946.]

Sir ERIC SPEED, K.C.B., K.B.E., M.C.

[Continued.]

and dollars to the special currencies to be used in North Africa. Losses of dollars and special dollars included in the total are the subject of a claim against the U.S. Government." The total amount is £258,000. May we hope to recover a considerable portion of this from the United States of America?—On the contrary, they are trying to recover it from us. We had the dollars. They were sunk in action. (Mr. Jones.) We have a claim against the United States Government for about £100,000. (Sir Eric Speed.) The number of dollars was £106,000 sterling worth of dollars. Our information is that it was sunk in the sea, and the notes were destroyed. The American Government are not yet satisfied that the notes have in fact been destroyed, and the claim is not yet settled. The remainder refers to British military authority notes which we had produced ourselves. (Sir Gilbert Upcott.) We had in fact paid for the dollar notes. (Sir Eric Speed.) We had paid, and we now want the money back, because they are no longer of any use to anybody.

3239. We accepted these dollars from the American military personnel, and paid the United States Government for them, did we? Is that the position?—We acquired £106,000 worth of dollar notes from the American Government and paid for them. They are now destroyed, and nobody can have any service from them, and we are claiming the £106,000. (Sir Gilbert Upcott.) They were special dollars, of course. They were not ordinary dollar notes. (Sir Eric Speed.) They were called "Yellow Seal Dollars." They were exactly like any other dollars, but with a yellow seal on them to distinguish them from other dollars.

3240. Were they printed especially for the occasion by the United States Treasury?—They were not. As a matter of fact, the dollar has on it a little star, in all kinds of different colours, and the yellow seal had not actually been issued anywhere, so it was used for these special operations, in order to isolate the dollar expenditure in that country.

Mr. Cuthbert.

3241. You mentioned just now special sterling notes?—They were special notes, unlike ordinary sterling.

Chairman.] Are there any questions on Appendix III?

Mr. Douglas.

3242. On page 30, on item 31 it says, at the end of the particulars: "Adequate steps have since been taken to prevent a recurrence of such losses." Could you indicate what those steps are; or, if I may put it in another way, I was under the impression that sterling notes of high denominations are no longer issued, and, if so, how can this recur?—My note says:

"In order to prevent any loss to public funds on this account in the future, high sum sterling notes are now taken over by Paymasters in the Middle East against a receipt only, and no value is given to the individual presenting the notes unless and until the notes have been accepted for purchase by the Bank of England." I agree that recently the high sum note has disappeared.

3243. On page 31, on item 38, does this imply that not only were false charges made against the Army, but also that the persons concerned defrauded the labourers who were employed by the Army?—Yes.

3244. Were any criminal proceedings taken?—I see that they were court martialled and the officer was cashiered.

3245. No civil proceedings were taken as apart from military proceedings?—No.

Sir Frank Sanderson.

3246. On page 32, item No. 46 is: "29 cases of deficiencies on units' imprest accounts due to loss of cash and documents through enemy action"—a figure of £128,000. In the case of cash, if money has been transferred from, say, the United Kingdom to any country abroad, are not the numbers of the notes retained—in which event, surely, in the case of there being losses, they would be recoverable from the Bank of England, and, therefore, it would not constitute a loss as such?—But the greater portion of the currency we use abroad is paper currency.

3247. Yes, I am referring to paper currency?—Ranging down to one shilling denomination in some cases—two and six-penny notes and five shilling notes.

3248. If the amount is anything approaching £128,000, it would appear that whatever form the notes may take, they will inevitably bear a number, and there should be a complete sequence, and one would have thought that a claim would have been made upon the bank, whether in this country or in any other, for the cancellation of those notes, a credit note to be received by the Treasury for their loss, because no loss in fact has been sustained. It is purely a paper loss?—The fact is that the Army has lost them. They may have been lost to somebody else; somebody else may have found them. (Mr. Biunt.) The Bank of England would require satisfaction. It was decided that in such cases as that it would not be worth their while trying to recover from the Bank of England; it would be better to write them off in the Service Accounts.

3249. What it really amounts to is this, that, in so far as the Army Account is concerned, it shows a loss; but it is not necessarily a loss to the country as a whole?—(Sir Eric Speed.) That is so.

3250. One other point in regard to that. It is an expenditure which we would appear to have incurred, which in fact has

16 April, 1946.]

Sir ERIC SPEED, K.C.B., K.B.E., M.C.

[Continued.]

not been incurred at all. The other point I wanted to make is in regard to the documents. If the documents comprise documents relating to some commodities which have been shipped from one country to another, the fact that you lose documents should not and would not, in fact, mean that it is represented by a loss to the Army or to the country?—Not necessarily so.

3251. It is really a book entry?—(Mr. *Blunt*.) The trouble is that it is unproved. That is the point. You cannot prove what has happened.

3252. This particular Department cannot?—Nobody can.

3253. Do you agree with me that this figure does not necessarily represent a loss? It may represent a loss to the Army Estimate, but it does not involve any loss to the country?—(Sir *Eric Speed*.) I do not know about that.

3254. Because another Department will receive the credit?—One of these cases is where they buried a tin full of money for safety. When they came back it had been dug up. Somebody else had got the service for that money. That is a loss, surely, is it not?

3255. If that applied to gold it would be, but as I understand it, the fact is that the whole of the currency is paper currency which is used today. If it were gold it would state so?—The purchasing power residing in the note had passed from the War Office to some unknown person, and I myself should describe that as a loss, but technically I may be incorrect.

3256. You are in exactly the same position as I would be if I had £100,000 in Bank of England notes in my office, and the office were destroyed by fire, and I proved it was destroyed by fire, and I recovered the money?—If it is destroyed, but in half of these cases there is no evidence that it has been destroyed. It has been picked up by somebody else in one particular case.

3257. Where it has been sunk at sea it would be destroyed?—That is a case where it is destroyed, as far as one can tell, but there are other cases where one cannot tell.

3258. Where it applies to British currency, what it in fact would amount to is that the Bank of England would sustain a profit equivalent to that which has been lost, providing it is not found. Is that agreed?—(Mr. *Blunt*.) Yes—providing it is not found.

Mr. *Thurtle*.

3259. I take it it might well be that a lot of this money which was described as loss actually fell into enemy hands, and might be used as currency?—(Sir *Eric Speed*.) That is quite possible, yes.

Chairman.

3260. Now we turn to the second part of Appendix III, which deals with stores losses. At page 40, item 107 is a

figure of £19,400: "Deficiencies disclosed by a comprehensive stocktaking at an embarkation medical store in a home port, partly due to theft, in connection with which an officer and several N.C.O's. and men were sentenced to imprisonment or detention, but mainly attributed to faulty accounting by an inexperienced staff." Could you tell the Committee about the circumstances?—Certain of the items can be accounted for by thefts in connection with which the former officer in charge of stores and several of his N.C.O's. and men are undergoing periods of imprisonment and detention. It is considered, however, that the majority of the deficiencies were not due to malpractice but to faulty bookkeeping. The posting of the ledger was entrusted to an inexperienced private soldier, who was months in arrear with his work. It is really a case of bad supervision rather than the private soldier's fault, I fancy.

3261. If there was a loss of this amount of £19,000, faulty bookkeeping surely could hardly contribute to the actual loss, could it?—My note goes on to say: "An exception is the deficiency of one million articles which it is considered were stolen, and for which there would be a ready market. The Special Investigations Branch investigated this loss, but failed to secure any evidence likely to lead to an arrest. In support of the contention that the losses are mostly paper ones, it is pointed out that two items, one for £3,000 and the other for £7,000, are only handled by firms of highest repute, and are not stocked, but ordered from the manufacturers as required. It is, therefore, inconceivable that there exists a fence for these goods."

3262. So that it is suggested that part of this loss is only on paper?—Yes.

3263. That there must have been some error in accountancy, and that the goods are either in the hands of the seller or the buyer?—Yes, that is the suggestion.

3264. Sir Gilbert, have you any observation to make on this?—(Sir *Gilbert Upcott*.) I hope that is true, but there is no doubt that there was speculation. As I understand it, the system was that the depot issued medical stores to ships and took back unexpended balances, and there is no proper record of what they took back. It is purely a question of inference that it was a matter of the accounts going wrong, and not that of taking the stores back and stealing them. It is a matter of inference, not a matter of any certainty. There undoubtedly was dishonesty, but whether the rather optimistic version given in the note is correct, I think it is impossible to say with any certainty.

3265. There seems some evidence, on what Sir Eric has told us, that it is probable that £8,000 or £10,000 worth of this loss is merely a paper loss?—(Sir *Eric Speed*.) It seems probable.

16 April, 1946.]

Sir ERIC SPEED, K.C.B., K.B.E., M.C.

[Continued.]

3266. I think you gave figures totalling £8,000 to £10,000, did you not?—Yes. I cannot say that I have personally investigated this case. I will do so if the Committee wish me to do so.

3267. I do not think there is any need for that. Are there any questions on Appendix III, Part II, Stores Losses? May I take it that the Account is approved? (*Agreed.*)

ROYAL HOSPITAL, CHELSEA, ACCOUNT, 1944.

Chairman.

3268. Before you leave, Sir Eric, we will take the Royal Hospital, Chelsea, Account 1944 which we have before us?—(Sir *Eric Speed.*) I am not strictly responsible for it, but I am always made to stay for it. I do not sign it.

3269. Major-General Witts is the Accounting Officer. Perhaps if you cannot help the Committee very much one of the Treasury Witnesses will be able to do so. The only point that strikes me on the account is that the funds seem to be building up. The balance seems to be increasing. The balance at 1st April, 1944, was £2,696, and at 31st March, 1945, it was £4,183. The income is the revenue from a number of invested funds, lettings, and so forth, and the expenditure seems to go on maintenance, tobacco, newspapers, and so on, for the pensioners. Do you think there are fewer pensioners than there used to be?—(Sir *Gilbert Upcott.*) The pensioners are the

responsibility of the Army funds. These various funds described here are either for various extra comforts for the pensioners in addition to the general cost of their maintenance, or for the maintenance of the grounds of the hospital. I think the increased amount of balance, which has in fact gone up from about £1,200 before the war to rather over £4,000 now, is almost entirely due to the fact that very little money has been or I suppose could be spent on the maintenance of the grounds of the hospital during the war. I have a note of the fact that the maintenance of the grounds was £4,700 in 1939, whereas it was only £2,147 in the year of account. That, I think, accounts for the difference. No doubt, there are large arrears of maintenance.

Chairman.] Thank you, Sir Gilbert. Are there any questions on this Account? May I take it that the Account is approved. (*Agreed.*) Thank you very much, Sir Eric.

(Sir ERIC SPEED and Mr. BLUNT withdrew.)

CIVIL APPROPRIATION ACCOUNTS, 1944.

CLASS I.

VOTE 9.

EXCHEQUER AND AUDIT DEPARTMENT.

Sir GILBERT UPCOTT, K.C.B., examined.

Chairman.

3270. Will Members turn to the Civil Appropriation Accounts, 1944, paragraphs 1 to 5 of the Report of the Comptroller and Auditor General. Your first paragraph states: "My examination of the Appropriation Accounts for 1944 has followed the lines described in previous Reports, attention being directed mainly to the systems of control and accounting exercised by Departments, particularly those administering war activities." Would you like to expand a little upon that statement, Sir Gilbert?—(Sir *Gilbert Upcott.*) I ought to make clear to this Committee, as I have made clear to previous Committees, that owing to the fact that I lost rather more than 100 of my younger officers, or about one-third of my examining staff, during the war, either to the Forces or to other Departments, I had necessarily to adopt a radically revised system of audit during the war. It has become a system of test audit designed mainly to ensure that the internal audit and control exercised by the Depart-

ments themselves was effective, and so far as possible to bring to light, and bring before this Committee if necessary, things that really mattered. My total staff during the war was increased by about 20 per cent, in numbers, exclusive of messengers and cleaners, but rather more than half consisted of temporary substitutes, and, therefore, I should say that the effective strength is probably not more than it was in pre-war times, immediately before the war. The numbers were much the same in the year 1944 as they were in 1943, and they are much the same at the present time. So far I think I have only succeeded in recovering about a dozen of my officers from the Forces, but at the same time I receive constantly complimentary but very embarrassing requests from the Treasury and other Government Departments for the loan of experienced officers for various services, and at the present time I have, I think, about 28 officers, most of them comparatively senior, on loan to other Departments. Therefore, the difficulties in

16 April, 1946.]

Sir GILBERT UPCOTT, K.C.B.

[Continued.]

maintaining the minimum standard of audit which the Committee desired I should maintain during the war are no less than they have been, but I hope that during the present year the rate of release from the Army will become rather more rapid. At the same time the legislative programme of the Government is likely to impose new duties upon my Department—I should think more rapidly than the relief which I shall receive from the progress of winding up. I take the opportunity of saying that I think it very desirable that at the very earliest possible moment there should be an attempt to raise the standard of audit which has been during the war at the very minimum necessary to enable me to certify public accounts and to keep this Committee duly informed. I think, for that purpose, it will be necessary, as soon as possible, not merely to restore the permanent strength of my Department as it was before the war, but to increase it; but I do not suppose anything like that is possible at the present time or will be for some little time yet. In the meantime I can only hope to maintain the minimum standard which the Committee has wished me to maintain so far.

3271. Could you give us the number of your staff before the war and to-day?—The number of staff, excluding messengers and cleaners but including clerical staff, before the war was 379, of which I should say about 300 might be described as the examining staff, including the Director grades. At the present time the numbers are about 450, of which I should say about 350 are examining officers, but of that 450 more than half are temporary substitutes at the present moment.

3272. What you anticipate is to get some of your regular staff back, but your numbers will probably decrease, will they?—At the 12th February, which is the latest date at which I have figures, 90 members of the staff were serving with the Forces, and I have had about 10 or 12 released. There were at one time, I think, 110 or thereabouts serving in the Forces. At the same time there are, as I said, about 28 on loan to various Government Departments, and I should doubt whether many of them will return.

3273. Why do you say that so gloomily?—Because I am looking across the table at Mr. Jones!

3274. Are there any questions? We turn now to the Account on page 22. The expenditure was less than the grant. Can you explain that to us?—The main item, namely, £21,500 of the total savings, is described as savings on civil pay of officers

with the Forces. That is because under Treasury arrangements the provision in the Estimate is for the full civil pay of officers serving with the Forces, but they in fact receive only the balance of civil pay. That is to make up their pay in the Forces to their civil pay. Therefore, there is automatically a substantial saving on that account. There is a certain number of set-offs, as you will see. The other large saving of about £2,000 on local audits was mainly due to the fact that staff was not available to do as much travelling and local audit as was hoped for.

3275. Your personal salary, which I am glad to see has recently been increased by Parliament, is borne on some other Vote, is it not?—That is borne on the Consolidated Fund, not on this Vote.

Chairman.] Are there any questions on the Account?

Sir John Mellor.

3276. I take it the position is that the Treasury, of course, cannot touch your salary, but they can squeeze your Department by cutting down the Estimate? The whole idea, I take it, is that the Comptroller and Auditor General shall be quite independent of the executive Government because he is the servant of Parliament, and, therefore, Parliament alone shall have any control over his salary, but that does not apply to his Department I take it the salaries of the members of his staff, being borne on the Vote, could be cut down by the Treasury?—Theoretically I suppose it would be possible for the Treasury to decline to approve an estimate for any officers of my Department, just as theoretically it would be practicable for the Treasury to refuse clerical assistance or messengers to attend upon any judge. But I am glad to say that I do not think that position has ever arisen, and my present relations with the Treasury are most amicable.

3277. Your special position is provided for, but it does not apply to your Department, so that really you are vulnerable in that sense, that your activities could be very limited by the refusal of the Treasury to grant you a sufficient staff to carry them out?—It is theoretically possible that a conflict of opinion might arise between me and the Treasury as to what my requirements were. In that case, no doubt, it would be possible for the matter to be ventilated before this Committee, with very likely satisfactory results.

Chairman.] Are there any further questions on the Account? May I take it that the Account is approved. (*Agreed.*) Thank you, Sir Gilbert.

16 April, 1946.]

Sir GILBERT UPCOTT, K.C.B.

[Continued.]

CLASS V.

VOTE 18.

COMMISSIONER FOR SPECIAL AREAS (SCOTLAND).

(Statement of loans and other expenditure in respect of which a return to the Special Areas Fund may be anticipated.)

Chairman.

3278. Mr. Jones, perhaps you can answer my question here, or obtain the answer for me. This deals with the Commissioner for Special Areas (Scotland). At page 238 you will see the item: "Interest on, and repayment of, loans—Scottish Industrial Estates, Limited." These special areas are now becoming the care of some other Ministry?—(Mr. Jones.) Yes. The Special Areas Fund has been wound up, and the responsibility is vested mainly in the Board of Trade since June, 1945, when the Distribution of Industry Act was passed. The responsibilities in respect of site development and estate companies falls

to the Board of Trade. The other functions of the Special Areas Commissioners have been transferred to the Departments responsible for those particular services—for example, roads have gone to the Ministry of Transport—and the responsible Departments have assumed those services which were formerly dealt with by the Special Areas Commissioners. But the Board of Trade is the main Department which has inherited most of the functions of the Commissioners.

Chairman.] Are there any questions on this Account? May I take it that the Account is approved? (*Agreed.*)

CLASS VI.

VOTE 3.

DEPARTMENT OF OVERSEAS TRADE.

(On this Account no questions were asked.)

VOTE 7.

SURVEYS OF GREAT BRITAIN.

Chairman.

3279. Will Members turn to page 276. I want to ask a question on this Account. I understand when this Vote was before this Committee a year ago there was disclosed a rather unsatisfactory position in regard to the accountancy arrangements for the stores. Could you say whether you are now satisfied?—(Mr. Jones.) Yes. We had some discussions with the Department, and we agreed to a revision of their system of store accounting designed to cure the troubles that were before this Committee on the last occasion. I have heard nothing further to indicate that the new system has not been satisfactory. I do not know whether the Comptroller and Auditor General's examination of the result of the new system has disclosed anything, but, as far as our information goes, it should adequately meet the points that were here under discussion.

3280. These people were blitzed out of their headquarters, were they not—in Portsmouth?—In Southampton. They are dispersed in various places near London. They have still some people in Southampton. They did suffer from the troubles of

dispersal into temporary accommodation, with a greatly increased volume of work.

3281. But you are now satisfied with the arrangements?—The system that we agreed to seemed to be all right. Whether it has worked out properly or not, we should have to rely on the Comptroller and Auditor General to tell us; but I have no information to suggest that it has not worked satisfactorily.

3282. Thank you.—(Sir Gilbert Upcott.) I think it is early to say definitely that it is satisfactory. As far as my examination goes I can say that the stock-taking records have been maintained in a more satisfactory way, and that a certain amount of test stocktaking is being carried out, but to a rather limited extent, so far. There are still the staff difficulties which confront this Department, as all others. Though the system has been improved and the improved methods have been put in force, it is not possible to say yet that the system is in full satisfactory working.

Chairman.] Are there any questions on the Account? May I take it that the Account is approved? (*Agreed.*)

16 April, 1946.]

Sir GILBERT UPCOTT, K.C.B.

[Continued.]

VOTE 13.

DEPARTMENT OF SCIENTIFIC AND INDUSTRIAL RESEARCH.

VOTE 15.

CLEARING OFFICES.

*(On these Accounts no questions were asked.)*DEBTS CLEARING OFFICES AND IMPORT RESTRICTIONS ACT, 1934,
ACCOUNTS, 1944.*Chairman.*

3283. Have you any observations, Sir Gilbert, to make on this Account?—(Sir Gilbert Upcott.) Of course, the moneys concerned in these Clearing Office operations are not public moneys, and my audit has been directed mainly to seeing that the transactions are correct, and that no liabilities are likely to be placed upon

moneys provided by Parliament. I do not think it is necessary for me to add anything to what I have said of a purely narrational nature in my Report on these Accounts.

Chairman.] Are there any questions on the Account? May I take it that the Account is approved? *(Agreed.)*

CIVIL APPROPRIATION ACCOUNTS, 1944.

CLASS VI.

VOTE 17.

FISHERIES, SCOTLAND.

(On this Account no questions were asked.)

HERRING INDUSTRY ACTS, 1935 AND 1938, ACCOUNTS, 1944.

Sir Frank Sanderson.

3284. In the Account before us of the Herring Industry Board, it refers to loans to fishermen for the purchase of nets and gear, etc. It does seem to be all on the debit side. Do we at any time see a repayment of these loans? There is no indication of any repayment?—(Mr. Jones.) If you will look at column 5 of the Account, you will see that at the 31st March, 1945, the balance of the liabilities of the Board to the Minister, which represents the amount of the loans outstanding, has been reduced to nil. In other words, the Board has met in full its obligations to the Minister for all the advances that had been made.

3285. The Account does not show any repayment, does it?—It shows the balance at this date has been reduced to nil.

3286. This Account merely shows the advances which have been made, namely, £135,000 odd. It does not show any credit for any money which may have been repaid?—(Sir Gilbert Upcott.) It shows what

remains repayable, and I think it is a matter of inference that what does not remain repayable has been repaid. (Mr. Jones.) The whole £135,000 has been repaid. (Sir Gilbert Upcott.) I should say, perhaps (I am not responsible for this statement, which is certified by a Chartered Accountant, the Auditor of the Board) that the Treasury will appreciate the Committee have always found extreme difficulty in following this statement. Your question is not the first to be put upon it. I think it is proposed, in connection with the revised operations which the Board is to carry out under the present legislation, to furnish the Committee with a rather more informative Account. (Mr. Jones.) Yes, we have taken the opportunity of the amending legislation to remodel the form of this statement for subsequent years.

Chairman.] Thank you, Mr. Jones. May I take it that the Account is approved? *(Agreed.)* We will stop at that point today. There are a number of other Accounts on the agenda which we can leave over till another meeting.

*(The Witnesses withdrew.)**(Adjourned till Tuesday, 30th April, at 2.30 p.m.)*

TUESDAY, 30TH APRIL, 1946.

Members present:

Mr. PEAKE in the Chair.

Mr. Benson.
Mr. Cuthbert.
Mr. Douglas.
Mr. Haworth.

Sir John Mellor.
Sir Frank Sanderson.
Mr. Thurtle.
Mr. Williamson.

Sir GILBERT UPCOTT, K.C.B., Mr. D. F. C. BLUNT and Mr. C. E. I. JONES called in and examined.

GREENWICH HOSPITAL AND TRAVERS FOUNDATION ACCOUNTS, 1944.

Sir HENRY V. MARKHAM, K.C.B., M.C., and Sir SIDNEY BARNES, K.B.E., called in and examined.

Chairman.

3287. Sir Sidney, you are the Accounting Officer for the Greenwich Hospital?—(Sir Sidney Barnes.) Yes, I am the Director of Greenwich Hospital.

3288. Would you turn to the Accounts for 1944, to the Report of the Comptroller and Auditor General, which is on page 11. I think perhaps you had better give the Committee shortly the history of Age pensions, the new school at Holbrook, and so on?—The Committee may remember this question came up in 1935, when it appeared that in consequence of the expenditure at the new school being high it was no longer possible for us to make the same contribution towards the age pensions as we had been making in the past.

3289. It had been about £105,000?—It rose to a maximum of £113,600 in 1927. It had gradually fallen, so that in our estimates for 1944 we had only provided £45,000. (Sir Gilbert Upcott.) To go back a little earlier, Greenwich Hospital was originally entirely, and a little later mainly, responsible for age pensions; and it is only since the last war that the Navy took primary responsibility and Greenwich Hospital made their contribution. (Sir Sidney Barnes.) Shall I develop that?

3290. Yes, please?—In 1919, after the last war, there was a committee of naval officers, called the Jerram Committee, which made a series of comprehensive recommendations about Navy pay. One of these recommendations—not, I think, the most important one—was a recommendation that any money that Greenwich Hospital could not find for paying these additional age pensions to seamen when they reached the age of 55 and 65 should be provided by the Treasury. That recommendation was not examined departmentally at all, but the Government of the day said: "It is urgent to get this question of Navy pay settled," and the whole matter went forward without discussion and was approved by the Cabinet of the day. The result was that nobody picked up the curious result of this partnership, if I may so put it,

between the Treasury and Greenwich Hospital funds, and it was not until later that we found we were getting into a very controversial period about this.

3291. Some time after the last war it was Mr. Reade, was it not, of New Zealand, who left you this estate in Suffolk?—Yes.

3292. Upon which you erected a fine new school?—Yes. The school was originally at Greenwich. It was getting very out-of-date. It had become an urgent matter to rebuild. Mr. Reade left us his estate and promised us some money in the future, and we moved from Greenwich to Holbrook in Suffolk.

3293. The school was more expensive than you had anticipated when you set out on this project?—Yes. We had in fact to curtail some part of the building that we had originally planned.

3294. Could you tell the Committee what is the position now about the Reade legacy?—Yes. The legacy amounts in round figures to £750,000. £120,000 of that, in accordance with the terms of Mr. Reade's will, has been set aside to pay annuities to certain of his dependants. A further £100,000 is snowballing, if I may put it so; that is to say, it is left with the interest to accumulate for 56 years, after which the £100,000, the capital, may be reinvested, and the interest comes to us to be used.

3295. In 56 years' time?—Yes. So that leaves us a sum of £530,000 available, which is invested and is bringing in an income of £16,000 a year. The annuity money we shall get when the annuitants die. We cannot tell when that will be.

3296. If you will look at the last paragraph of the Report of the Comptroller and Auditor General, it states that "the Treasury agreed in October, 1945, that the Hospital's contribution towards the cost of age pensions should be discontinued from 1st April, 1944". I rather think I was at the Treasury, Mr. Blunt, when this occurred. Perhaps you will explain the reasons why the Treasury assented to this proposal?—(Mr. Blunt.) I do not think it was in your time, Sir.

30 April, 1946.]

Sir SIDNEY BARNES, K.B.E., and
Sir HENRY V. MARKHAM, K.C.B., M.C.

[Continued.]

3297. Was it not?—No; I think it was just after. I think you caught the first shadow of it.

3298. I have a recollection of seeing a lot of papers about it?—That is quite true. The position was this. The Admiralty and the Treasury had been engaged for quite a number of years in discussions following the review by the Committee in 1935, and the position in which the contribution by the Greenwich Hospital to the cost of age pensions had been reduced from £110,000, owing to the building of a new school, and I think possibly also to the economic blizzard of 1931 having reduced their income. That played some part; I do not know how much. As I say, we had a lot of discussions with the Admiralty ranging over several years, in which the matter was considered from all sorts of standpoints, legal and otherwise. We did not seem to be getting anywhere. The Admiralty had put into their Greenwich Hospital estimates for 1944-45 a sum of £45,000, but without prejudice. Later on, as the war was beginning to come to an end, it occurred to the Admiralty and to ourselves (I think it was mutual) that the sensible thing to do was to wipe out the past and to consider what the future position of Greenwich Hospital was going to be; that is to say, what was likely to be their income and what was likely to be their expenditure, and what further expenditure might be expected to result from the fact that there had been another big war, with a change in money values, and so on. We agreed to this, and we asked the Admiralty to give us a statement of what they thought their income was likely to be in 1950. We choose that year as being a year in which they might have got down to something like stability. They gave us that, and they gave us also their likely expenditure on the basis of their present commitments, and that showed that there was an amount of something like £30,000 credit which, were it not for other needs, might go towards age pensions. That gave us the measure of the amount likely to be available for age pensions, having regard to their income and their present commitments. We also asked the Admiralty to indicate what further expenditure they had in view, because, of course, even under the old arrangements, there had to be a balancing between the contribution to age pensions and the reasonable calls on the charitable institution. We could not take an absolute priority. It had to be a balancing. The Admiralty gave us certain indications of what new expenditure they had in mind. Sir Sidney Barnes could possibly give you further information if you want it, but they are thinking in terms of homes for the aged. Their special pensions of half-a-crown a day are too small. The school itself is certainly likely to increase its expenditure as educational standards go up.

3299. Perhaps I might ask Sir Sidney this: These are called age pensions, to

which a contribution was made from the Greenwich Hospital funds?—(Sir Sidney Barnes.) Yes.

3300. I take it that the seaman who retires in peacetime after 20 years' or 21 years' service gets a Service pension in the same way as a serving soldier, does he not?—Yes.

3301. These age pension are something extra and special after their Service pensions?—Yes. Originally they were granted by Greenwich Hospital to the Navy only, but in 1920 it was agreed that all the Services should get identical pensions at the same time, the difference being that Greenwich Hospital alone, as a private charity, contributed to the pensions for the Navy. The Army and the Air Force were paid for entirely from Service Votes.

3302. There is no augmentation of a soldier's pension at the age of 55 or 65, is there?—Yes. (Mr. Blunt.) Yes, it is a general affair. As Sir Sidney says, Greenwich Hospital is only contributing towards that in the case of the Navy, and in the case of the Army the full cost is borne on the Exchequer.

3303. So that on grounds of equity Greenwich Hospital had a strong claim to the remission of this contribution?—(Sir Sidney Barnes.) We said that. (Mr. Blunt.) They have always represented that, and we have been able to make certain replies. There has been a good deal of cross-argument on that. If I might just finish, as I say, they have indicated that out of this £30,000 likely margin there are certain desirable expenditures which ought to take place. That brought us to the conclusion that here we were, at the end of another war, that this arrangement had gone on for over 20 years, and we thought that the time had come, having regard in particular to the fact that there really was not much money in it now, to wipe this out and clean the slate, and that is what we have done. We did it from the 1st April, 1944, because it is from that date that the provision in the Greenwich Hospital estimates had been made provisionally only, without prejudice to the settlement of the question on this sort of basis. We hope that the settlement will commend itself to the Committee. We think it a reasonable and a right thing to do.

3304. Thank you, Mr. Blunt. Are there any questions on the Report of the Comptroller and Auditor-General? Will Members turn now to the Accounts. The summary at the foot of page 3 shows what your properties consist of—stock at market value, nearly £2½ million; nearly £1½ million in loans outstanding, and there is other property in Greenwich and in the North of England which is not valued here, is there not?—(Sir Sidney Barnes.) Yes, that is mentioned in the footnote.

30 April, 1946.]

Sir SIDNEY BARNES, K.B.E., and
Sir HENRY V. MARKHAM, K.C.B., M.C.

[Continued.]

3305. Which you have not had valued recently, and you cannot put any figure on it?—No. We can only give the income from it.

3306. On pages 4 and 5 there is an account of the receipts and expenditure of the income. On page 5 I see that you estimated during the year 1944-45 for a contribution of about £71,000 to the pensions we have just been speaking of, and you actually contributed £22,500?—Yes. (Mr. Blunt.) If I may interrupt, I think actually out of that £70,000 the contribution was £45,000, and that was not paid at all because that was only provisionally the estimate and was not paid. The balance of £25,000 in the estimate was for other pensions, and against that £22,000 was paid. (Sir Sidney Barnes.) There is in fact £3,000 to be accounted for in other ways, mainly on the special pensions.

3307. I see there was a transfer to capital account of £66,000. That is unexpended income of the year?—Yes. We invested the £45,000 we had not spent, and we hope to use it in the future.

Chairman.] Are there any questions on the Accounts?

Mr. Douglas.

3308. On page 3, in the Summary, there is an item of loans outstanding, a figure of £1½ million. Can you indicate the nature of what is included in this item?—If is largely loans that have been granted to local authorities, and sometimes to big societies, and our policy for some time past has been, when we could, to put

(Sir Sidney Barnes withdrew.)

NAVY APPROPRIATION ACCOUNT, 1944.

Mr. C. B. COXWELL, C.B., O.B.E., and Mr. E. C. JUBB, C.B., O.B.E., called in and examined.

Chairman.

3314. The next item on our agenda is the Treasury Minute on paragraphs 9 to 11 of the Report of the Committee of Public Accounts, 1945, but I think we will leave that over until we get to that part of the Report of the Comptroller and Auditor General on the Navy Appropriation Account which deals with the same matter? (Sir Gilbert Uppcott.) That is paragraph 17.

3315. Will Members take the Navy Appropriation Account, 1944, and turn to the Report of the Comptroller and Auditor General. The first paragraph is, I think, formal, except that it states: "Details of expenditure for the years 1939 to 1943 will (as stated in the note by the Accounting Officer on page 1) be published as a separate paper." That has not been done yet?—(Sir Henry Markham.) No, not yet. It is in press now.

money out at interest. We got, we found, a better interest than we did on what is our main item, which is investment in Government securities.

3309. They are mortgage loans?—Yes.

3310. The Reade Foundation is a trust fund. Who are the trustees?—The money has now been transferred to the Admiralty, as trustees for Greenwich Hospital, with the exception of the two accounts I mentioned, the snowballing account and the annuities account. There the trustees are Mr. Reade's Solicitor, our own Solicitor for Greenwich Hospital and myself.

3311. The Admiralty are the trustees of all the sums which are dealt with in this volume of accounts, are they?—Yes.

Sir John Mellor.

3312. I see on page 2, in the account of the receipt and expenditure of capital, an item "Liquidation of Indian Railways Stocks." The money was reinvested, I suppose, in Government stock in this country. How did that arise? Was that done at the request of the Government?—The railway companies brought the loan to an end. It was the finish of it and we had to discontinue that. We have now got rid of all our Indian Railways stock.

3313. The Indian Railways were repaying all they had borrowed in this country?—All that we had had of what they had borrowed.

Chairman.] Are there any further questions on the Account? May I take it the Account is approved? (Agreed.)

3316. Are there any questions on paragraph 1? We pass to paragraph 2, which is also a formal paragraph. It shows that you spent on the Navy during the year under review about £774,000,000 net. Are there any questions on paragraph 2? We pass to paragraph 3: "Expenditure of Ships and Naval Establishments." The Comptroller and Auditor General states that he "noticed that balances remained uncleared in some accounts showing no recent transactions and, in the case of transfers between accountants, verification of the cash being duly brought to account by the Receiving Officers was much in arrear. I have inquired of the Admiralty as to the steps being taken to expedite clearance and reconciliation in these cases." Have you given any reply yet to the Comptroller and Auditor General's inquiry?—There is a reply about to go to him. It has not in fact gone yet.

30 April, 1946.] Sir HENRY V. MARKHAM, K.C.B., M.C., Mr. C. B. COXWELL, C.B., O.B.E., and Mr. E. C. JUBB, C.B., O.B.E. [Continued.]

3317. Could you tell us what the steps taken to expedite clearance were?—Might I make a short general statement first about this paragraph and the two paragraphs which follow? The argument is also reflected really in the last five paragraphs of the Report of the Comptroller and Auditor General. It is on the question of staff. I wanted to mention it particularly, because I think the Admiralty has been, in the matter of civil staff, in a worse position than anybody else. As distinct from the other two Service Departments, the Admiralty is civilly manned, in respect not only of its finance, accounting and administrative branches, but also of its stores departments, which correspond with the R.A.O.C. and the A.S.C., and also in the main maintenance and construction departments. The result of that is that, as soon as we are plunged into war, not only does the work on the civil side increase enormously, but a certain amount of the staff is taken away to do the same work perhaps in uniform for other Services. We have a pool of staff coming in of decreasing quantity, and quality, and, obviously, under war conditions it is necessary for priority to be given to the stores and maintenance and other semi-operational services, rather than to purely finance services. In other words, over and over again I must admit that the Accounting Officer for Navy Votes has had to give way to the Secretary of the Admiralty, if I may so express it. That is not really reflected anywhere to the same extent as in the Admiralty. I speak of Service Departments, of course. It has a general effect on all these remarks of the Comptroller and Auditor General. But I should not like the Committee to think that because of that very grave disability we have not paid considerable attention to these matters. We have, and we have endeavoured in all respects to keep up as far as we can. With regard to the particular remarks of the Comptroller and Auditor General in this paragraph, we are doing all we can to clear the outstanding items without prejudice to the current cash work which, obviously, must go on, and which particularly must go on because so many accountant officers and supply officers are now leaving the Service. Many of the items which accompanied the Comptroller and Auditor General's inquiry have already been cleared, and it is hoped that all items will be cleared before long, except those which are dependent on reconstruction of accounts received from the Far East. The Committee will appreciate that the system of accounting in the Navy is a highly centralised one, as is unavoidable where you have so many isolated units, moving all over the world from base to base. That is really the core of our problem. It is always present, even in peace, but, of course, in war it is enormously intensified and in addition aggravated by the considerable shortage of staff.

Chairman.] Are there any questions on paragraph 3?

Sir Frank Sanderson.

3318. May I ask one question relating to what Sir Henry said just now? You stated that staff were taken away from the Department to do some other work in uniform in the other Services. Would it not be more practicable to recruit your own men to continue the same work in uniform, rather than to allow the men to go from one Department to another to do the same work?—I think perhaps I must remove a slight misapprehension there. I did not say that they were recruited in order to do that work, but we had to face the possibility—and I know in certain cases it was a certainty—that some of our people, having been called into the Army, it was very soon discovered that they had a good knowledge of accounting procedure, and they were eventually doing the same kind of work for the other Departments. The alternative suggestion you have made would really mean undermining the whole basis of the Admiralty's system. If you once accept the view that what we have regarded as essentially civil functions should be carried out by naval personnel, then I think the whole basis of the Admiralty's administration would be changed. I do not think it would be an advantage, and it would certainly not be economical.

3319. To follow up that point for a moment, have you not the power to prevent these men, who are regarded as indispensable, from being called up?—It would be very difficult, under any definition which the Ministry of Labour permitted during the war, to describe individuals in those cases as indispensable. Of course, we could prevent the really key men from going. We were able to do that.

Mr. Haworth.

3320. Would not your Department be protected by the Essential Work Order, or could you not have had the Essential Work Order put into operation in order to keep your staff?—The Essential Work Order, of course, is to protect their leakage out into the outside world. This is, as I say, leakage into other Services. The Essential Work Order would not protect you from the national call-up.

3321. Yes, surely?—Only in key cases.

Chairman.

3322. Are there any further questions on paragraph 3? We pass to paragraph 4: "Pay, etc., of the Navy. Reduction in the Standard of Departmental Audit." You have to some extent covered the point raised here already. The Comptroller and Auditor General states: "Shortage of staff and incompleteness of central records have also prevented comprehensive departmental

30 April, 1946.] SIR HENRY V. MARKHAM, K.C.B., M.C., Mr. C. B. COXWELL, C.B., O.B.E., and Mr. E. C. JUBB, C.B., O.B.E. [Continued.]

check of the assessments of war gratuities and other demobilisation benefits of ratings." Are you beginning to recover any ground, so far as audit is concerned, or are you still keeping as much behindhand, so to speak, as you have been recently?—We have been taking steps, and we have been able to make some headway, I am very glad to say. For instance, in the auditing of the pay accounts of officers and men in ships' ledgers, we have instituted a kind of travelling party, which has been formed and sent round to undertake snap audits at the main dispersal centres. With regard to the audit of the allotments and marriage and dependants' allowances, this audit is going to be reinstated as soon as possible after the 1st July next, when the new pay codes come into force. Part of it—that is to say, the marriage and dependants' allowances audit—was reinstated last year, when new rates were introduced. The examination of pay allowance drafts was suspended early in the war, but a small percentage check is being started immediately. This will be progressively increased during the war to not less than 10 per cent. of the pre-war audit. So we are beginning to struggle back to a reasonable standard.

3323. You have just been describing the steps mentioned at the top of page 4, which are now being taken towards the reintroduction of the suspended tests, have you?—Yes.

3324. The Comptroller and Auditor-General says that the Treasury pressed for their earliest possible resumption. Are you satisfied, Mr. Blunt or Mr. Jones, with the progress?—(Mr. Jones.) Yes, we are satisfied. The Admiralty, when they asked for our approval to these changes which have been described to you, undertook to review the position in October next when the size of the Navy will have been reduced and there presumably will be more civilian staff available. So this has been agreed to for the next six months, and we shall have a look at the situation again in the light of the then existing circumstances.

3325. Sir Gilbert, I see you say, in the last sub-paragraph, that the restricted tests "have not disclosed any serious errors in the accounting"?—(Sir Gilbert Upcott.) I am obliged to say my tests have been very small, for the same staff reasons Sir Henry mentioned as regards the Admiralty. My officers have now visited two dispersal centres, and the tests, so far as they go, have not disclosed any serious errors; but I cannot claim that they go very far.

3326. Are there any questions on paragraph 4? Paragraph 5 deals with adjustments in respect of Dominion personnel serving with the Royal Navy. I think in 1943 you had to give up trying to keep these accounts accurately, and since then you have been trying to negotiate lump

sum settlements with the Dominions concerned. Is that right?—(Sir Henry Markham.) Yes, that is the position.

3327. You have accepted offers from South Africa and from Canada for the figures named in the paragraph, and Sir Gilbert states: "Arrangements have also been made with these Dominions for calculating their liabilities for future periods." Perhaps I might ask the Treasury witnesses this: Are you reasonably satisfied that we are getting our due from the Dominions in this?—(Mr. Blunt.) Yes. We have no reason whatever to object to these two settlements—I think it is two—that have been made.

3328. You have not any accurate data to proceed upon, I suppose?—That is the trouble, I think. If the settlements had been done in the more normal way, they would have taken an enormous amount of time. The Admiralty really have not the staff, and possibly it would have been so belated that they would have come forward at a time when it would not be so easy to get the money from the Dominions. There was everything to be said in favour of a quick settlement on a broad basis, and we are satisfied from information given to us that these are satisfactory settlements.

Chairman.] Are there any questions on paragraph 5?

Sir Frank Sanderson.

3329. In the second sub-paragraph Sir Gilbert states that offers by South Africa of £2,223,000 and by Canada of £1,052,000 have been accepted. Could you tell us what really takes place? Is a cheque handed over by these Dominions to the Treasury? Is it credited to the Navy Account, or does it go direct to the Treasury?—(Sir Henry Markham.) It is appropriated to the Navy Account, not to the Exchequer.

Mr. Benson.

3330. What exactly is the inwardness of the last sentence: "An offer by Australia is under consideration"? Was it a different type of offer from that made by Canada and South Africa?—I think it was simply made later.

3331. Why is it under consideration? That suggests that you may refuse it?—We should, I think, subject it to some kind of check.

3332. Is it the meeting of a moral obligation or something?—These are definite items for pay and allowances of the Royal Australian naval personnel.

3333. Is it a contractual obligation?—Yes, definitely.

3334. Has the matter been settled yet with either Australia or New Zealand?—No, not yet.

30 April, 1946.] Sir HENRY V. MARKHAM, K.C.B., M.C., Mr. C. B. COXWELL, C.B., O.B.E., and Mr. E. C. JUBB, C.B., O.B.E. [Continued.]

Chairman.

3335. Are there any further questions on paragraph 5? We pass to paragraph 6. This next group of paragraphs deals with the profit rates on various classes of ship. Paragraph 6 refers to warships. There was an agreement in respect of warships completed by December, 1943, for payment of cost plus the addition of 6½ per cent. on-cost to the builders of warships. Then Sir Gilbert goes on to say: "A further agreement has recently been made covering ships completed by about the end of December, 1944. Before the date of completion of these vessels the builders had tendered on the basis of estimated costs, and they are to be paid these estimated costs, subject to Admiralty scrutiny." I do not quite follow why the payment for ships completed by December, 1943, was on the basis of actual cost, whereas the payment in the case of ships completed up to December, 1944, was on the basis of estimated cost?—The reason for that is that the ships in the first settlement had been completed. The whole of the settlement of warship prices had been suspended for a few years, for reasons which some Members of the Committee will recollect. It was in order to clear the jam, as it were, of completed ships for which prices had not been settled that this first 1943 settlement was made.

3336. Sir Gilbert goes on to say: "The actual costs of construction when ascertained are, however, to be certified by the firms to the Admiralty, and refunds made of the amount of any over-estimate plus the profit thereon. Any under-estimates will be borne by the firms." That is saying that if the estimate proves higher than the cost of construction you will recover the difference if you have already paid it (I suppose it has been paid), whereas if the estimate proves too low, and the actual cost of construction was higher, then the shipbuilder will have to bear the loss?—Yes. That is really a feature of the group settlements which the Director of Contracts has negotiated from year to year. It has been imported into this settlement, and from our point of view it is a very satisfactory safeguard.

3337. These are agreements made with the shipbuilders as a body?—Yes, as a body.

3338. In the last sub-paragraph of paragraph 6 the Comptroller and Auditor-General states that "the Admiralty reserve the right to check the certificates of cost, to investigate sub-contract prices and to exclude from the settlement any ship the cost of which is considered excessive for reasons within the firm's control." Can you tell me if the right of checking certificates of cost and the right to investigate sub-contract prices has been exercised?—It has been exercised in a few cases, where it was considered desirable. Perhaps Mr. Jubb could give you the details. (Mr. Jubb.)

We have exercised the right of spot checking in the case of some destroyers, and our accountants' figures confirmed the figures of the firms. We did also, in the case of another ship, exercise the right, but in that case the firm had omitted from their first costs certificate certain figures, and our post-costing enabled us to rectify that omission.

Chairman.] Are there any questions on paragraph 6?

Sir John Mellor.

3339. Were any experiments made at any time in letting contracts on some basis other than cost-plus?—This 7 per cent. settlement is not on the basis of cost-plus. It is on the basis of estimates in the first place adjusted afterwards when the actual costs are known.

3340. What is the present system?—That is the present system.

Chairman.

3341. Surely, Mr. Jubb, it is cost-plus, in the sense that you pay for what the ship cost, subject to an estimate. Of course, if the estimate proves too low there will be a loss falling on the shipbuilder, but assuming the estimate to be higher than the cost, you pay the actual cost, plus a percentage on cost?—Yes, or a lump sum, but it is not cost-plus, because if the firm has underestimated, then you do not pay his loss through underestimating, as you would if it were pure cost-plus. (Sir Henry Markham.) The firms are in fact at risk, as in a fixed-price contract.

3342. They are only at risk if their estimates have been deliberately low?—(Mr. Jubb.) They are at risk, but the Crown is not at risk. It is a one-way safeguard, because if their estimates are too high, then the Crown gets the benefit of that, but if they are too low, then the shipbuilder has to stand the loss, so in a very real sense the shipbuilders are at risk.

Sir John Mellor.

3343. But during the war, have there been any cases in which ships have been built on fixed prices?—In the early days of the war, yes. You mean a fixed price, without any adjustment when the actual costs are known?

3344. Yes?—There were in the early days of the war, yes.

3345. Was that abandoned altogether by 1943?—Yes, before then.

3346. Was that because prices were fluctuating to such an extent?—It was very difficult to get a satisfactory fixed price without making the price dependent on the actual costs when they were known.

Mr. Thurtle.

3347. In the second sub-paragraph of paragraph 6 the Comptroller and Auditor

30 April, 1946.] Sir HENRY MARKHAM, K.C.B., M.C., Mr. C. B. [Continued.
COXWELL, C.B., O.B.E., and Mr. E. C. JUBB, C.B., O.B.E.

General states: "The actual costs of construction when ascertained are, however, to be certified by the firms." What form would that certificate take? Is it a Chartered Accountant's certificate?—It is a form drawn up by our own Principal Accountant and certified by their Accountant and Managing Director, and it is, of course, subject to check, if we desire, by our own Accountants.

3348. There is some form of check as to the accuracy of the certificate?—Yes.

Sir Frank Sanderson.

3349. In the first sub-paragraph of paragraph 6 the Comptroller and Auditor General states that "prices for warships completed by December, 1943, or shortly after were settled on the basis of actual costs of construction." Could you state what the actual cost includes? Does it include, for instance, all clerical costs and all administrative costs? Does it include managerial costs and directors' fees?—It would include everything—all those items you have mentioned.

3350. Every expenditure which is incurred by the company?—Yes.

3351. My next question is this. I understand the firm gives an estimated cost, and in the cases where the cost is more than the estimate, the firm loses the money. In the case where it is less than the estimate, after 7 per cent. has been added, the firm makes a return. That I understand to be the case. Can you tell the Committee whether there have in fact ever been any cases where the firms have made a return?—Certainly.

3352. There have been?—Yes.

3353. So that means, does it not, that the firms do in fact attempt to give a price as close as expedient, and do not in fact take advantage, which they could do, of that clause by always covering themselves by quoting a figure in excess of what they really think it will be?—Generally speaking, I think there has been an honest endeavour to quote a fair price.

3354. There have been cases where you have in fact received a return of money?—Yes, and cases of under-estimates, too.

Mr. Douglas.

3355. Why was the percentage raised from 6½ per cent. to 7 per cent?—(Sir Henry Markham.) Partly, of course, because this was a settlement at risk. It was not a settlement on cost. And partly because of the alteration in the ratio. I think that is right, is it not, Mr. Jubb? (Mr. Jubb.) Yes. The 7 per cent. related to estimated costs when the firms are at risk, whereas the 6½ per cent. related to actual costs, and there was no risk except the machinery guarantee, which applied in both cases.

3356. So that the extra ½ per cent. was compensation for risk. Do your returns of the actual costs as compared with the estimated costs bear out that the ½ per cent. was about right?—We have no figures of the 7 per cent. settlement yet to show how far we got the benefit of under-estimates on that particular settlement.

3357. I thought you said just now that you had had actual experience of cases in which there were both over-estimates and under-estimates?—Yes, relating to earlier settlements than those particular ones.

3358. In the earlier settlements the question was irrelevant, because you were paying actual costs?—On the 6½ per cent.?

3359. Yes?—Yes, but we have had group settlements with the naval auxiliary craft, on which we have had experience of over-estimating and under-estimating.

3360. What is the result of that experience? Does it show that ½ per cent. is a reasonable estimate of the risk?—I have not the figures which would be conclusive on that point.

3361. Is it possible to get them?—We shall not know on the 7 per cent. settlement until we have had all the results of the actual costs. Even then it would not be conclusive, it seems to me, after the event as to whether ½ per cent. was a fair allowance for risk or not.

3362. Why would it not be conclusive?—Because if people take risks you cannot always evaluate what the risk is beforehand as a matter of pure arithmetic.

3363. I know you cannot evaluate it beforehand. You made a guess at it, which is ½ per cent. What I am asking is why you should not evaluate it afterwards to see whether your guess was right or not?—We did not make a guess. We dealt with the 7 per cent. settlement, having regard to the relationship of turnover to capital employed for the period to which it related.

3364. Are you telling me that the 7 per cent. is not arrived at, as compared with the 6½ per cent., by reference to the question of risk at all?—We knew the 6½ per cent. settlement had been made, and we should have that in mind, but still we did deal with the 7 per cent. settlement on the basis of figures of turnover to capital employed and on its merits, having regard to the fact that the firms were running a risk.

3365. Let me put it to you in this way. What variation did you make on account of a change in the ratio of turnover to capital employed?—The ratio of turnover to capital employed in the 7 per cent. settlement was taken as 1.93 to 1.

3366. And then the 6½ per cent.—what was that?—When we made the 6½ per cent. settlement we took the ratio as 2 to 1.

30 April, 1946.] Sir HENRY MARKHAM, K.C.B., M.C., Mr. C. B. COXWELL, C.B., O.B.E., and Mr. E. C. JUBB, C.B., O.B.E. [Continued.]

3367. Does that leave any margin for change in risk or not?—Yes, I think it does, and I think you must bear this in mind, that when you are negotiating with contractors a risk settlement you have to make the best terms you can, and I should have thought that, as a risk settlement, that was a reasonable settlement, compared with the previous 6½ per cent., which was on a no-risk basis.

3368. It may be, but cannot you provide us with some information out of the actual ascertained results, so that we can test it?—Only when we have the actual results available for that 7 per cent. settlement.

3369. Does this mean that this is an overall settlement with the shipbuilders as a body, that all their accounts and everything are pooled?—No, with individual shipbuilders.

3370. Why cannot we have figures about individual shipbuilders?—Some of them are group settlements. That is to say, you group, for example, three or four or five shipbuilders together, and you have to wait till the figures for all those firms are available before you can settle the price for any one of them; and that takes time.

3371. You are not telling us that there are no cases in which there has been a final settlement yet, are you?—No. We have made many settlements on the basis of the 7 per cent., but, speaking from memory, I do not think we have had the actual costs in any of those 7 per cent. estimated settlements.

3372. Then the transaction is still open, because you may be in some cases entitled to a refund?—Certainly.

3373. There are no cases in which you have final costs?—Not under this particular 7 per cent. settlement, which relates to ships completed by about the end of 1944.

Mr. Benson.

3374. So that it is not true to say that you have information as to how the firms have been estimating as to whether they have estimated to cover themselves or not against this risk?—On this particular 1944 settlement we do not know yet, but we have had other previous settlements in which we have had substantial refunds, and also substantial cases of under-estimates.

3375. But then they were not at risk. They were estimating prior to 1943 on costs?—Yes.

3376. The psychological situation and the financial situation of the contractor is fundamentally different. In the one case he gives you an approximate estimate and says: "This is what I think the ship will cost; if it costs less, I will refund, and if it costs more you pay me", and now the situation is that if it costs less he refunds, but if it costs more he gets nothing?—Yes.

3377. You cannot possibly say that because it worked on the 1943 arrangement, the 6½ per cent., the same factors in estimating apply to the entirely new situation, because there was no risk involved. —I was not referring to the 6½ per cent. settlement when I made that statement. The 6½ per cent. settlement was on the basis of actual costs, and no question of refund or of under-estimating arises. I am referring to other settlements on naval auxiliary craft on which we have had these risk settlements, and we have had substantial refunds and substantial under-estimates.

3378. You say you have had "substantial" under-estimates, in which the contractors have lost?—Yes.

3379. What exactly does "substantial" mean?—In the first settlement which dealt with corvettes and trawlers completed by the end of December, 1941, there were under-estimates of about £22,000.

3380. On a turnover of how much?—Of nearly £7,000,000.

3381. What were the over-estimates?—About £63,000, but that was special, because that related to a settlement on ships completed by the end of 1941. That was in the nature of a clear-up, when the firms would know their figures much more closely than they would for subsequent settlements.

3382. So that we have no satisfactory parallel with the present method of estimating?—We have. We have made some settlements since that December, 1941, settlement on a risk basis, and we have had some refunds there on naval auxiliary craft.

3383. But have there been serious under-estimates as well?—Yes, substantial under-estimates.

3384. Now, with regard to the question of cost, the cost is certified by the Managing Director and the Accountant, and you can check that cost. You do check it, I take it, to some extent?—Yes. Well, we have the right to check it.

3385. How often do you?—As I say, we exercised it in the case of some destroyers and in the case of another ship, but we should be inclined not to use it very much in the case of the warship builders, who have good accounting systems, and on whose costs we feel we can place substantial reliance.

3386. There are two elements in costs—what it actually costs to build and what it costs an efficient firm to build. You remember the problem of overheads that was raised three or four years ago. What arrangement have you now with regard to overheads?—Overheads are examined for all the firms by our Principal Accountant, and the overheads have to be the rates certified by him.

30 April, 1946.] Sir HENRY V. MARKHAM, K.C.B., M.C., Mr. C. B. COXWELL, C.B., O.B.E., and Mr. E. C. JUBB, C.B., O.B.E. [Continued.]

3387. What method of efficiency checking have you?—We attempt to meet that by grouping various firms together, and giving the same lump sum for profit to each of them, so that the one whose costs are the lowest gets the highest percentage of profit.

3388. What variation in price will he get? I assume you lump them together, because they are on more or less a similar standard of efficiency?—The ships would be ordered pretty well at the same time from the various firms, and it would take more or less the same time to complete, and that is one way of rewarding the firm whose costs are the lowest, and penalising the firm whose costs are the highest.

3389. It is a very indirect way of reward, because it is an improvement on cost on turnover, but not necessarily an improvement of what really matters, which is on capital. What steps do you take to make firms improve their methods and their technique? Do you take the lowest tendered price that you have and examine, say, the highest in relation to it, and see where the difference comes?—We did in some of the cases of the 1943 settlement. If you remember, there were six ships excluded from that settlement, because we regarded those costs as high, so that we do have regard to the costs.

3390. The point is this: What did you do about it, apart from excluding them?—We gave them a lower rate of profit. In the case of four of the ships out of these six we gave a rate of 3½ per cent. as compared with the other people's 6½ per cent.

3391. You have no method of investigating whether a firm's building technique is efficient?—For warships I should say we leave that to the warship people.

Mr. Haworth.

3392. I want to ask one or two questions. Is not the fact that the firm pay, if they under-estimate, an incentive to them to estimate on the right side—to make their estimate pretty high?—There might be a tendency that way, yes, but I said earlier on that I thought the firms generally had played the game on that, and they have been caught sometimes by their under-estimates.

3393. My second question is this. On the cost-plus system which I believe is a very vicious system, is it not the fact—you will agree, will you not—that the higher the cost the greater the amount of profit the firm gets?—Nobody hates cost-plus more than the Admiralty, and in this 6½ per cent. settlement which we have referred to, where we paid 6½ per cent. on the actual cost, the ships were not ordered on that basis. The ships were ordered subject to a reasonable price being agreed, and the firms constructed the ships on that basis. They did not know they were go-

ing to be paid on the basis of their actual costs. That was a settlement after the event, when the ships had been completed.

3394. Mr. Chairman, I have waited 26 years to put my next question. If I may explain what I am trying to get at, this is a personal experience of my own, when working for a sub-contractor who was working for the Admiralty at the end of the last war. I would like to know how you would check the incident to which I am referring. I was out of work, and for a time was working as a joiner's labourer on a ship in Liverpool and for three weeks about a dozen joiners and about 15 or 16 labourers had nothing to do, because they were waiting for timber to come in, but they kept on the job for those three weeks, and we were told that if anybody came, either from the Chief Contractor or from the Admiralty, we were to pick up a brush and pretend to be working. That was all right up to 5 o'clock, but every night at 5 o'clock the chargehand shouted down the hatch: "You are coming back to-night, boys, to work overtime." We worked on some occasions until 9 o'clock—what was called the half night—at double time, and on some occasions all night at more than double time, until the following morning. Can you tell us how you would check it? I take it you go through checking accounts on work of this kind. You say: "There are 14 men." You might check the time-sheets and say they were there all right, they were working these hours, but can you check whether it was necessary that they should be there? That is why I asked about this cost-plus method encouraging costs. This is an actual experience, and I would like to know how you would be able to check the correctness or otherwise of that kind of thing now?—We cannot have an army of men watching whether you and everybody else is working on a job like that, obviously. Was this shipbuilding or ship repairing?

3395. Ship repairing. It was actually transforming a ship which had been carrying troops back into private service. It was an Admiralty contract?—We have recorders on our ship repair work, technical men, who visit firms and see the number of men employed on jobs, and make surprise visits. We exercise a check as far as we can by means of those recorders to see that the amount charged to a job is reasonable. Apart from that, we have our overseers watching a job. But I am not going to pretend that those checks would ensure that no such incident as you have described could happen. We should want an army of overseers and recorders to prevent such a thing. (Sir Gilbert Upcott): You will find a worse case recorded in these accounts which was before the Committee a

30 April, 1946.] Sir HENRY V. MARKHAM, K.C.B., M.C., Mr. C. B. COXWELL, C.B., O.B.E., and Mr. E. C. JUBB, C.B., O.B.E. [Continued.]

few years ago, in which not merely men who were doing no work had to be paid for, but imaginary men who did not work had to be paid for.

3396. We had a glaring case in Liverpool, where a man committed suicide?—(Mr. Coxwell.) The Porter case.

3397. Yes, I know about the Porter case. I do not know whether the Admiralty would take it from me that this kind of thing is a joke in certain shipbuilding areas, and whatever you say about it you cannot get out of my mind the feeling that it is an encouragement to inflate costs, and if any other method can possibly be adopted I think it ought to be. (Sir Gilbert Upcott.) If I may say so, on the shipbuilding question, this estimating method which Mr. Jubb has mentioned is a protection against that, but there is no protection in the case of ship repairing, except the presence of the recorder.

3398. So repairing is a more difficult case than shipbuilding?—Yes. Undoubtedly, ship repairing is a more dangerous field. (Sir Henry Markham.) The Admiralty would certainly agree with the view you have expressed about cost-plus contracts.

Mr. Williamson.

3399. Is there no escape clause at all in connection with the under-estimates being borne by the firms—for instance, in respect of a substantial increase in wages that might take place?—(Mr. Jubb.) There is no escape clause at all.

3400. Nor for an increase in prices?—No.

3401. A competent estimator would estimate visualising that, as we knew things during the war, there would be increases in wages and increases in prices?—When they put in their prices and their estimates, it is a few months before completion, so that they should be able to visualise any possible changes in rates of wages that are going to take place.

3402. Shortly before?—A few months before. They should have a shrewd idea of anything like that coming along.

3403. The risk is very much minimised?—It is much less than if they quoted their prices before they put the ship in hand at all.

3404. Shortly before completion would allow probably of a fairly accurate estimate, and, therefore, the risk would be very small. Therefore, this $\frac{1}{2}$ per cent. might be regarded as rather a substantial payment for the risk which you admit would be very small in those circumstances?—I should check that by seeing whether the settlement on its own intrinsic merits was reasonable or not. I think it was.

Sir Frank Sanderson.

3405. Have you any comparable figure for building ships in naval dockyards? In other words, have you any case where you

have a ship which has been built by private enterprise and a similar ship which has been built in the Admiralty dockyards, which would enable you to ascertain which is the cheaper?—(Sir Henry Markham.) I do not think we have any up-to-date figures at all. (Mr. Jubb.) Not during the war.

Chairman.

3406. Are there any further questions on paragraph 6? We pass to paragraph 7, on which I have only one question. I should like to ask one of the Treasury witnesses whether they regard a return of approximately 13 per cent. on capital employed as a reasonable return, in all the circumstances, for building warships at a period of this character?—(Mr. Blunt.) Yes. The Admiralty, I ought to say, did consult us about this settlement. It is not a case where they had to get our approval, because this was a matter which they had to negotiate themselves, but having regard to the previous history of what happened on this Committee in connection with the earlier fixed-price settlements, they thought it right to bring us into consultation in order to see that they were working on lines which we thought we could support, and we felt we could support this settlement, and we think in all the circumstances it was a reasonable one.

Chairman.] Are there any questions on paragraph 7?

Mr. Douglas.

3407. Do I understand that that applies to both settlements, the 13 per cent. and the $13\frac{1}{2}$ per cent.?—Yes, to both of them.

3408. Therefore, the view of the Treasury is that where a contractor is at no risk whatever, being paid his cost plus a profit, he ought to get 13 per cent. on his capital?—I am not going to say that 13 per cent. is a sort of formula rate in those circumstances. I do not say that. What I do say is that in the case of these particular ships in the earlier settlement, where they got 13 per cent., we did think—and it was pointed out in the Report last year—that there was some risk, inasmuch as the contractor did not know that he was going to get his costs. The contracts were not placed on a cost-plus basis. They were placed on a basis that he would get a reasonable price. It turned out in the end that in order to get him out of the way he did get his costs, but they were placed on that basis. I see in the Comptroller and Auditor General's Report last year, he said: "The Admiralty also consider and the Treasury agree that as the contracts were not placed on cost-plus the firms should be regarded as at some risk during performance." That was the view taken last year.

3409. But in fact the contract was altered during its currency?—It was settled in the end, after the ships were

30 April, 1946.] Sir HENRY V. MARKHAM, K.C.B., M.C., Mr. C. B. COXWELL, C.B., O.B.E., and Mr. E. C. JUBB, C.B., O.B.E. [Continued.]

completed, but that does not alter the fact, surely, that the firm were at risk during performance. I know it is very difficult to quantify that.

3410. In the end, you gave them a settlement which freed them from all risk?—That is so.

3411-3413. Should not that have been taken into account in the settlement?—I think everything was taken into account. I do not think one can take the 6½ per cent. (you are referring to the earlier settlement) and divide it up into little bits. It was not done that way. This was a negotiated settlement. The negotiated settlement was 6½ per cent. overall, taking into account all the circumstances. That is what we have to look at.

Sir Frank Sanderson.

3414. We are dealing with battleships. It takes several years to build a battleship, does it not?—Yes; four or five years.

Sir Frank Sanderson.] That would affect the percentage.

Chairman.

3415. Are there any further questions on paragraph 7? Paragraphs 8 and 9, which deal with agreement of profit rate for naval auxiliary craft and merchant vessels we might take together. They are dealing with much the same sort of questions as we have been discussing but in regard to auxiliary craft and merchant vessels. The first sentence of paragraph 8 recalls that profit margins varying up to 7½ per cent. on cost have been allowed. When the Comptroller and Auditor General says "varying up to 7½ per cent." that means that different profit margins had been agreed in different cases, I take it?—(*Sir Henry Markham.*) Yes.

3416. I should like to know on what basis higher or lower profit margins were settled?—(*Mr. Jubb.*) That would be a matter of negotiation, having regard to the particular circumstances. We should regard a lower margin of profit as reasonable where a firm had tendered only just before completion, where they had not been at so much risk as if they had tendered a longer time before completion. We should also have regard to the fact whether the amount of work they themselves did compared with the material on which they worked was high or low.

3417. Would you give a higher profit rate where the degree of efficiency was high and a lower profit rate where the efficiency was lower?—We should try to have regard to that.

3418. In paragraph 9, in the last sentence but one, the Comptroller and Auditor General tells us that this margin of 7 per cent. would represent a return of about 15 per cent. on capital employed. What justification is there in these cases

for the return being higher than in the case of the warships which we have been discussing previously?—The 7 per cent. margin in this case related to ships which were launched by the end of December, 1944. That is, the completion of them would go into 1945, when we anticipated that turnover would fall, and the ratio of turnover to capital employed would fall too.

3419. You mean it has to do with the fact that a vessel takes a substantial time to build?—Yes, and the other settlement with the warship people was for vessels completed by the end of 1944, whereas this settlement covered two years, and was for ships launched before the end of 1944; that is, some of them would go into 1945 before they were completed.

3420. Shipbuilding of this character, you mean, had passed its peak by the end of 1944?—Yes, as far as we could judge.

3421. The orders were smaller, and output was declining?—Yes.

Chairman.] Are there any questions on paragraph 8 and 9?

Mr. Douglas.

3422. You say that the orders were declining, but were these firms receiving any orders for vessels for commercial purposes?—I should say they were.

3423. Were those declining or were they stationary, or were they increasing?—I have no figures, and we have not yet the figures of turnover to capital employed. But there was every indication that turnover was falling. We have had some figure for the warship firms in 1945, which showed that turnover in that year was only 86 per cent. of 1944.

3424. When you are speaking of turnover in this connection, are you dealing with the whole of the turnover, both Admiralty contracts for warships and other contracts?—That related to the whole turnover, speaking from memory.

3425. Is it with regard to this group of cases that you gave us the figures a few minutes ago of £22,000 under-estimate and £65,000 over-estimate on a turnover of £7,000,000—That relates to the first settlement with the naval auxiliary craft group—trawlers and corvettes completed by the end of December, 1941. That was the first group settlement.

3426. On what basis was that settlement made? Was it cost-plus?—It was for ships completed so that the firms must have been fairly well aware of their costs. The way we did it was that we divided the firms into three groups, zones A, B and C, because they fell naturally into those three groups, according to their costs. You could regard zone A as the cheapest producers, zone B as higher cost and zone C as the highest, and we gave a lump sum

30 April, 1946.] Sir HENRY V. MARKHAM, K.C.B., M.C., Mr. C. B. COXWELL, C.B., O.B.E., and Mr. E. C. JUBB, C.B., O.B.E. [Continued.]

to zone A which was about $7\frac{1}{2}$ per cent., on the average of those figures, and we gave the same lump sum to zone B and zone C, which meant that they got less than $7\frac{1}{2}$ per cent. on their costs.

3427. It means they got less if they were doing the same turnover. Were they?—No, they got a less percentage of profit because their costs of those particular ships in the settlement were higher than zone A.

3428. Was it for the same number of ships?—Different firms would have different numbers of ships. They did not all get the same quantity.

3429. You say you did it by means of a lump sum. What I am trying to get at is this. I want to know what this lump sum was related to?—(Sir Gilbert Upcott.) It was a lump sum per ship, was it not? (Mr. Jubb.) Yes.

3430. You conveyed the impression that it was a lump sum for their total output?—No, it was a lump sum per ship based on the average of the costs of the firms in zone A.

3431. So that in that case it is not any test at all, as the thing was all done after the ships were completed?—Yes.

3432. So that in effect it was really a case of cost-plus, was it not?—Very nearly, but they were not constructed on a cost-plus basis, as I pointed out earlier. They were placed on a reasonable price basis.

3433. That had not any effect upon the settlement, had it?—No, but when a firm has constructed a ship and been subject to a reasonable price throughout the construction of that ship, I think they are fairly entitled to say that they took some risk.

3434. We shall never get over that argument, I am afraid. I fail to see where the risk occurs in fact in the end, when you give them a settlement which is based on their costs. If you alter the contract afterwards you cannot say, can you, that they are under the risks which they would have been if the original contract had continued in existence and had not been altered?—I think a shipbuilder would say: "During the whole of that time I was carrying that risk, and you cannot say after the event that I have had no risk."

3435. I know what a shipbuilder would say. I would say that if I were on the other side of the table. But do you accept it?—I think there is something to be said for that point of view, yes.

Mr. Haworth.

3436. Following on the last reply to Mr. Douglas, what risk is he carrying? It is a potential risk, perhaps, but no actual risk?—At any time it was open to us to accept his price and make a fixed price contract of it. At any time it was open to us

to say: "We are not going to pay you on the basis of your costs, because we think they are unreasonable, and payment on your costs would not be a reasonable price."

Chairman.

3437. Are there any further questions on paragraphs 8 or 9? We pass to paragraph 10: "Small Craft and Craft of Special Types." I should like to know, as regards the last sentence, what progress has been made in the settlement of final prices for the orders given in 1943 and earlier years?—(Sir Henry Markham.) The latest figure is now somewhere about £26,000,000, and not £30,000,000. One of the great difficulties about this is not only the enormous variety of firms of all sorts and kinds—constructional engineers, shop fitters, and so on, who have made various kinds of these miscellaneous small craft—

3438. You are dealing with a very large number of very small people?—Of varied people, and it means, of course, that practically all these have to be individual settlements. You cannot get these overall settlements by group, and that is why there appears to be rather more delay than one would expect normally in these contractual arrangements.

Chairman.] Are there any questions on paragraph 10?

Sir Frank Sanderson.

3439. Can you give the latest date when all outstanding contracts were in fact settled? Are there any outstanding prices to be settled for, say, 1942?—(Mr. Jubb.) Yes. There are some outstanding earlier than that.

3440. Earlier than before the war?—No, I do not think so.

3441. You say there are contracts yet to be settled, going back to 1941?—Yes, and part of our difficulty in some of the cases is that we cannot get quotations from some of the firms. They have put production first, and they have lost their costing clerks, and their costing records are poor. They just do not know where they stand, and they cannot quote prices till they know what their figures are.

3442. Since the firms do not know what are to be the final prices for such construction, it follows, does it not, that those firms are unable to present their balance-sheets?—They present balance-sheets of some sort. They take provisional prices, or manage it in some way or other. But I have no doubt that some of their accounts are very much behind.

Mr. Douglas.

3443. Can you give us any clue as to the basis upon which the prices are settled in those cases?—They are placed all on the

30 April, 1946.] Sir HENRY MARKHAM, K.C.B., M.C., Mr. C. B. [Continued.
COXWELL, C.B., O.B.E., and Mr. E. C. JUBB, C.B., O.B.E.

same basis, that a reasonable price will be agreed, and the firms will give us all facilities we require for settling that price.

3444. So that they are all settled after the event in the light of costs which can be ascertained?—No. A good many were settled in the early stages for these small craft, but these which are outstanding will no doubt be settled largely in the light of actual costs.

Mr. Benson.

3445. Does a reasonable price mean a reasonable price on all ships of that price—an average price—or does the price vary with the contractor?—Generally speaking, for these small craft it will vary with the contractor, because the circumstances differ so much. There are a certain number of those ships that will be covered by the settlements to which we referred earlier with the warship firms and the naval auxiliary craft group, such as transport ferries and landing craft, but apart from that these small craft have to be pretty well individual settlements.

3446. So a reasonable price means a price that you think the man ought to receive if he has been working properly and economically?—Yes.

3447.—How do you settle that?—Very often by ascertaining his actual costs after the event, in association with technical representatives who can advise us whether those costs are reasonable, having regard to the circumstances of the particular contractor.

3448. It is a technical costing, then?—It is an actual costing by an accountant associated with technical representatives. Technical costing is more an estimate before the event, I should have said.

3449. It is technical checking. Shall I put it that way?—Yes, it is technical checking.

3450. You do get their technical checking?—Yes. I should like to say that although these prices are left to be settled after the event, it does not follow that we will pay the actual costs if we consider them excessive. We have had cases where we have paid prices less than the costs, and substantially less.

Chairman.

3451. Are there any further questions on paragraph 10? We pass to paragraph 11, which deals with the question whether the levy for the Shipbuilding Conference is an admissible cost. Some discussions have been proceeding, but no final decision has yet been reached. Has anything materialised about this item?—(Sir Henry Markham.) Yes. I should like to say a settlement has been reached which is regarded as wholly satisfactory by the Admiralty and the Treasury, and the matter

is now finalised. Certain details remain to be cleared up, but the broad settlement is now fixed between ourselves and the Shipbuilding Conference.

3452. Could you give us the broad basis of the settlement?—May I ask the Principal Under Secretary, who negotiated this, to give the details. (Mr. Coxwell.) The position is this. I dare say it can best be given by just a few figures. The total amount to the end of 1944 of what we call the reserved levy—that is, the levy paid by the Admiralty to the Shipbuilding Conference and later to the Shipbuilding Corporation in respect of Government-built ships after the payments were made the subject of reservation—is round about £910,000. Against that we have agreed with them that they set certain admissible charges. The admissible charges which we have agreed to put against the levies paid provisionally by us are in the main the losses and depreciation on the building of ships to Government account at the two yards, of which the Committee heard last year, the Low Walker Yard and the Southwick Yard, which were derelict shipyards opened and run by the Shipbuilding Conference in the interests of the national need for more ships. The total amount of the charges which we admit against what we have reserved in the way of levy is about £608,000. That leaves a balance of about £302,000, and actually the Shipbuilding Conference have agreed to pay back to the Admiralty £365,000, which is over £60,000 more than we have any legal right to, to use that phrase. In fact, without boring the Committee with too many details, I would say that they are actually going to refund nearly £120,000, which they might have held back. We regard this settlement in the Admiralty as being a very favourable one, and I would like to take this opportunity of saying that the representative of the Shipbuilding Conference with whom I have dealt over this matter has been most forthcoming in placing all his accounts before us and in giving us every possible help, and made it perfectly clear that what he wanted to do was to reach a settlement completely satisfactory to the Admiralty. I may just add this, that the Shipbuilding Conference would have been willing to pay the Admiralty a considerably larger sum than the one they are going to pay us, but for one thing. It is very necessary, in their interests, that they should retain for their future needs a certain capital sum. I think they put it at about £40,000. The only way they can get that capital sum is by paying a very large amount of taxation to the Inland Revenue authorities, and though I think (in fact I know) they would very much rather have paid it to the Admiralty than to the Inland Revenue, they cannot do it, because they cannot get their kitty except by paying it in taxes; but they are, as I say, going to pay back to us, subject to

30 April, 1946.] Sir HENRY V. MARKHAM, K.C.B., M.C., Mr. C. B. COXWELL, C.B., O.B.E., and Mr. E. C. JUBB, C.B., O.B.E. [Continued.]

agreement on points of detail between our respective accountants, about £365,000, and we regard that as very satisfactory.

3453. Mr. Blunt, do you also regard this as satisfactory?—(Mr. *Blunt*.) Yes. We have had many consultations with the Admiralty about this, and we do regard it as satisfactory. (Mr. *Coxwell*.) As regards further levy paid since 1944—nearly £280,000—the Admiralty and the Conference both contemplate a settlement on similar lines, which would result in payment to the Admiralty of the greater part of the amount.

Chairman.] Are there any questions on paragraph 11?

Mr. *Douglas*.

3454. What was the purpose of this levy?—(Mr. *Coxwell*.) The levy was originally instituted for a variety of purposes, such, for instance, as the administrative expenses of the Conference itself, and for carrying out such research and development into shipbuilding methods as the Conference, representing the whole of the shipbuilding industry of this country, felt it its duty to carry out, and very largely for the subsidising of shipbuilding, first at one derelict yard and then at two derelict yards, in the national interest. (Sir *Gilbert Upcott*.) Originally to close the yards. (Mr. *Coxwell*.) The yards were closed. They were completely sterilised.

3455. Was not the original purpose of it to produce that sterilisation?—I think that is going back to a rather earlier levy than the one we have been concerned with over these negotiations. We have been concerned in these negotiations in the Admiralty with such levies as we have paid.

3456. So that you are satisfied that the money raised by the levy has been used either for purposes of research or administration or for meeting the losses on reopening these two yards?—And on building ships there with extremely inadequate labour.

3457. And not for any other purpose?—(Mr. *Jubb*.) The Central Drawing Office. (Mr. *Coxwell*.) Yes. I did not think the Committee would wish to have a complete list of the admissible charges.

Mr. *Douglas*.] I do not want them in detail.

Mr. *Benson*.

3458. Why did they use the levy for subsidising the cost of ships built in these inadequate yards, instead of paying the actual cost direct?—We could have done it that way. We could have completely refused to pay, even provisionally, the levies in respect of the Government ships which we did pay. We would then have had to bear the actual loss on the building of the ships, and I might say that a check

has recently been put on this settlement, of which I have told the Committee, by examining the figures from an entirely different angle, and seeing how they would have worked out if we had never paid any levy at all but been completely responsible for the losses and depreciation at these yards. It was extremely interesting to find that it works out almost exactly the same. I think you would confirm that?—(Mr. *Blunt*.) Yes.

3459. What I want to know is why did you go the round about way instead of the direct way to get the same result? Why do you pay a levy to a conference that will then pay a subsidy to a shipyard?—We did not invent the levy and we were not the only people who paid it. I think both the Treasury and ourselves accepted that it was the most convenient way. This levy was payable not only by us but by all private shipowners. (Sir *Gilbert Upcott*.) I think I am right in saying that until the Admiralty made their examination of the shipbuilding costs they did not know the levy existed. (Mr. *Coxwell*.) No, when we were paying fixed prices for ships originally we did not know that in the shipbuilders' tendered price there was an element for the levy which he paid to his Shipbuilding Conference. Later on, when fixed prices disappeared, and we started fixing prices for ships by one or other of the methods of which the Committee has heard so much, and post-costing took place, we then discovered that the costs of the ship and the estimated costs of the ship included this levy, payable to the Shipbuilding Conference. Then we had to start making a reservation about this, and saying: "We will allow it to you in costs provisionally—we shall not allow you any profit on it—pending such time as we find out what it is really for, and what value the State, as represented by ourselves, is getting out of it."

Chairman.] Do you want to pursue this matter, Mr. Benson? We have some very substantial business still to do.

Mr. *Benson*.

3460. No. Just one further question. When you got the cost of the ships built in these yards, did you find you got the ships at less than cost price, owing to a subsidy coming round about from this levy?—(Mr. *Jubb*.) No. The effect of it will be that we shall pay the actual costs, because we pay any losses through the levy.

Chairman.

3461. Are there any further questions on paragraph 11? Paragraph 12 deals with the loss of a floating dock. The Comptroller and Auditor General, in the last sub-paragraph, states: "A Committee was appointed by the Admiralty to inquire into the circumstances of this loss." Can you tell us whether any final apportionment

30 April, 1946.] Sir HENRY V. MARKHAM, K.C.B., M.C., Mr. C. B. COXWELL, C.B., O.B.E., and Mr. E. C. JUBB, C.B., O.B.E. [Continued.]

of responsibility for this disaster has been made?—(Sir Henry Markham.) Yes, it has. A Board of Inquiry was set up on the spot immediately after the accident, and also a technical and judicial committee was set up in London, because the Board felt that this was so important an event that they would like a check from a different point of view. The report of the Board of Inquiry and other relevant factors, technical evidence, were taken by the Committee in London, and the general conclusions come to by both the Committees were the same. They were, in brief, to the effect that the disaster could not be attributed to faulty design, faulty material, or faulty construction, but must be regarded as attributable to faulty handling of the dock when the "Valiant" was docked in her. As a result of these conclusions the Board have taken disciplinary action against various individuals concerned.

3462. Were they naval personnel who were involved?—Actually, they were civilian constructors and the like, though carrying naval commissions for the time being.

3463. So you are in a position to carry out some measures of discipline, are you?—The kind of measure taken was that they have been reduced in rank to their substantive rank, or to their immediately junior acting rank.

3464. Is the floating dock a total loss?—Yes, a total loss.

3465. So £2,000,000 has gone down there, and there is also the damage to the battleship?—The damage to the battleship is valued at about £100,000. It is not so great as compared with the dock.

3466. It struck me as a little odd, when looking through the accounts, that in the losses statement at the end of your Appropriation Account I find an item such as No. 113, the loss of a motor cutter, £1,100, but no reference to the loss of a floating dock of £2,000,000?—There is a technical reason for that, and that is that a floating dock is constructed as, and is regarded as, a ship, and therefore follows the same rules, and a ship, whether it be lost by marine risk or by action of the enemy or by negligence, would not appear in the losses statement; nor does a floating dock.

3467. That is just a matter of historical precedent, is it?—Yes.

3468. However unreasonable it may appear?—(Sir Gilbert Upcott.) I should regard it as my duty to mention a loss of importance, as I do here, for the very reason that it is not noted in the account.

Chairman.

3469. Are there any questions on paragraph 12? We pass to paragraph 13: "Control of Expenditure on Conversion of Ships." This is something to which Mr. Haworth was referring a little earlier on, when he had waited 26 years to put his question. You seem to have made some progress in establishing control over this class of expenditure?—(Sir Henry Markham.) We have re-established the line which would have been taken immediately before the war, if the war had not broken out, and we think and hope that that will provide a very useful safeguard.

3470. We are told that the instructions which were given, which have been reported to the Treasury, "apply at present only to conversion and to repairs incidental thereto. Their extension to repair work generally is to be considered at a later date." Have you got any further with the consideration of that?—We have not really had any proper experience of the conversion rules. My own personal view of that is that we shall probably not find it either suitable or desirable to extend these rules to repair work, since the ordinary standing rules for repair work are very much on these lines. I would not like to say more than that at present.—Are there any questions on paragraph 13?

3471. Sir Henry, we have kept you already a very, very long time. It is quite clear that we cannot complete our examination of these Accounts to-day without an unduly prolonged sitting. I am, therefore, going to suggest to the Committee that we should adjourn now, and try to fit you in, I hope for a very much shorter session, at some later date, which will probably come some time in the middle or towards the end of June, will it not, Sir Gilbert?—(Sir Gilbert Upcott.) We can only find that out by examining our programme. There are no blank days.

3472. We will try to suit your convenience in the matter, Sir Henry, as much as we can?—(Sir Henry Markham.) Thank you very much, Sir.

(The Witnesses withdrew.)

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

THURSDAY, 2ND MAY, 1946.

Members present:

Mr. PEAKE *in the Chair.*

Mr. Cuthbert.
Mr. Douglas.
Mr. Haworth.
Sir John Mellor.

Sir Frank Sanderson.
Mr. Thurtle.
Mr. Williamson.

Sir GILBERT UPCOTT, K.C.B., Sir HERBERT BRITAIN, K.B.E., C.B., and
Mr. C. E. I. JONES called in and examined.

CIVIL APPROPRIATION ACCOUNTS, 1944.

CLASS VI.

VOTE 6.

MINISTRY OF AGRICULTURE AND FISHERIES.

Sir DONALD VANDEPEER K.C.B., K.B.E., called in and examined.

Chairman.

3473. Are you accompanied by Mr. Kerwood?—(Sir Donald Vandeppeer.) Mr. Kerwood is here from the Ministry of Health to answer any questions that arise on cottages.

3474. This is your first appearance before the Public Accounts Committee?—It is.

3475. Will Members turn to the Civil Appropriation Accounts 1944, Class VI, Vote 6, Ministry of Agriculture and Fisheries, and turn to the Report of the Comptroller and Auditor General, paragraphs 37 to 40, which are on pages xiv and xv. These paragraphs deal with the Agricultural Mortgage Corporation, Limited. Was the Agricultural Mortgage Corporation Limited established by the Agricultural Development Act, 1939, or at an earlier period?—It was established under the Agricultural Credits Act, 1928.

3476. It was the Act of 1939 which provided for grants at the maximum rate of £60,000 per annum?—That is so.

3477. The purpose of the Corporation is to make loans to farmers?—Yes.

3478. Could you tell us why that was thought desirable? Is it only when a farmer has tried his own bank and failed that he comes to the Corporation?—I think the origin of the Act was due to the circumstances of the time after the last war. A large number of farmers had purchased their holdings at high prices immediately after the last war or towards the end of it, and were unable to finance the improvements on them by reason of the calls on their finances. The Government of the time thought it desirable to provide them with a source of loans at a reasonably cheap interest to enable them to develop their holdings.

3479. They were able to get their money more cheaply from the Corporation than from their own banks?—Yes.

3480. And they were able to obtain loans from the Corporation when they would not have been able to obtain loans from their own banks?—Yes.

3481. By the Agriculture (Miscellaneous Provisions) Act, 1944, the Corporation was enabled to lend its existing funds at a lower rate of interest, and also to expand its business. "Under this Act," the Comptroller and Auditor General states "the total amount which may be advanced from the Consolidated Fund for the purpose of the Guarantee Fund is increased to £2,500,000 and the maximum payment which may be made out of moneys provided by Parliament in any year under Section 32 of the 1939 Act is increased to £150,000." Would you explain to the Committee the purpose of the Guarantee Fund on the one hand and the purpose of the annual grants on the other?—The purpose of the Guarantee Fund is to provide security for the debenture holders. It is an alternative, as I understand it, to the Government actually underwriting the debentures.

3482. This Corporation raises its funds in the market in London in the ordinary way?—It raises its funds in the market by the issue of debenture stock. The Government felt, as I understand it, that the best means of guaranteeing the debenture holders was to provide finance in the shape of this guarantee fund.

3483. The guarantee fund has never been used?—No.

3484. Therefore it simply is a book entry?—The money has been paid over.

2 May, 1946.]

SIR DONALD VANDEPEER, K.C.B., K.B.E.

[Continued.]

3485. It has been paid over to whom?—To the Agricultural Mortgage Corporation. It has been paid over and is invested by them and held by them as security for the debenture holders. (Sir Gilbert Upcott.) The original £650,000 has been paid over, but I do not think the balance of the £2,500,000 has been paid over. (Sir Donald Vandeppeer.) No, the original £650,000 has been paid over. (Sir Gilbert Upcott.) But not the extra sum up to £2,500,000.

3486. So that the additional amount is simply a book entry?—(Sir Donald Vandeppeer.) That is so. (Sir Gilbert Upcott.) It is available if the Government think fit to advance it.

3487. Have the annual grants which were originally at a maximum rate of £60,000, and are now at a maximum rate of £150,000 been paid, and, if so, to whom?—(Sir Donald Vandeppeer.) They are paid yearly to the Agricultural Mortgage Corporation as a means of avoiding any call upon the Guarantee Fund. They have varied from year to year.

3488. They are annually at the full rate?—Only if required. There have been successive systems of making this annual payment. Immediately before this Act of 1944 there was a system of paying £60,000 a year as a sort of equated figure against actual and prospective loss. That system was changed by the Act of 1944, which authorised and required the Ministry to pay the actual loss involved year by year up to a maximum of £150,000.

3489. Both of those increased provisions were made subject to the Corporation altering its Memorandum and Articles?—Yes.

3490. Could you tell the Committee what was the nature of the alterations made in the Memorandum and Articles?—Primarily a reconstitution of the board of directors. Before this Act the Treasury appointed one director. After this Act, in addition to the one director appointed by the Treasury, there are now two directors appointed by the Ministry of Agriculture. Further, the maximum rate of dividend on the share capital was reduced from 5 per cent. to 3½ per cent.

3491. There is some ordinary capital, is there?—There is share capital provided by the Bank of England, the Big Five and certain other banks.

3492. The maximum rate on that is now 3½ per cent.?—Three and a half per cent. non-cumulative. (Sir Herbert Brittain.) No dividend has been paid since 1934.

3493. Is the annual grant available towards the payment of a dividend on the share capital?—(Sir Donald Vandeppeer.) I am not sure.

3494. You can say, perhaps, Sir Herbert?—(Sir Herbert Brittain.) That is not the intention at all, no. It is not the intention that it should go to dividend, and it is all taken up, I think, to meet the loss on the operation of the Corporation.

3495. The amount of share capital is presumably very small in addition to the loan capital?—£750,000. (Sir Gilbert Upcott.) I understand that a dividend cannot be paid without the consent of the Minister and the Treasury, if there is a receipt in respect of losses.

3496. We had better take paragraph 38 along with paragraph 37, I think. In paragraph 38 the Comptroller and Auditor General states that in 1944 the rate of interest changed by the Corporation on new loans was reduced from 4½ to 3½ per cent. That is a fixed rate of interest, is it, on all loans, or is it the maximum rate, or is it a rate on loans for a certain period of years?—(Sir Donald Vandeppeer.) It is a rate of interest on loans for certain improvements for a given period of years.

3497. The loans are not made like ordinary banker's loans, callable at any time?—No, they are made over a specified period and can be prematurely redeemed only on payment of a fee.

3498. What is the period?—It varies with the purpose of the loan. It is something between 30 and 60 years. They are quite long-term loans.

3499. The rate of interest is, therefore, in no way related to the credit of the borrower?—No.

3500. Then the Comptroller and Auditor General states that at that date these lower rates were adopted for new loans "facilities being given to existing borrowers to convert their loans to the new rate on payment of a fee." Can you tell the Committee how the fee is calculated?—I am afraid I cannot at the moment. (Sir Herbert Brittain.) I think it is a flat percentage of the amount. My recollection is that it is 5 per cent.

3501. 5 per cent. of the outstanding capital?—Yes. (Sir Gilbert Upcott.) Yes, I can confirm that.

3502. Then Sir Gilbert goes on to say that "it has been agreed that, in calculating the annual payments to be made by the Minister in respect of the loss incurred by the Corporation, these fees, together with premature redemption fees, shall be placed to General Reserve in each of the four years beginning 1st April, 1944, and that in subsequent years they shall be allocated in such manner as may be agreed between the Minister and the Corporation with Treasury approval." I think that is fairly clear. Then in the second sub-paragraph the Comptroller and Auditor General states: "After allowing for the transfer to reserve of £75,000 in respect of these fees, the loss incurred by the Corporation in 1944 was estimated at £115,000," and, accordingly, from the Vote of the Ministry of Agriculture there was made a payment of £70,000. The annual grant, therefore, is made to pay the loss of the year, but not to provide anything for dividend on the share capital?—(Sir Donald Vandeppeer.) That is so.

2 May, 1946.]

Sir DONALD VANDEPEER, K.C.B., K.B.E.

[Continued.]

Chairman.] Are there any questions on paragraphs 37 and 38?

Mr. Douglas.

3503. What is the purpose of this reserve fund in which the fees are being placed?—I am afraid I could not answer that off-hand. I do not know whether I might ask Sir Herbert to say. (*Sir Herbert Brittain.*) We were associated with the Ministry in negotiation of this arrangement in 1944. I think it was felt that it was reasonable for an undertaking of this kind to have some working reserve which would not be excessive but which would be available to meet the ups and downs of its fortunes without entrenching on that Guarantee Fund which was set up as security for the debenture holders from the beginning. It is just an ordinary working reserve which any corporation of this kind would expect to have up to some figure or other.

3504. The effect of this transaction, the conversion of the loans from 4½ to 3½ per cent., is to diminish the revenue of the Corporation, is it not?—Yes.

3505. Therefore, to increase the deficit which the Government makes good?—Yes.

3506. The fee is intended to be, to some extent, a compensation for the reduction in the rate of interest, is it not?—That is so—some compensation.

3507. Very well. Then should it not be placed to revenue—because the effect of the transaction, as you have it now, is to increase the deficit which the Government pays, while part of the sum which should have met the deficit is being placed to reserve and kept out of the calculation.—I think it is an arguable case whether it should be regarded as capital or revenue. Where you have a loss like that, as a result of a lowering of rates of interest earned, you can regard it as a capital loss, I think. That view was rather represented to us at the time by the Corporation, and we felt it was not one that could be too strongly contested, anyhow.

3508. I can understand the Corporation representing that to you. What I was surprised at is your accepting the representation.—It is a general reserve. It was a convenient measure of setting up a reserve for this limited period of four years. After that period the disposition of these particular receipts is entirely at large.

3509. It seems to increase the charge upon the Exchequer.—It certainly does in those years.

Sir Frank Sanderson.

3510. I understood you to say that the Agricultural Mortgage Corporation Limited, have two directors who are appointed by the Ministry of Agriculture?—(*Sir Donald Vandeppeer.*) That is so.

3511. Are their appointments made from civil heads or from members outside the Ministry of Agriculture?—One of the direc-

tors is a retired officer of the Ministry of Agriculture. The other is an existing technical adviser of the Ministry, who has been advising the Ministry in a technical capacity during the war.

3512. Are directors' fees payable to the directors as such?—Yes.

3513. Could we be told the amount of fees payable?—It is a matter of a few hundred pounds. I think it is £500. The directors' fees were £2,500 all told in 1944.

3514. That figure is divisible amongst the directors?—Yes.

3515. In sub-paragraph 2 of paragraph 37 the Comptroller and Auditor General states: "Under this Act the total amount which may be advanced from the Consolidated Fund for the purpose of the Guarantee Fund is increased to £2,500,000." Could you say how much in fact of that amount is used or has been used?—I think nothing more than the original £650,000 has been paid so far.

3516. Am I to understand that on that amount a loss of £115,000 has been sustained? In the second sub-paragraph of paragraph 38 Sir Gilbert says: "After allowing for the transfer to reserve of £76,000 in respect of these fees, the loss incurred by the Corporation in 1944 was estimated at £115,000."—That was on the year's working in 1944.

3517. On what amount is that loss? What is the total amount represented?—It would depend on its rate of business.

3518. The £115,000 loss is not related to the £700,000 to which you have just made reference?—No. The £650,000 was the Guarantee Fund, which is a reserve, and has not been called upon.

3519. How is that loss sustained?—(*Sir Herbert Brittain.*) If I might explain that, the real reason for the loss is the fact that the company's rate of interest on their debentures is very much higher than the rate of interest that they can earn on their loans to farmers and others now. They had the misfortune to raise a considerable amount of money just before interest rates were reduced in 1932—two or three months before—and they have not yet had an opportunity of repaying those debentures. They will not have until 1959. So in the interim they are losing the difference between the interest they have to pay on those debentures and the interest they receive on the loans they have made to farmers which are at a much lower rate now. So the loss represents primarily a difference of interest receipts and interest payments.

3520. Am I right in saying that indirectly the loss is in fact borne by the Exchequer?—We have power to bear it up to £150,000 a year, yes. (*Sir Gilbert Upcott.*) I understand their debenture stock is about £10,500,000.

2 May, 1946.]

Sir DONALD VANDEPEER, K.C.B., K.B.E.

[Continued.]

Sir *Frank Sanderson*.] That is really what I was trying to get at.

Mr. *Thurtle*.

3521. Is there any part of this loss of £76,000 which is due to the fact that farmers have failed to meet their interest charges, or due to the fact that the loans themselves which have been made to farmers have been lost?—(Sir *Donald Vandeppeer*.) I think quite a small proportion—very small. I do not think I have available any figures of losses due to the Corporation by the farmers' failure to meet their obligations to the Corporation, but my impression is that it is quite a small proportion.

3522. You do have some losses of that kind?—There are bound to be some.

3523. I take it you incur risks in advances to farmers which would not be incurred by the banks. They would not regard them as commercial propositions?—I think that is, generally speaking, the intention of the Corporation, that they should be available within reason for making loans to farmers with perhaps less security than a bank would require. The great majority of them I think are loans on first mortgage.

3524. You are in effect taking hazards with State money which private banks would not take?—Not necessarily, I think. This is the Agricultural Mortgage Corporation for the administration of which my Department, and myself as Accounting Officer, is responsible, but it is established and working under Acts of Parliament which have been passed by the Legislature. The principle has been approved by the House. (Sir *Herbert Brittain*.) I think there is a difference between ordinary banking loans and loans made by the Corporation. It is not a real banking business to lend for 60 years certain, as the Corporation does. A bank may lend and agree to leave the money lying there for an indefinite period, but it is always liable, perhaps, to be called in, whereas this is a 60 years' or 40 years' certain loan, which is a great advantage to the farmer, because he can repay it steadily over the period and he knows where he is. I think that was in the minds of the Government at the time very largely.

Chairman.

3525. Arising out of that, perhaps I might ask this question. If the loans made by the Corporation are for long periods of years, and they are, as you told us, secured on first mortgage, does it not limit the activities of the Corporation to lend money to those farmers who own their own farms?—(Sir *Donald Vandeppeer*.) Yes. They will take other security as well. They do make some loans for the development of agricultural land, but there, again, that would be to owners and owner occupiers.

3526. They do not lend to agricultural landlords whose farms are occupied by

tenants?—(Sir *Herbert Brittain*.) For improvements, yes. They lend for 40 years, say.

Mr. *Cuthbert*.

3527. I take it the tenant would not be in the category of a person who could borrow from this Corporation?—(Sir *Donald Vandeppeer*.) No. These are not loans for tenants. They are loans for owners.

3528. Entirely for owners?—Yes.

Chairman.

3529. Are there are further questions on the Report of the Comptroller and Auditor General? We pass now to the Account, which is on pages 261 to 275. These Accounts are the Ministry of Agriculture and Fisheries' accounts on the pre-war model?—Yes.

3530. We shall come to your wartime expenditure when we turn to the Civil Appropriation (War Services) Account. I want to ask a question on page 267: "Miscellaneous Services." The first one, Subhead O.3 is: "Expenses in connection with Estate acquired by way of Gift." The expenditure was £13,531 more than the grant. The footnote explains the matter. It says: "The estimate, which was framed on the assumption that the donor would remain in occupation throughout the year, was mainly for the purpose of redeeming the tithe redemption annuities chargeable on the estate." Would you tell the Committee what this estate is which has been given to the Ministry?—This is an estate in South-East Essex which was offered to and accepted by the Ministry. It was suggested it would be very suitable for a vegetable research station. The Ministry accepted the gift, and, as the footnote states, the donor originally intended to remain in occupation for a time, but he opted, in the spring of 1944, for the Ministry to take possession. The Ministry did in fact take possession in 1944, and the estate at present is being farmed by the Essex War Agricultural Executive Committee, pending a final decision as to whether it is likely to be suitable for a vegetable research station.

3531. The excess expenditure, I see, was largely due to the redemption of the tithe annuities?—The Estimate provided for the redemption of the tithe annuities.

3532. Has it yet been decided whether to use the farm as a vegetable research station or not?—Not definitely. The matter has been considered by a departmental committee of the Ministry, who made a report (pointing out that while this particular estate was suitable in some respects, there were other difficulties attached to it. The matter has been under consideration both by the Agricultural Research Council and by the Agricultural Improvement Council of the Ministry, and the latest position is that the Agricultural Research Council has recommended that since a decision to set up a research station somewhere has been

2 May, 1946.]

Sir DONALD VANDEPEER, K.C.B., K.B.E.

[Continued.]

taken in principle, it would be desirable to appoint the governing body of that research station and the Director and ask them to advise as to its siting, taking this particular estate into account as one of the possible sites.

3533. At present, the capital expenditure on the estate is borne on the Votes, and the farming operations conducted by the War Agricultural Executive Committee, and if they make a profit or a loss, that would be shown in the War Services Vote, I take it?—They are all borne on this Vote. (Sir Gilbert Upcott.) There is provision of £6,800 in the current Estimates for further capital expenditure.

3534. I was asking whether the current profit or loss of the farm came into these figures?—(Sir Donald Vandeppeer.) It would all come under this Subhead. There is nothing in the War Services Vote in respect of this estate. (Sir Gilbert Upcott.) There is only a very small receipt in the year of account, because, of course, they had only just gone into occupation.

3535. May I ask a question on the next page, page 268—"Details of Receipts"? One of the items is: "Admission fees and other miscellaneous receipts, Royal Botanic Gardens, Kew—£5,118." I recollect that the admission fee was increased from 1d. to 2d. just before the war. It has now been reduced again, has it not?—(Sir Donald Vandeppeer.) It has reverted to one penny now.

3536. Would it be 1d. or 2d. in the year of account?—It was 1d. in 1944.

3537. On page 273, is the Diseases of Animals Account. On the right hand side of that account, under the heading: "Tuberculosis in cattle," there are two items: "Refunds to herd owners in respect of assisted tests" (Attested Herds Scheme), a figure of £7,590, and "Bonuses to owners of attested herds," a figure of £111,000. I had it in mind that those payments were to be discontinued as from a certain date?—I think what you probably have in mind is that this Attested Herd Scheme was suspended at the outbreak of war, because of the shortage of veterinary staff. Last year or the year before it was reopened to entrants who wished their herds to become attested, but it was reopened without any bonuses attached to it, so that they could get the benefits of the attested herd.—

3538. These payments were in respect of commitments entered into before the war. Is that right?—Yes.

3539. You undertake to make certain payments for a period of years under these schemes, do you?—Yes, certainly.

3540. So that unless the bonuses are re-introduced these payments will gradually diminish?—Yes.

Chairman.] Are there any questions on the Account?

Mr. Cuthbert.

3541. On page 273, on the payment side of the Diseases of Animals Account, there is a figure of £218,927, compensation to owners of slaughtered animals. What sort of price is it? Is it a market price that is paid for animals that are destroyed in that way?—Yes.

3542. It is the current market price?—It is the market price for the animal at the time it became infected with foot and mouth disease.

3543. In other words, enough to replace the slaughtered animal by another one. That is what I am getting at?—It depends when the man has to replace and when he gets his money.

3544. But at the time he is compensated he could buy an animal to replace that one which is slaughtered, if he bought at once?—Yes.

Mr. Haworth.

3545. On page 269, in the statement of the amount of loans outstanding at 31st March, 1945, No. (2): "Loans from the Consolidated Fund:—Agricultural Mortgage Corporation, Ltd. (Section 1(1), Agricultural Credits Act, 1928)," £650,000. Who gets the interest on this money? I presume it is attracting interest somewhere?—That is interest free for a number of years. (Sir Herbert Brittain.) The Corporation have invested it, and they receive the interest on the investments.

Mr. Haworth.] I am trying to find out why, now the figure has increased to £2,500,000, only £650,000 is allocated. The difference still remains with the Exchequer, I suppose?

Chairman.

3546. I thought we understood that only £650,000 had been paid over to the Corporation?—(Sir Donald Vandeppeer.) That is so.

Chairman.] And the balance of the £2,500,000 is simply a book entry at present.

Mr. Haworth.] Is it intended that it shall remain so, or will the balance be paid over?

Chairman.

3547. Until it is required, I take it, Sir Herbert?—(Sir Herbert Brittain.) Yes. It will only be required as and when the business of the Corporation increases. As and when it requires more funds to lend than it has at present we shall have to issue something out of the Guarantee Fund to enable it to borrow.

Mr. Thurtle.

3548. In connection with the estate in South-East Essex upon which £21,000 has been spent already, and there is another £7,000 in the current Estimates, could you give us any idea as to what the value of that estate is?—(Sir Donald Vandeppeer.) It was valued at the time it was delivered to us at £23,500, subject to the

2 May, 1946.]

Sir DONALD VANDEPEER, K.C.B., K.B.E.

[Continued.]

donor's life interest, and, of course, the value has increased since the donor has relinquished his interest.

3549. You have spent more than its actual value in improvements already?—No. The figure of £21,000 includes equipment and farming stock, which have been put on the land and are still there.

TRADING ACCOUNTS AND BALANCE SHEETS, 1944.

MINISTRY OF AGRICULTURE AND FISHERIES. NATIONAL STUD.

Chairman.

3552. Will Members turn to the Trading Accounts and Balance Sheets 1944, National Stud Account. The Report of the Comptroller and Auditor General is on page 3, paragraph 3. He recalls the transfer of the National Stud from Tully, County Kildare, to Gillingham, Dorset. He states: "During the year under review further expenditure on land and buildings amounting to £12,651 was incurred, making £29,327 in all." Have the equipment and extension of the completion of the property there finished now?—(Sir Donald Vandeppeer). No. There are certain additions to the equipment and the buildings there which are still necessary, in particular, to enable the Stud to house its very valuable stallion Big Game, which is now standing at Newmarket, costing us £1,000 a year. Obviously, it is desirable to have it in the National Stud, but it requires certain extra accommodation, both for the stallion itself, and for visiting mares, and owing to the difficulties in regard to labour and material at the present time, those additions have not yet been completed.

3553. Will there be additional land to be purchased?—Not very much. The present acreage is rather over 300, and I do not

SUGAR INDUSTRY (RESEARCH AND EDUCATION) FUND ACCOUNT, 1944.

Chairman.

3555. This is a Fund established to assist the development of the beet sugar industry by research, is it?—(Sir Donald Vandeppeer.) Yes. It was established under the Sugar Industry (Reorganisation) Act, 1936, for promoting research and education in the sugar industry. It is financed by a levy on the growers of sugar beet in respect of every ton of sugar beet sold to the Corporation, and that levy is matched by an equal sum contributed by the British Sugar Corporation itself. (Sir Gilbert Upcott.) I should say that by the Act of 1942 its operation during the war is limited to the growing of sugar beet, and does not extend to the sugar industry itself.

Chairman.] Are there any questions on this Account?

Mr. Williamson.

3556. What exactly is the form of education in the factories involving these very

3550. They were not there at the time of the gift?—No.

3551. So you have spent that in improving it?—And have increased the value of the assets comparably.

Chairman.] Are there any further questions on the Account? May I take it that the Account is approved? (Agreed.)

think it is contemplated it will be necessary to add much to that.

3554. The Comptroller and Auditor General states: "Other expenditure during the year included the cost of a stud mare and of shares in stallion syndicates." Could you explain that to the Committee?—I understand it is considered desirable to have, for the purposes of serving the mares at the National Stud, the services of stallions which are not owned by the National Stud itself, and one means of securing such services is to take a share in a syndicate which allocates the services of that particular stallion. The National Stud gets, therefore, a right to nominations for the service of some of its mares from that stallion. In other words it is a necessary feature of the breeding policy of the Stud.

Chairman.] In the second sub-paragraph Sir Gilbert states: "The Profit and Loss Account shows a profit of £31,200 on the working of the stud in 1944 as compared with £4,591 in the preceding year." That seems a very satisfactory outturn. Are there any questions on the Report of the Comptroller and Auditor General? The Account is on pages 6 to 11. Are there any questions on the Account? May I take it that the Account is approved? (Agreed.)

small sums, on page 2, of £21 7s. at Allscott and £3 at Bury St. Edmunds, and so on?—Cultivation demonstrations. (Sir Donald Vandeppeer.) Demonstration plots.

Mr. Douglas.

3557. As the price of sugar is, of course, controlled by the fact that it is a monopoly, all these revenues come out of the consumers in the end, do they not?—I have not quite followed that question.

3558. As the price of sugar is controlled by the fact that it is a complete monopoly, the whole of this money comes out of the pockets of the consumers in the end, does it not?—The price of sugar at the moment is controlled by the Government, but the production of sugar is not a complete monopoly. The British Sugar Corporation produce from home grown sugar beet, and before the war Tate and Lyle and other big firms (principally Tate and Lyle, I admit) produced sugar from imported unrefined sugar, and they sold in competition.

2 May, 1946.]

Sir DONALD VANDEPEER, K.C.B., K.B.E.

[Continued.]

3559. The imported sugar was subjected to heavy duty and the production of sugar from beet in this country is subsidised very heavily by the Government, is it not?—Yes.

3560. So that all this comes out of the pockets of the consumers in the end, does it not?—(Sir Gilbert Upcott.) As far as the

grower is concerned, he gets a price which is probably not fixed with sufficient exactitude to cover his halfpenny, or whatever it is that he pays.

Chairman.] Are there any further questions on the Account? May I take it that the Account is approved? (*Agreed.*)

LAND FERTILITY (RESEARCH) FUND ACCOUNT, 1944.

Chairman.

3561. This is a somewhat similar fund financed by the producers of lime, is it?—(Sir Donald Vandeppeer.) In part from the producers of lime and in part from the occupiers of agricultural land who receive the lime.

3562. I see there is a balance in the Fund of £30,000 odd at the beginning of the year 1944 and £33,000 at the end. The balance is a little in excess of a year's revenue.—(Sir Gilbert Upcott.) About three-quarters of the year's revenue from the two sources.

3563. Yes, I beg your pardon—about three-quarters of the year's revenue. Will that balance be absorbed or will it be invested or carried forward from year to year?—(Sir Donald Vandeppeer.) It is invested.

3564. It is invested?—Yes, usually in Treasury Bills. You will see on the receipts side of the account there is interest on investments and deposits.

Chairman.] Are there any questions on the Account?

Mr. Douglas.

3565. Does this mean that you are making a profit out of the supply of lime to farmers?—No. This is, again, a fund collected in part from the people who produce the lime and in part from the farmers to whom the lime is delivered. There is, as well as this, as arises on one of the other accounts, a 50 per cent. subsidy on the cost of lime delivered. It is quite a separate matter.

3566. So that in effect all this money comes out of the Exchequer in the end?—No.

3567. If you were not putting these receipts into this account the amount of the subsidy from the Exchequer would be so much diminished, would it not?—The producers of lime are paying something over £20,000 towards the cost of this research work into the uses of lime.

3568. You are buying lime from the producers, are you not? You are subsidising them to produce?—We do not buy the lime. The producer buys the lime and recovers half the cost from us.

3569. He recovers half the cost from you, so that if you did not ask him for £20,000

the amount that you would pay him would be so much less, would it not?—Yes.

3570. So that this is all borne upon the Exchequer in the long run, is it not?—If you assume that the subsidy would have been decreased by this amount if it were not borne by the growers and producers of lime.

3571. If I do not assume that, I assume that there is some very bad bargaining in this, that you are paying more in subsidies than you ought to. Those are the alternatives, are they not?—This arrangement for a collection in aid of a research fund both from producers of lime and from the farmers who receive lime, and for the payment of a 50 per cent. subsidy on the cost of lime and its transport, is, again, a matter on which we are carrying out the wishes of Parliament. There is no discretion given to me as Accounting Officer in the matter.

3572. That may be so.—(Sir Gilbert Upcott.) Perhaps I might say, if I might interrupt, that this levy of 2d. a ton is really a method of securing that the lime which we subsidise is used on land which is suitable for its application.

3573. Is that so? Would you mind explaining that?—My information is that that is the object of the Research Fund, to ascertain what the best uses of lime are.

Mr. Douglas.] That may be. That has nothing to do with the questions which I have just been asking the Accounting Officer.

Chairman.] I do not know that we can pursue the point.

Mr. Douglas.] I do not want to pursue it.

Chairman.] The Accounting Officer tells us it is a matter of Government policy that half of the delivered cost of lime should come out of the pockets of the taxpayer.

Mr. Douglas.] My only point is that the cost of delivering it is increased by the levy which is imposed upon the producers.

Chairman.] Yes, I am afraid that is so. Are there any further questions on this Account? May I take it that the Account is approved?—(*Agreed.*)

2 May, 1946.]

Sir DONALD VANDEPEER, K.C.B., K.B.E.

[Continued.]

CIVIL APPROPRIATION ACCOUNTS (WAR SERVICES), 1944.

CLASS X.

VOTE I.

MINISTRY OF AGRICULTURE AND FISHERIES (WAR SERVICES).

Chairman.

3574. Will Members turn to the Civil Appropriation Accounts (War Services) 1944, to page iv, paragraph 6, the Report of the Comptroller and Auditor General. It is a short paragraph on the war activities of the Ministry of Agriculture. Sir Gilbert states that the expenditure incurred by the County War Agricultural Executive Committees amounted to £19,522,000 in 1944, of which £3,202,000 was accounted for by administrative expenses, £4,655,000 was expended on machinery operations, £6,447,000 on gang labour, and £3,148,000 on lands of which possession had been taken under the Defence Regulations. The receipts consisted mainly of £8,313,000 in respect of goods and services to farmers, and £3,145,000 in respect of lands in possession. It would appear from that that the expenditure on lands in possession of the County Committees almost exactly balances the receipts from the lands in possession of the County Committees. The two figures are almost identical?—(Sir Donald Vandeppeer.) Yes.

3575. Leaving the administrative expenses out of account, the services rendered to farmers by way of gang labour and machinery operations amounted to about £11,000,000, and the receipts from services rendered to farmers to about £8,300,000; that is to say, there is a deficit, is there not, upon the services which you rendered to farmers?—Yes.

3576. I suppose because you undertook the less remunerative work for farmers?—That is in general the explanation. The charges to farmers are fixed for such services as machinery operations, gang labour—particularly machinery—at the general average commercial rate for the area, but in the nature of things the Committee gets the more difficult and more expensive tasks, because the ordinary contractor does not find it worth while to undertake them, or would charge a higher rate than the normal rate if he did undertake them. The main purpose of the Committee's reserve is to undertake work which must be done, but is not being done by other means, and it necessarily, in very many cases, is the more unpleasant and more expensive type of work.

3577. Some of this work, I suppose, is not work undertaken for the benefit of individual farmers at all; it is work such as arterial drainage, and so on, which benefits the whole area?—Certainly.

3578. And which was previously done by a drainage commission or some body of that sort?—Yes, or is work on, say, fen areas which had been allowed to get dere-

lict and which have been brought back into cultivation by the Committee during the war period.

3579. Can you give us any idea of how much capital money the Agricultural Executive Committees have invested in machinery?—The original cost of the machinery in the hands of the Committee would come out at about £9,000,000.

3580. Is there any system to ensure a satisfactory check that that machinery still exists in the hands of the Committees?—Yes. We have had successive stocktakings, and are having them at yearly intervals now. On the last two occasions we have done our utmost to see that it has been a physical stocktaking, and we require the executive officer of the Committee, in sending the returns to the Ministry, to certify that the machinery shown in the return was actually in the possession of the Committee on the date of the stocktaking.

Chairman.] We can, perhaps, have another word about that when we come to the Accounts. Are there any questions on paragraph 6 of the Report of the Comptroller and Auditor General?

Mr. Douglas.

3581. Could you say what area of land is now in the possession of your Department?—About 200,000 acres being farmed by Committees.

Sir Frank Sanderson.

3582. Of the £19,000,000 expenditure incurred in 1944, £3,200,000 was accounted for by the administrative expenses of the Committee. Could you state whether, in those expenses, are included such items as taking over premises for storing agricultural machinery in different parts of the country, or is it purely clerical administration?—I think it is purely administration. The cost of storage of machinery would come under the item: "Purchase and Storage of Machinery."

3583. Out of the main item?—The main item of Purchase and Storage of Machinery.

3584. One other question. The cost of the agricultural machinery is approximately, I understood you to say, £9,000,000. Is it proposed at any time to liquidate this department—in other words, to liquidate the machinery and dispose of it?—That is a decision of policy which has not been taken yet, and will have to be considered in the light of the continuing functions of these Committees. The present Government has decided that some form of committee organisation should be continued as a permanent feature of local agricultural administration, and it may well be that it

2 May, 1946.]

Sir DONALD VANDEPEER, K.C.B., K.B.E.

[Continued.]

will be considered desirable to continue some form of common service. But that is a decision of policy which has not yet been taken.

3585. I take it, from what you say, that the whole matter is under review?—If I may say so, it would have been under active consideration now, had the food crisis not continued in the acute way that it has, so that, in effect, the agricultural departments and the agricultural industry are still at war. The conditions which required the setting up of these machinery departments in war are likely to continue for a year or so.

Sir *Frank Sanderson*.] You would say, would you not, that the liquidation of this department at some future time is not lost sight of—or the possibility of it.

Chairman.

3586. I think you are asking the witness a question on policy, are you not? I think it is going a little astray from our usual functions. If there are no more questions on the Report of the Comptroller and Auditor General we turn to the Account, on pages 4 to 6. The Account shows the total deficiency met from the Vote of Credit is just under £37,000,000. That is correct, is it not, Sir Donald?—That is so.

3587. The £36,819,000 on the right hand column shows the cost of the War Services during the year?—The net cost.

3588. In the Details of Expenditure on page 5, Subhead K is: "Purchase and Storage of Seeds," a figure of just under £2,000,000. A little lower down, amongst the Details of Receipts, there is an item: "Seeds: receipts from sales" a figure of £3,201,000. Is this mainly in connection with the purchase of surplus grass seed in Northern Ireland?—Partly, but it also includes an arrangement which was made during the war for the importation of seeds by a Seeds Import Board in this Country, which dealt very largely with imports of necessary seeds from Canada and the United States of America. The difference between those two figures is accounted for very largely by the fact that a good deal of the seed was imported under lease-lend at a notional figure—at least, at a figure which was represented only by cost of transport and other charges from the United States port, but was released and sold in this country at comparable prices with other forms of seed.

3589. You do not deliberately set out to make a substantial profit?—No.

3590. Subhead M is: "Miscellaneous," a figure of £855,153. The footnote tells us that it "Includes a payment of £6 9s. in respect of additional costs incurred in an unsuccessful attempt to deliver a straw pulp plant to a farm, owing to the bad state of the approach roads, (ii) *ex gratia* payments totalling £6 to six farm workers for services rendered in combating a fire at the

Ministry's Grassland Improvement Station and (iii) a compensation payment of £463 3s. 6d. arising from a collision. Those cannot be the most important items amongst the miscellaneous items. Perhaps you can tell us which are the more substantial ones?—Certainly.

3591. I do not know why those three items are listed?—(Sir *Herbert Brittain*.) I think that is because they are of a nugatory character.

3592. And the details which Sir Donald is now going to give us will prove to be not of a nugatory character?—I hope so. (Sir *Donald Vandeppeer*.) That item "Miscellaneous" which I agree looks a rather large figure to be put together under a heading "Miscellaneous," is in fact made up of a very large number of items.

3593. Have you anything totalling over £100,000?—Yes, there are one or two. Limestone grinding plant: That was a scheme for assisting firms to put up limestone grinding plants in this country at a time when we were trying to utilise to the best the limestone in this country and get it put on the land. That accounted for £102,700. Then grain sacks: we had to purchase a reserve and generally organise the distribution of grain sacks. That accounted for £205,000. The National Milk Testing Scheme, which was a scheme for testing the keeping quality of milk, run by the Ministry in conjunction with the Milk Marketing Board and the Milk Distributive Trade, accounted for £98,000. Then our contribution to the National Milk Recording Scheme was £60,000.

Chairman.] Thank you. I think that is sufficient. Are there any questions on the Account?

Mr. Haworth.

3594. On (d), on the right hand side of page 5, it may be that the matter has been raised earlier: It is an annual part of a ten years' transaction. The footnote (d) is: "These receipts form part of a total sum of £10,661 12s. 7d. comprising sales by a County War Agricultural Executive Committee payable over varying periods up to ten years." Then it is indicated that it is inadvisable that this should be done. It will not be done again. What is the objection to selling stocks?—(Sir *Gilbert Upcott*.) It is forbidden by the Act. (Sir *Donald Vandeppeer*.) That was an entirely unauthorised action by a County Committee which we stopped when we found out about it. The Act giving us the authority to establish this reserve of agricultural machinery gave us no authority to resell it.

3595. Not having authority is rather different from, as Sir Gilbert puts it, being forbidden?—(Sir *Gilbert Upcott*.) The Act requires that "the stocks acquired by the Minister shall be held by him until the disposal thereof is authorised by or under an Act of Parliament passed after the commencement of this Act."

2 May, 1946.]

Sir DONALD VANDEPEER, K.C.B., K.B.E.

[Continued.]

Mr. *Haworth.*] Thank you very much.

Chairman.

3596. I think we might follow up by asking is there not yet any Act of Parliament authorising the disposal?—(Sir *Donald Vandeppeer.*) That Act was the 1939 Act, passed as a piece of permanent peacetime legislation. All the other action has been taken under temporary emergency legislation.

Sir *Frank Sanderson.*

3597. In the middle of page 5 there is an item: "Receipts from sales of tractors and other agricultural machinery on deferred purchase terms", a figure of £1,998. The amount is small, but it does raise rather an important point. Is it the practice to sell agricultural machinery at all, and if so on deferred terms?—That is the same point. This was action by one County Committee taken contrary to the instructions in the Act of Parliament.

3598. It is not the practice?—No. Indeed, it is contrary to the Act of Parliament to do so.

Chairman.

3599. On page 6, amongst the amounts written off as irrecoverable, there is an item: "Agricultural machinery and implements lost by County War Agricultural

Executive Committees", a figure of £54,867. £22,000 is attributed to disintegration. £10,000 is attributed to fire, etc., and £331, theft, and unaccounted for, £22,365. That was, I suppose, due to a faulty system in some parts of the country of recording stores?—Yes, in part. It is due to the fact that after four or five years of very intensive effort on the part of the County Committees, with very acute shortages of staff, we are now establishing a very much closer record of the machines in the hands of Committees, and that has thrown up deficiencies or machines unaccounted for over the war period. We are hoping, as the result of the tighter system which has now been established that amounts of this sort will not recur. (Sir *Gilbert Upcott.*) Perhaps I might add that this matter was examined by the Committee at some length in 1943, arising out of the failure of the Ministry to reconcile their records with the stocks in the possession or supposed to be in the possession of the Agricultural Committees. These figures are, I think, the clearing of the discrepancies which were then under consideration.

Chairman.] Are there any further questions on the Account? May I take it that the Account is approved? (*Agreed.*) That finishes your ordeal in the chair, Sir Donald. Thank you.

(Sir *Donald Vandeppeer withdrew.*)

CIVIL APPROPRIATION ACCOUNTS, 1944.

CLASS VI.

VOTE 16.

DEPARTMENT OF AGRICULTURE FOR SCOTLAND.

Sir PATRICK LAIRD, C.B., called in and examined.

Chairman.

3600. Will Members turn to the Civil Appropriation Accounts, to pages xiv and xv, of the Report of the Comptroller and Auditor General. This is the paragraph following the matter we have already discussed today in connection with the Agricultural Mortgage Corporation, Limited. The corresponding body in Scotland is called the Scottish Agricultural Securities Corporation?—(Sir *Patrick Laird.*) Yes.

3601. I presume it conducts its operations on very similar lines to the English body?—Yes, it does.

3602. And with similar objects?—And with similar objects. It is rather differently constituted, I think. I am not absolutely certain. It was constituted from the Scottish Banks. They created a Corporation of four of the Scottish Banks.

3603. Were you in the room when Sir Donald was giving his evidence?—Yes.

3604. That will help us a great deal. I

take it that the alterations in the Memorandum and Articles referred to in the bottom line but one on the page were similar in Scotland to what they were in the English case?—The character of the alterations that should be made were really provided for in the Act of 1944, and that was common to England and Scotland.

3605. I see the Comptroller and Auditor General states in paragraph 40 that the Corporation reduced its rate of interest from 4½ to 3½ per cent. That is in line with what was done in the case of the English Corporation?—Yes.

3606. For loans made after the 1st November, 1944, but in the case of the Scottish Corporation there does not appear to have been any option given to existing borrowers to convert their loans to the lower rate, as was done in England?—Yes, that has been done. The borrowers are allowed to convert their loans on payment of a Conversion fee not exceeding 5 per cent. of the outstanding balance.

2 May, 1946.]

Sir PATRICK LAIRD, C.B.

[Continued.]

3607. The arrangements are similar?—The arrangements are similar, yes. I think it just is not mentioned here.

3608. Because in your case it says that £214 was paid in 1944 from the Vote as a grant in respect of the resultant loss of interest. It looks as if there had not been many conversions in Scotland?—Not in that period. The new scheme only started in November, 1944, and this account, of course, finishes at the 31st March, 1945, so there was not very much time for anything to happen.

3609. The Scots take a little longer to think over a financial transaction of this kind than the English?—It is of some interest, even at the present time, that there is a great deal of outstanding balance of loans that have not been converted—something like £360,000 not converted.

Chairman.] Are there any questions on these paragraphs?

Sir Frank Sanderson.

3610. Can you state how the Board of Directors of the Scottish Agricultural Securities Corporation Limited is formed? Is it

formed on the same lines as the Agricultural Mortgage Corporation Limited?—The General Managers of the four Scottish Banks who agreed to come into the scheme are the four Directors, and in addition to that there is one Government Director who was appointed by the Treasury after consultation with the Department.

3611. There is a total of five?—Yes.

3612. Who nominates the Chairman?—The Chairmanship is taken in rotation by these four General Managers of the Banks.

3613. It does not follow, does it, that the Director appointed by the Government is necessarily the Chairman?—No, he is not.

Chairman.

3614. Are there any further questions on those paragraphs. We turn to the Account, which is on pages 296 to 305. These accounts, again, are in the normal peacetime form and cover the normal peacetime activities of your Department?—Yes.

Chairman.] I have no questions upon the Account? Has any Member any questions? May I take it that the Account is approved? (*Agreed.*)

CIVIL APPROPRIATION ACCOUNTS (WAR SERVICES), 1944.

CLASS X.

VOTE 17.

DEPARTMENT OF AGRICULTURE FOR SCOTLAND (WAR SERVICES).

Chairman.

3615. Will Members turn to the Civil Appropriation Accounts (War Services) 1944, to pages 58 and 59. The net cost of the War Services in Scotland amounted to £5,072,000?—(*Sir Patrick Laird.*) Yes.

3616. The footnote (a) to Subhead A under Details of Expenditure says: "Expenditure charged to this subhead includes the purchase price of three farms." Are those farms purchased under statutory powers?—Yes, under the Agricultural (Miscellaneous Provisions) Act of 1941.

3617. On the ground that they were being badly farmed?—That is implied, yes. But what that Act did was to give power to the Minister to acquire farms which had been requisitioned, and in the case of which it was not possible to realise the full benefit to the State of taking possession of the farms without actually acquiring them. If they were not acquired they would have at some time or other to be handed back, de-requisitioned, and you could not be sure of getting the value of improvements affected on them. This was the purchase price of three farms in this particular year.

3618. The price being settled by arbitration, I take it?—Yes. If not by agreement it was arbitrated.

Chairman.] I have no further questions on the Account. Has any Member of the Committee any questions?

Mr. Haworth.

3619. On page 58, the three Subheads G, H and M—"Land Drainage," "Bracken Destruction," and "Rat Destruction Service." I notice that about a quarter in each case (less in the case of bracken destruction) is shown as receipts. Is there a fixed proportion payable by the owner or the farmer of the amount spent?—No. In the case of land drainage, broadly speaking, the receipts ought to be towards 50 per cent. of the expenditure. As far as I can judge the reason why it is far short of that in this year is probably because there is always a hangover of unsettled recoveries. You do the work first and have to recover the money afterwards from the people who have benefited, and there is always a considerable time lag in getting that money back.

Chairman.

3620. It is the other way round in my experience. In England I pay for the destruction of my moles about a year in advance of anybody coming to have a look at them?—I was talking about land drainage in particular. The land drainage works are apt to take a considerable time to do, and it may be some time before you are ready to recover money. In the case of bracken, I must frankly admit that that is mainly due to the fact that the machinery service which we operated for this purpose proved to be extremely

2 May, 1946.]

Sir PATRICK LAIRD, C.B.

[Continued.]

costly. We had fixed rates that we were going to charge to the people who were benefited. We could not increase those. For one reason or another—inadequate supervision, machines breaking down, and so on—the actual cost to us was very much higher than we had expected. That was the case of bracken. As regards rats I thought we had pretty well got back our proper proportion.

Mr. *Haworth*.

3621. It is about a quarter, is it not?—In the case of rats it is rather different, because a large part of the item of expenditure there is the actual wages of running a squad of over 100 men. We have a rat destruction squad, and we have to keep them full-time paid. We do not attempt to get a 50 per cent. return on our rat service.

Chairman.] Are there any further questions on the Account?

Sir *Frank Sanderson*.

3622. Subhead E is "Agricultural Labour Services, including Women's Land Army," a figure of £791,000 expenditure. Lower down, under the Details of Receipts, I see: "Agricultural labour ser-

vices, including Women's Land Army," a figure of £1,015,000. Do I take it from that that the Committee sends workers to a farm, and this organisation pays those wages, and you then invoice up to the farm for services rendered?—Yes.

3623. And in the aggregate you are making a slight profit?—I think it would be only fair to say that that profit is more apparent than real. Actually, for a great many of these services there is quite a substantial loss. If you take gang labour or the Women's Land Army labour in hostels, you have to provide for their payment on a whole-time and a weekly rate. You are getting nothing like the equivalent of that from the farmers. The reason why we have overall a profit of this character is entirely due to the fact that prisoners of war labour is not paid for by us. It is a military commitment, but we get the receipts from the farmers, so there is a profit of something like £400,000 from prisoners of war.

3624. You really regard that as a gross profit and not a net profit?—Yes.

Chairman.] Are there any further questions? I think that is all we have to ask you to-day, Sir Patrick, thank you.

(*Sir Patrick Laird withdrew.*)

CIVIL APPROPRIATION ACCOUNTS, 1944.

CLASS VIII.

VOTE 3.

ROYAL IRISH CONSTABULARY, PENSIONS, ETC.

Mr. R. C. S. TAYLOR, O.B.E., called in and examined.

Chairman.] Are there any questions on this Account?

Mr *Williamson*.

3625. Would this figure of £45,000 expenditure more than the grant be in respect of increases in pensions due to war con-

ditions?—(*Mr. Taylor.*) Yes, they would be the increases under the Pensions Increase Act, 1944.

Chairman.] Are there any further questions? May I take it that the Account is approved?—(*Agreed.*)

VOTE 4.

SUPERANNUATION AND RETIRED ALLOWANCES.

TREASURY MINUTE ON PARAGRAPHS 1 TO 3 OF THE REPORT OF THE COMMITTEE OF PUBLIC ACCOUNTS, 1945.

Chairman.

3626. Will Members turn to paragraph 43 of the Report of the Comptroller and Auditor General in the Civil Appropriation Accounts, and to the Treasury Minute on paragraphs 1 to 3 of the Committee's Report of last year. The Comptroller and Auditor General draws attention to a particular case of an extra-statutory payment. Perhaps you could tell us how the case arose, Mr. Taylor?—(*Sir Gilbert Upcott.*) Perhaps I could explain the general question. Although I based this paragraph on a particular case, it is really a general ques-

tion, which is similar in character to the question which was considered by the Committee in 1945. The question of the Treasury's powers in relation to the grant of pensions and gratuities was formerly a matter of controversy, but many years ago the Treasury gave undertakings to Parliament that they would not exceed their statutory powers in the award of pensions and gratuities to the Civil Service. That has been the rule for a number of years now, subject to occasional individual exceptions which are noted in the accounts. Last year Sir Herbert Britain mentioned to

2 May, 1946.]

Mr. R. C. S. TAYLOR, O.B.E.

[Continued.]

the Committee that the Treasury wished to make certain exceptional arrangements which were not provided for by the Superannuation Acts in connection with the services of certain special classes of persons who had been serving the State temporarily during the war, such as university dons, economists and statisticians, and I think other professional officers. They asked whether the Committee would see any objection to their giving undertakings to such persons in advance of legislation which was contemplated to obtain the necessary Parliamentary sanction. The Committee of 1945 reported that they had considered the Treasury proposal, and in the special circumstances they did not wish to raise any objection, subject to it being clearly understood that statutory authority would be sought as soon as conveniently possible. It came to my knowledge that in certain cases during the war the Treasury had given undertakings to civil servants that if they went into private industry for munition purposes they would be permitted to count their service in private employment for superannuation or gratuity. That is contrary to the statutory provision that service can only be counted under the Superannuation Acts if it has been paid from moneys provided by Parliament. That undertaking in advance of legislation was not mentioned to the Committee in the previous discussion, and, therefore, I am obliged to draw attention to it. The matter has certain features, in that there appears to have been some ambiguity about the nature of the concession which the Treasury intended to give, and, whether owing to uncertainty in the instructions or to misinterpretation by Departments, it appears that undertakings were given of a rather wider character than the Treasury had originally contemplated, and I am not altogether clear from my own information exactly how far the concession did go. But the main point which I am obliged to bring to the attention of the Committee is that an undertaking was given in advance of Parliamentary authority to award pension or gratuity on service which is not reckonable according to the Statute.

3627. I take it the particular case to which you refer in this paragraph is of no importance as such?—No. It is merely one of the earliest illustrations of the concession which had come to my notice. I base my report upon facts.

3628. I see that the Treasury, in their Minute on the Report of the Committee a year ago, state: "My Lords are glad to note that the Committee do not wish to raise any objection to Their proposals, on the understanding that statutory authority for the necessary extension of the Superannuation Acts will be sought as soon as is conveniently possible." It has not yet been found convenient to ask Parliament for the necessary authority? — (Sir Herbert Brittain.) There is a Superannuation Bill

which will be introduced in fact very shortly—certainly this session—and it is intended to put in a clause which will give the Treasury power to meet cases retrospectively, of course, as well as of the kind referred to. I do not wish in any way to quarrel with what Sir Gilbert has said in describing this case, and we realised at the time we were acting extra-statutorily; but it was in 1940 when these pledges were first given. The occasion was the fact that the Ministry of Labour had been appealing up and down the country for munition workers. It was felt that wherever possible if Government Departments could spare people to go out temporarily they should go out, and this pledge was accordingly given, that if they did go out under approved arrangements and then came back to their Government Department when they were called upon to do so, their service outside should be regarded as reckonable for the purposes of superannuation. I think it was probably through the stress of the times that the Department did not realise they perhaps ought to have come and asked the Committee's permission, as we did in certain cases last year, before this was actually put into operation. Subject to that, I hope the Committee will not feel we committed any very grave sin in anticipating legislation in the particular circumstances of the time. Perhaps I might add, as regards the misunderstanding to which the Comptroller and Auditor General refers, that that was rather a technical point. It had been intimated to the Departments first concerned in this—there were about ten of them—that this concession should only be given to officers, which included industrials, who would have been eligible, if they had gone into the Forces, to receive the balance of civil pay. That applied to those people who had been in the Departments for some considerable time—six months at least before the war began. In the course of the first year or two in which this operated certain other Departments were told about it, but that condition was not conveyed to them, and they naturally gave assurances to some workmen whom we had not intended to cover originally. What the numbers are I am not quite certain, but it might be something over 100, plus a rather unknown number of people who were lent to a contractor by the Admiralty abroad. It is not by any means certain that all those people will in fact come back to their Departments, but the people to whom it has been inadvertently and rather wrongly given will probably be less than 200 cases altogether.

3629. You say "rather wrongly given," but—We shall certainly honour the pledge.

3630. That is what I was going to ask you. These assurances will have to be honoured, even though rather rashly entered into?—Yes.

2 May, 1946.]

Mr. R. C. S. TAYLOR, O.B.E.

[Continued.]

3631. And the legislation will have to cover those cases?—The legislation will cover everything.

3632. It will be introduced in the near future?—I hope in the course of the next few weeks.

3633. Have you anything else to add, Sir Gilbert?—(Sir Gilbert Upcott.) No. As I say, I do not wish to criticise, except that it was a little unfortunate that there was confusion. It is my duty to call attention to any case in which the Treasury departs inadvertently or otherwise from precise undertakings they gave to this Committee in previous years not to exceed their statutory rights in the matter of superannuation.

Chairman.] Are there any questions on the paragraph or on the Treasury Minute?

Mr. Williamson.

3633A. Do I understand all these cases will be covered by Parliamentary sanction shortly?—(Sir Herbert Brittain.) Yes.

(Mr. Taylor withdrew.)

3634. Were contributions paid by these people while they were away?—I should imagine not. (Sir Gilbert Upcott.) These pensions are not contributory in any way. (Sir Herbert Brittain.) Civil Servants do not pay contributions for their pensions or even their gratuities.

Chairman.

3635. It is only the Police who pay. There are statutory deductions?—The Police and Teachers. There is no question of a contribution in these cases.

Sir Frank Sanderson.

3636. Are all war bonuses calculated for superannuation purposes?—Yes, I think so.

Chairman.] Mr. Taylor, you have proved merely a convenient peg upon which to hang a discussion; I have no questions on the Account. Has any Member any questions on the Account? May I take it that the Account is approved? (Agreed.)

WHEAT FUND ACCOUNTS, 1944-45.

(On this Account no questions were asked.)

CIVIL APPROPRIATION ACCOUNTS (CLASS X, WAR SERVICES), 1944.

CLASS X.

VOTE 3.

MINISTRY OF ECONOMIC WARFARE.

VOTE 10.

POSTAL AND TELEGRAPH CENSORSHIP DEPARTMENT.

VOTE 11.

MINISTRY OF PRODUCTION.

VOTE 19.

SCOTTISH HOME DEPARTMENT, WAR SERVICES.

(On these Accounts no questions were asked.)

(The Witnesses withdrew.)

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

TUESDAY, 7TH MAY, 1946.

Members Present:

Mr. PEAKE in the Chair.

Mr. Benson.
Mr. Cuthbert.
Mr. Hector Hughes.

Sir John Mellor.
Sir Frank Sanderson.
Mr. Thurtle.

Sir GILBERT UPCOTT, K.C.B., Sir HERBERT BRITAIN, K.B.E., C.B., and
Mr. C. E. I. JONES called in and examined.

TREASURY MINUTE ON PARAGRAPHS 15 TO 17 OF THE REPORT OF THE
COMMITTEE OF PUBLIC ACCOUNTS, 1945.

TREASURY MINUTE ON PARAGRAPHS 1 TO 3 OF THE FIRST REPORT
OF THE COMMITTEE OF PUBLIC ACCOUNTS, 1945-46.

Sir WILLIAM DOUGLAS, K.C.B., K.B.E., and Mr. H. H. GEORGE, C.B., M.C.,
called in and examined.

Chairman.

3637. Sir William, you have come before us on behalf of the Ministry of Health?—(Sir William Douglas.) Yes.

3638. The first item on our agenda is the Treasury Minute dated 15th October, 1945, on paragraphs 15 to 17 of the Report of the Committee of Public Accounts, 1945. There should have been on the agenda—I do not know whether you have referred to it—the Treasury Minute of February, 1946, on paragraphs 1 to 3 of the First Report of the Committee of Public Accounts, 1945-46, which deals with the same matter.—Yes, we did refer to that.

3639. That is on the first Report of the Committee of Public Accounts for 1945-46 session, and I think we will turn to that straightaway. This deals with the question of District Auditors, which we had before us previously.* The Treasury Minutes states: "Their Lordships have agreed to the following additional measures to further this end"—that is, to expedite the clearance of outstanding claims; and then there are set out a number of subheadings. Sir William, I suppose those steps have been taken? That procedure has now been carried out?—Yes, that is quite right.

3640. Under (a), claims for war damage repairs will in future be settled directly between the War Damage Commission and local authorities without your intervention. The fourth paragraph of the Treasury Minute refers to a "statement made by the Treasury that the tendency had been for the District Auditors' staff to deal, to some extent, rather too much with the details of minor irregularities and expenditure of doubtful admissibility than to concentrate on bringing to light really important matters requiring the attention of Departments," and then there is some explanation of what the Treasury intended by that statement. A little lower down in the paragraph it states: "There is constant consultation between District Auditors and local financial officers." That is so, is it?—Yes, that is so.

* See also Appendix No. 11.

3641. It goes on to state: "My Lords are fully satisfied that this current consultation with the District Audit Staff on matters of special importance, together with the subsequent audit of the claims, have been adequate to protect public funds from any important irregularities or uneconomical expenditure by Local Authorities." Sir Herbert, perhaps you could answer this question. Has this current consultation led to the disclosure of important irregularities or uneconomical expenditure in any particular cases? You say the Treasury are satisfied that that is so. I wondered what evidence there was to support the statement?—(Sir Herbert Britain.) I think the evidence will have come to us through the Departments concerned, not only the Ministry of Health, but the Home Office, the Ministry of Fuel and Power, and so on. This is the result of consultations with them when this whole question was raised. We took steps to satisfy ourselves through them. I cannot recall to mind myself any case of an important irregularity which has been brought to our notice through this means. I think if there were a likelihood of important irregularities arising they would probably have been settled within the Departments concerned at the time. Perhaps the Ministry of Health may know.

3642. Perhaps Sir William may be able to tell us?—(Sir William Douglas.) Nothing has arisen from that in so far as the Ministry of Health is concerned.

3643. That is to say you have not had any examples of important irregularities or uneconomical expenditure brought to your notice as the result of the district audit?—Quite so.

3644. Perhaps I might ask Sir Gilbert to comment on this paragraph, if he has any comments to make?—(Sir Gilbert Upcott.) I have no knowledge, of course, of whatever consultations may take place between the District Auditors and the

7 May, 1946.]

Sir WILLIAM DOUGLAS, K.C.B., K.B.E., and
Mr. H. H. GEORGE, C.B., M.C.

[Continued.]

financial officers of the Ministry of Health. What I am interested in are the reports of the District Auditors which form the basis on which I accept their audit as satisfying the provisions of the Exchequer and Audit Departments Act. I am afraid I can only say that I have no positive evidence that the District Auditors do in fact raise matters of financial importance. I take it that if they do not raise matters of irregularity one may trust that such irregularities have not occurred. But there may be many matters, of course, of financial importance. One finds it very difficult to believe that in this very large expenditure there are no matters of financial importance to which attention should be drawn, as they occur all over public expenditure and from time to time I bring such matters before this Committee. As far as the expenditure by local authorities of Exchequer money is concerned, I am dependent on the reports of the District Auditors for ascertaining whether there are any such matters requiring attention. I am prepared to say that the District Auditors pay careful attention to the proper accounting for expenditure and its proper apportionment between rates and Exchequer money. I think so far as the correctness of accounting is concerned their examination is no doubt very thorough, but I have not been able to find any evidence in their reports, so far as they come to the notice of my officers, of any important matters being raised, and, as I say, it seems to me difficult to believe that there cannot be any over the whole period of war, in this very large amount of public expenditure. What I have felt throughout the discussion of this matter is that there is a lack in the handling of the matter by the District Auditor of central direction and guidance. It has, of course, always been the tradition of the District Auditors (and it is their statutory position) that each one is independent and not subject to direction, but I think it was admitted in the discussions last year that so far as the local authority expenditure of Exchequer money is concerned, the District Auditor is not acting in his independent statutory capacity, but is acting on behalf of the Accounting Officer, and, in that capacity, he is subject to direction by and on behalf of the Accounting Officer. As this is Exchequer money granted on uniform principles it seems to me very important that there should be a central direction, and a direction which would take into account the fact that this Committee desires to be informed about important matters. There is an analogous field of expenditure in which my position is indirect and that is the audit of grant-aided colonies. There I accept the audit of the Colonial Audit Department, and my officers see their reports, and many matters come to the attention of this Committee as a

result. In that field there is central direction by the Director of Colonial Audit, through whom the reports come. Indeed, very often they are his reports, and it seems to me it is a matter for consideration whether, in view of the fact that the District Audit is going to have very important continuing duties in relation to Exchequer expenditure under present and prospective legislation, there should not be some further review of the powers and duties of the Chief Inspector in relation to the District Auditor. If there were some sort of central control of that sort, and some central authority upon whom I could rely for making sure that matters are brought to notice, I think, if that were possible, it would be an advantage. I have not gone into the question of the catching up of the arrears at the present moment. Perhaps the Committee will deal with that later on, but on the general question of principle, that is my feeling.

3645. Sir William, have you any comment to make on what Sir Gilbert has just told us? I take it the position of the Chief Inspector is laid down by the Local Government Act, 1933?—(Sir William Douglas.) That is so.

3646. It is stated in paragraph 2 of our last Report?—That is so. I think the general question which Sir Gilbert is raising is rather a matter for the central Department, the Treasury, as it covers all the Departments with which those Auditors are associated. As far as we at the Ministry of Health are concerned, we rather appreciate the terms of this Treasury Minute. We think it sets out the position in proper perspective. (Sir Gilbert Upcott.) Perhaps I might interrupt for a moment on what you said about the Act of 1933. I do not think the Act of 1933 recognises the Chief Inspector at all. He is, so far as I understand it (I think it was explained last year) not a statutory officer at all.

3647. I am obliged to you, Sir Gilbert. We probably set out the position correctly in our Report—that the Minister of Health appoints the District Auditors and their staff, “and under his general powers the Minister appoints the Chief Inspector of Audits, who is responsible for supervising and co-ordinating the actual work of examination, certification and reporting on claims.” Would you agree with that as a statement of the law?—(Sir William Douglas.) Yes, certainly. (Sir Gilbert Upcott.) He has no legal authority over the District Auditors who are in a local capacity—that is to say, in regard to rate-borne expenditure, but that does not come into the picture here.

3648. The functions of the Chief Inspector are prescribed by the Minister also, as well as the appointment?—(Mr. George.) He is just the Chief Inspector of Audit. It is true, as Sir Gilbert

7 May, 1946.] Sir WILLIAM DOUGLAS, K.C.B., K.B.E., and
Mr. H. H. GEORGE, C.B., M.C.

[Continued.]

says, that he cannot order a District Auditor to do a certain thing, but he is there to see that there is a general uniformity of standard. (Sir Gilbert Upcott.) My point is that the functions of the Chief Inspector have never been very carefully defined.

3649. Sir Gilbert's point is that more and more responsibility is being placed every year upon local authorities for spending public moneys, and that the District Auditors have been inclined in the past to report more on minor irregularities than to exercise the proper functions which the Comptroller and Auditor General himself discharges in relation to expenditure by his Department?—(Sir William Douglas.) On that latter point, I think the Treasury Minute does really answer that point. On the general question of the control by the Chief Inspector of the Auditors, I have seen him personally in action in the short period during which I have been in the Ministry, and I am bound to say that in fact he acts as the head of the department and he looks after their programmes, he looks after their work, their discipline, and so on. I have no doubt also he sees to the uniformity of the quality of their reporting. (Sir Gilbert Upcott.) There is one important exception. He makes no report. (Sir William Douglas.) I noticed that. He does not make any report, but as far as we are concerned at the Ministry of Health, and subject to anything the Treasury may have to say, we should not have the slightest objection to his making an annual report.

3650. I quite agree with you, Sir William, that the Treasury Minute appears to answer the questions raised, but when I put it to Sir Herbert just now, he could not produce much evidence in support of the statements made in the Treasury Minute?—(Sir Herbert Brittain.) I found it a little difficult to prove a negative.

3651. Is it a negative? You say that the District Audit staff have been adequate to protect public funds from any uneconomical expenditure?—We have not had any of these irregularities or lack of adequate economy brought to our notice through the Departments by the District Auditors, and as the result of our conversations with the Departments we thought we could properly say we were satisfied about this.

3652. As Sir Gilbert says, is it conceivable, after six years of war, that there has been no instance of uneconomical expenditure on a large scale by a local authority of Exchequer money? Is that conceivable?—(Mr. George.) There have been instances surely. Nobody is saying there have not been instances of cases where auditors have not disallowed large expenditure. I did not gather that was the point, really, behind Sir Gilbert's statement.

3653. I was asking whether the reports of the District Auditors have led to the disclosure of uneconomical expenditure in a large way?—(Mr. Jones.) We got reports from certain Departments to show to what extent the District Auditors have disallowed expenditure. These showed that in the early years of the war there were quite significant figures of disallowances, when the local authorities were taking on a new service without much experience behind them. It is true these figures of disallowances were high, especially for the early years. In the case of the Home Office, for example, in their first year of grant-aided expenditure on air raid precautions, the amount finally disallowed from claims of about £26,000,000 was £800,000, which indicates that in those years the District Auditor's intervention was protecting the Home Office from considerable sums of money which otherwise would have been incurred. The amounts disallowed tail off in later years, as the local authorities gained greater experience of services which they were to provide. There were similar figures, not of such sizeable amounts, that we received from other Departments in respect of these war services.

3654. We will turn to the other matter raised in the Treasury Minute—that is on the next page—the letter to the Ministry of Health, the Home Office and the War Damage Commission. In the final paragraph you ask that the Lords of the Treasury should be furnished with a report showing the progress made as at 31st March, 1946. That is, the progress in reaching final settlements of claims. Has the report been made?—Yes, we have received reports from all the three Departments concerned. The Ministry of Health gave us figures and told us that the return showed a marked improvement had taken place during the period of nine months since they sent us their last return, which consisted of the figures to June, 1945.

3655. Could you give us some comparative figures?—The Ministry of Health figures showed that as at the 31st March, 1946, for the period up to the 31st March, 1945—the war period up to that date—the number of claims due was 17,000, of which 13,000 claims have been received from local authorities, leaving something over 4,000 claims not yet received. Of the 13,000 claims received 11,500 had been audited, and the audited claims received from District Auditors, and just over 11,000 of that 11,500 had been finally settled by the Ministry of Health.

3656. Thank you. Have you figures covering amounts as well as numbers?—The only figure with which the Ministry of Health supplied us for amounts was the total amount of the advances. I do not know whether Mr. George can put any

7 May, 1946.]

Sir WILLIAM DOUGLAS, K.C.B., K.B.E., and
Mr. H. H. GEORGE, C.B., M.C.

[Continued.]

figures on the amounts of the audited claims which have finally been settled.

3657. That is what I should like, if you can give us anything on that, Mr. George?—(Mr. George.) We can on hospitals.

3658. Only on hospitals?—Yes. On hospitals, for the period up to March, 1945, there were £41,222,000 advances. The total value of the claims settled was £32,811,000—about 80 per cent. settled.

3659. I should very much have liked to get the amounts in money corresponding to the figures which Mr. Jones has given us?—We could get them out, but it would take a tremendous amount of trouble. We have taken the numbers of claims. We know on evacuation, for example, it is 85 per cent. of the claims and about that amount of the expenditure, but we have not taken out the actual expenditure.

3660. You can give us the approximate figures now?—Yes; the corresponding figure to 80 per cent. is 85 per cent. for evacuation.

3661. The accounts actually finally settled at the end of March of this year for the year ended March, 1945, amount to 85 per cent.?—The amount settled up to date amounts to 85 per cent. of the claims to March of last year and 80 per cent. in the case of hospitals.

3662. 85 per cent. in amount?—(Sir William Douglas.) On evacuation.

3663. And 80 per cent. on the hospitals?—Yes.

3664. I am obliged.—(Sir Gilbert Upcott.) May I say on those figures that it is true, I think, of all the Departments as far as I have seen the returns that there has been a very perceptible improvement as regards the number of claims settled except in the case of the War Damage Commission, who are no doubt in a very special position. As you, I think, implied, amounts are much more important as a test for the progress made in clearing up these matters than the number of claims, because the claims that are apt to be settled when pressure is to settle quickly are the small claims, and the larger claims are the more difficult ones, so that figures of amounts, which are not available at all in the case of the Home Office figures, are a much better indication of the progress that has been made. As regards the numbers of claims there has undoubtedly been an improvement. Before you pass from the matter I should like to say, on the question that Mr. Jones mentioned—the figures I heard with interest—I think it is important to know whether those figures represent a question of allocation or a question of principle of the expenditure involved. I quite agree that the District Auditor has been very careful about the allocation of expenditure between the Exchequer grants and rates, but there are many questions which I have raised in similar fields on the direct audit of public expenditure which raise questions of principle.

Chairman.] Are there any questions on the Treasury Minute?

Mr. Benson.

3665. I should like to raise with Sir Herbert the long paragraph on the Treasury Minute. It seems to me that the Treasury Minute completely throws over the original Treasury statement. The original Treasury statement says that there was a tendency to concentrate on details rather than to concentrate on bringing to light really important matters. Then it says: "the statement referred to above was not intended to imply that the District Auditors had in fact failed to bring any important matters to the notice of Departments." What does that sentence imply, if it does not imply that?—(Sir Herbert Brittain.) When we came to look at the evidence again in the light of the Committee's Report, we did feel that perhaps one side rather than another of this question had been emphasised so much, and that we had quite unwittingly, and perhaps arising out of its context a little bit, stressed the view that the District Auditors were spending too much time on minor irregularities, and so on. Quite frankly we wished to correct that view before the Committee.

3666. Judging from what Mr. Jones said, in the first stress of A.R.P. there was only 3 per cent. of expenditure disallowed, and that 3 per cent. eventually dwindled to negligible proportions, and the suggestion that there are no major matters of uneconomical expenditure by local authorities suggests that local authorities have a much higher standard of administration even than Government Departments, because the Comptroller and Auditor General never fails to bring matters of very considerable importance to our notice in almost every Department we examine. The mere fact that there is an absence of any reports of serious uneconomical expenditure by local authorities is, in itself, surely suspicious?—(Mr. Jones.) The information we received from the Departments was that there was this current consultation between the District Auditors and the local Finance Officers on such matters as, for example, the principles of the contracts to be placed in order to fulfil their requirements, so that the instructions of the Ministry filtered down through the District Audit staff, who saw that the actual contract arrangements made by the local authorities were in accordance with the Ministry's instructions, and their District Auditor got in before the contracts were placed. To the extent to which he did that he had fewer points to pick up when he carried out his audit.

3667. Take the comparison as shown between the efficiency of the local authority and the efficiency of a Government Department. Is it not suspicious that the local authority apparently stands undefiled and

7 May, 1946.]

Sir WILLIAM DOUGLAS, K.C.B., K.B.E., and
Mr. H. H. GEORGE, C.B., M.C.

[Continued.]

the Government Department invariably is in trouble?—(Sir Herbert Brittain.) One would not expect as many queries about the way a local authority carries out a particular service on the spot as in, say, the case of a Department like the Ministry of Health, which is responsible for dictating policy and methods of work to the local authorities, or the Ministry of Supply in laying down broad questions of policy and so on.

3668. I was not thinking so much of irregularities?—Or even uneconomical expenditure. I think, probably, one is definitely broader than the other. One would be surprised if there were so many inquiries or so many points of principle thrown up in a local authority dealing with billetees, for instance, and so on, as are thrown up by the Comptroller and Auditor General in dealing with a central Department.

Chairman.

3669. Sir Herbert, this question is likely to be of grave importance in the future, when the whole of this vast housing scheme has to be carried out by local authorities?—They are working within very close ranges of policy, of course, in building houses.

3670. They are doing it at a time when there is virtually no competition between contractors to secure contracts; they can all get all the contracts they require, and I should have thought that instances of uneconomical expenditure are very liable to occur in a field of that character?—Of course, the subsidy they get from us is limited, and it would be a question of the burden on the rates—local criticism, and so on, of uneconomical expenditure in a way which must be probably even a more adequate safeguard than the District Auditor in many cases.

Mr. Hector Hughes.

3671. I would like to ask a few questions about the last sentence in the long paragraph of the Treasury Minute, which seems to me very unfortunately expressed. Being a Treasury Minute one expects precision, and I wonder whether the lack of precision is intentional. "My Lords are fully satisfied that this current consultation with the District Audit staff on matters of special importance, together with the subsequent audit of the claims, has been adequate to protect public funds from any important irregularities or uneconomical expenditure by Local Authorities." The first question I would like to ask is about the words "has been adequate to protect public funds." Has it in fact protected public funds?—This is intended to relate primarily, to the general period of the war, which was discussed by the Committee earlier on. Our impression from consulting with the Departments was that as a result of these consultations and as the result of

the cases Mr. Jones has referred to, which were raised earlier in the war, public funds have been protected from important irregularities or important uneconomical expenditure.

3672. May we take it that there is no *arrière pensée* there? When the Treasury Minute says: "My Lords are fully satisfied" and so on "have been adequate to protect public funds," they mean that they have in fact protected public funds?—Yes. That was the resulting impression from our consultations with the Departments.

3673. Then it goes on a little further: "from any important irregularities or uneconomical expenditure." Obviously, important irregularities and uneconomical expenditure are two different things?—Yes.

3674. Is this sentence intended to mean that the system has in fact protected public funds from both of those things—important irregularities and uneconomical expenditure?—That is our belief, just as the Comptroller and Auditor General has his double function as regards the public accounts.

3675. Why does it not say "and"?—Perhaps that is a matter of style, I do not know. It means "and."

3676. It would be better to say "and" then. Still on that—"protect the public funds from any important irregularities." There is a further limitation. Were there in fact any irregularities disclosed?—Those cases in which the Auditor reported that sums should be disallowed were at least technical irregularities.

3677. Then there were some irregularities?—Yes.

3678. But small ones?—Yes.

3679. So the system was effective (I am on the effectiveness of the system of consultation) to disclose some irregularities, however small?—It always does that, year in and year out; there are always small irregularities reported.

3680. And was it effective to disclose some uneconomical expenditure?—Probably the Ministry of Health could answer that better than I could. (Mr. George.) It has disclosed both. Irregularity shades into uneconomical expenditure. Irregularity might mean that there was no justification for the expenditure or that they had expended money at a greater rate than they need have done. I remember cases where the Auditors have taken cases to Court, where the people have spent money on A.R.P. They had a perfect right to spend money on, say, keeping vehicles standing by, but the Auditors pointed out that they had kept about ten times as many standing by as they need have done, and for twice as long as they need have done—that sort of thing. Is that an irregularity or an uneconomical expenditure?

7 May, 1946.]

Sir WILLIAM DOUGLAS, K.C.B., K.B.E., and
Mr. H. H. GEORGE, C.B., M.C.

[Continued.]

3681. What would be the difference between an important irregularity and an uneconomical expenditure? Would the one mean fraud and the other not fraud?—(Sir *Herbert Brittain*.) Not necessarily fraud. A large irregularity might involve a local authority in spending funds on purposes for which it was not intended to spend money, just as it would be an irregularity in the case of Exchequer funds if the Treasury or any other Department spent money which had been voted to it for purposes which Parliament had not approved. That sort of irregularity is included. It is not necessarily fraudulent, but it is that kind of irregularity which shades off, as Mr. George was saying, into wasteful expenditure.

3682. Mr. George said just now that there were cases brought to Court—or did I hear you incorrectly?—(Mr. *George*.) There have been cases, of course.

3683. Were they cases of fraud?—There have been cases of fraud taken to Court, yes.

3684. Were they cases of important irregularity?—It all depends what one means by "important." The Auditor's whole training is to find out these things. That is what he is doing all the time—not only in wartime. He is trying to build up a system which will prevent irregularities and will automatically by the checks in it lead to economy in expenditure. He is just carrying that on during wartime with expenditure which is on behalf of the Government, and the Treasury say—and the Ministry of Health agree with them—that their whole training and the steps they have taken are sufficient to ensure that there are no gross irregularities undiscovered or any gross uneconomical system to which attention is not drawn.

3685. I think you said there were some cases brought to Court?—Yes. Auditors do take cases to Court.

3686. Were they criminal prosecutions?—To recover the money some person is surcharged. He has to refund the money that has been improperly spent, and for that purpose he is taken to Court.

3687. But a surcharge would be one thing and a criminal prosecution for fraud would be another?—Yes, I agree. There are some of both.

3688. Are those instances set out anywhere?—I could not say.

3689. Then who is to judge the importance—what is an important irregularity and what is an unimportant irregularity?—(Mr. *Jones*.) Until recently District Auditors were given discretion to disregard only minor irregularities which were described as where the amount was less than £50. That instruction has recently been changed by giving them a rather wider discretion not to report to the central Department items of expenditure of doubtful admissibility,

even if in excess of £50; but that sort of £50 figure was the dividing line that was current until last year between the minor and the important irregularity.

Chairman.

3690. Perhaps I may get the point quite clear. The District Auditors report to the Ministry of Health only?—(Sir *William Douglas*.) On the claims which they audit, which are made to the Ministry of Health, in the case of Ministry of Health expenditure.

3691. But not in the case of purely local authority expenditure?—(Mr. *George*.) The report is made to the local authority because the cost of audit is paid by the local authorities as a whole. The Minister gets a copy of the Auditor's report on each audit on each local authority.

3692. Are the reports of the District Auditors published?—No. They are public because they go to the local authority, but they are not actually published. There would be thousands of them. (Sir *Gilbert Upcott*.) I think Mr. George is getting into some confusion. We are not talking about reports made on rate-borne expenditure, but any reports which may be made on Exchequer expenditure, which I think are not made to the local authorities at all. (Mr. *George*.) I understood the Chairman to say reports on local authority expenditure.

3693. On what may be called agency expenditure there is a report to the Department concerned?—There is a report on a claim.

3694. That is not published ever?—No.

Chairman.] Mr. Hughes was asking whether the cases of important irregularities ever came to light, were you not?

Mr. Hector Hughes.

3695. Yes, and I was greatly impressed by what Sir Gilbert said. It is difficult to believe that in such large transactions there are no irregularities, and I think he went on to say that in his opinion there was a case to be made for central direction. That impressed me very much as being a fair way to test the system, as to whether the lack of evidence of important irregularities was evidence of the effectiveness of the system or evidence of the fact that there were no such important irregularities. Then I thought I would like to know who was to judge whether an irregularity was important or not?—(Sir *Herbert Brittain*.) May I say, on the question of central direction, that the Chief Inspector does at present send out circulars to the District Auditors on points which he has discussed with the Ministry, and indeed with us sometimes, and he is available there for any general suggestions of policy which may be made by us or any other Department. A lot of the field over which

7 May, 1946.] Sir WILLIAM DOUGLAS, K.C.B., K.B.E., and
Mr. H. H. GEORGE, C.B., M.C.

[Continued.]

the Committee carried on its discussion last year was in fact set out in a circular from the Chief Inspector last autumn.*

3696. One other question. These agency services under which the local authority spends the money and the Exchequer finds 100 per cent. of the money so expended—are they coming to an end with the termination of the war?—Some of them will, but I should not like to say that they will all, by any means.

3697. There will be continuing cases where the Exchequer finds the money and the local authority expends it?—Off hand, I should say there might well be further services. (Sir Gilbert Upcott.) There is the hospital scheme. (Sir Herbert Brittain.) That is not on the local authorities. (Sir William Douglas.) That will be a central state hospital scheme. (Sir Herbert Brittain.) It will be carried on by regional boards responsible to the Ministry. (Mr. George.) There will still be relics of evacuation.

Mr. Cuthbert.

3698. May I put one question? I, for my sins, was mayor of a coastal town for about six years, so I do know about this checking of District Auditors, but there are towns still getting Exchequer grants for next year or for two years—towns on the South Coast in particular. My own experience was that the District Auditor's

*See Appendix No. II.

work was a most excellent one as far as local authorities were concerned. Now I come to what I want to find out. Through the District Auditor's work, through our own financial officer of the local government, there was what we called disallowances, and we were always threatened, as mayors and councillors, with a surcharge and having to pay it separately. I never yet struck a case where I could find out who made good those disallowances. They certainly did not come to the mayor and councillors for the surcharge. Who did pay the money disallowed by District Auditors?—(Sir William Douglas.) It comes out of the pocket of the person affected, mostly, I imagine. (Mr. George.) Not always. There can be disallowances not followed by a surcharge, I think, in which case it means, I take it, the Ministry may step in and sanction the expenditure or something like that.

Mr. Cuthbert.] If not it would come out of the local rates? My point is this. I think a remark was made that it is a bigger check than anything else, that if anything is going on the local rates you have the local public at once shouting about expenditure and wanting to know about it. I wanted to know where the money came from when it was disallowed?

Chairman.] Are there any further questions on the Treasury Minute?

CIVIL APPROPRIATION ACCOUNTS (WAR SERVICES), 1944.

CLASS X.

VOTE 6.

MINISTRY OF HEALTH (WAR SERVICES).

Chairman.

3699. Will Members turn to the Civil Appropriation Accounts (War Services) 1944, to paragraph 28 on pages x and xi of the Report of the Comptroller and Auditor General: "Return of Evacuees and Rehousing in Requisitioned and Rented Premises." The Comptroller and Auditor General states: "During the year of account the Government evacuation scheme began to be closed down by progressive stages." Could you describe to us, Sir William, what were the arrangements for the closing down of the evacuation scheme by progressive stages?—(Sir William Douglas.) When the bombing period stopped people gradually came back, so it did not have to be organised, fortunately. People gradually did come back, and the position now is that whereas, as is stated in paragraph 28, on the 30th September, 1944, the figure was 438,000, at the present time it is approximately between 50,000 and 60,000, including about 8,000 children.

3700. There are still 50,000 or 60,000 evacuees?—There are still 50,000 or 60,000 evacuees of one kind or another scattered

about the country who, for one reason or another, have not been able to get back to their original homes.

3701. Would you turn to the second subparagraph, which deals with another matter. The Comptroller and Auditor General states: "An increasing number of requisitioned and rented premises have been used by local authorities for rehousing homeless or inadequately housed families." Under what powers are the premises requisitioned?—The Defence Regulations.

3702. Which I suppose have been continued under the new Act, so far as housing is concerned? The Comptroller and Auditor General goes on to say: "By 31st December, 1945, 82,629 properties in England and Wales were held for these purposes. Occupiers are assessed by the local authority for contributions towards the cost of their accommodation." Can you tell me what is the basis of assessment? How is it estimated?—During the war tenants of requisitioned premises were assessed on a different basis according to the category in which they fell. Evacuated mothers with children, for example, lived rent free. Evacuated adults and

7 May, 1946.]

Sir WILLIAM DOUGLAS, K.C.B., K.B.E., and
Mr. H. H. GEORGE, C.B., M.C.

[Continued.]

family groups, including homeless persons, paid only such rent as they could afford. Latterly there has been a change in the basis of assessment with the termination of the war, and the position now is that all classes of tenants are required to pay a rent of the kind they would normally pay. That is to say, if someone was formerly a tenant of a council house, they would be expected in their new requisitioned premises to pay the same sort of rent as they would have been paying under the council whose tenant they formerly were, with the same facilities about rebates if the council were so minded.

3703. That is to say, questions of the character of the accommodation provided and the means of the tenant do not enter into the picture?—They do not enter into it to anything like the same extent.

3704. Then Sir Gilbert states: "The local authority's deficit is reimbursed by the Ministry." Is there invariably a deficit? Is there bound to be a deficit?—Not necessarily, I should think, but mostly there would be a deficit, I think.

3705. I should have thought in many cases the amount of rent payable by the rehoused tenant would more than cover the rent of the requisitioned property payable to the owner?—It may so happen.

3706. That is a rare case, is it?—Yes, I think it is rare.

3707. Then the Comptroller and Auditor General goes on to say: "The writing off of uncollected assessments is left to the discretion of local authorities." That does not seem wholly satisfactory, where the Exchequer are finding the whole of the deficit?—Local authorities have a very long experience on this question of rents that people can pay for different classes of accommodation. They are themselves owners of property in quite a big way, and I think they discharge that function quite satisfactorily.

3708. You cannot give us, I take it, any figures? In his last sentence Sir Gilbert states: "The aggregate cost of this service is not available from the accounts kept by the Ministry." You cannot tell us what the aggregate cost of the service is?—Unfortunately, we are not able to do that on the present form of accounts, but we have made some alterations now, at the end of the war, and we have asked the local authorities to work this service under their Housing Committees, and we have asked them at the same time to keep figures and statistics and let us have them by means of regular returns, so that in future we shall be able to give a broad ascertainment of what the cost of it is.

3709. It is surely very necessary, is it not, that what the cost of this service is should be known to the taxpayer?—We think so, yes,

3710. It would also be desirable to know, would it not, what proportion of the rents due the local authorities failed to collect?—That will all come out in the statements that we have.

3711. Because it would be all too easy for a local authority, however conscientious, to give up trying to collect a rent if they knew that the loss would be paid by the Exchequer?—Quite so.

3712. Sir Gilbert, have you any comments to make on this paragraph?—(Sir Gilbert *Upcott*.) I think this is an example of what I was saying just now. This is a matter in which a very wide discretion is left to local authorities. The only precise instruction which the Ministry of Health has given is that there should be a maximum recovery—not a minimum. Their circulars lay down a maximum. I do feel that when the local authority are given very wide discretion with regard not only to the assessment of the contribution which the occupiers have to make, but also with regard to the collection of it, it would be desirable if there were, if not central control, central criticism, because, so far as my officers have been able to examine the auditors' and inspectors' reports, there does seem to be a good deal of divergence of practice between different authorities, as one would expect.

3713. Have you any comment, Sir William, to make on what Sir Gilbert has just said?—(Sir *William Douglas*.) You will see from the penultimate sentence of the sub-paragraph that it was not entirely unchecked, even during the war. Sir Gilbert states: "The departmental billeting inspectors are instructed to test both assessments and writes-off." So that there was, in so far as we could do it in the circumstances of war, that amount of check of the operations of the local authorities.

3714. Those are your officers?—Yes, officers of the Ministry of Health.

3715. They are paid officers?—Yes, paid officers.

3716. They still operate?—They still operate, but they are operating in a very much reduced way, because we feel, in the altered circumstances of assessment, and having regard to the fact that it is to be put under Housing Committees, that we no longer need to have the departmental billeting inspectors to anything like the same extent, if at all.

3717. These billeting officers performed other functions, I take it?—They had other functions during the war. We hope that we shall soon wind up the whole service. (Sir *Gilbert Upcott*.) What I should like to know is whether there was any attempt to apply any standard.

3718. Sir William told us what the basis was. It was the type of rent which the tenant would normally pay, I understood?—(Sir *William Douglas*.) Yes,

7 May, 1946.]

Sir WILLIAM DOUGLAS, K.C.B., K.B.E., and
Mr. H. H. GEORGE, C.B., M.C.

[Continued.]

3719. I assume that local authorities are advised that that is the standard?—Yes, they are advised about the standards. Possibly the Comptroller and Auditor General is thinking of the application of the standards. The standards are there for them to apply.

Chairman.] Are there any questions on paragraph 28?

Mr. Thurtle.

3720. On that very point, the Ministry do authorise the local authorities, in the event of there being financial hardship in a household, to reduce the rent below the figure which would be normally chargeable for that accommodation?—Yes. It is a custom now, in housing schemes, where the council tenant is unable for reasons of poverty to pay the rent, to make certain rebates of rent. We have reminded authorities that those people are in that position as well, so that if they care to they can apply their rebate scheme to them.

Mr. Benson.

3721. With regard to the 50,000 or 60,000 evacuees who have not returned home, are they still at Government expense?—Yes.

3722. Why are they on Government expense?—I imagine they were bombed out of their homes and, for one reason or another, there is no alternative accommodation for them, and as a matter of good administration and proper administration, the Department has felt it right that those people should still be on Government charge, even although the war has come to an end.

3723. Does that mean that they will be on Government charge so long as they have not a home of their own?—No. We shall endeavour gradually, with the help of local authorities, to find homes for those people in one way or another. That is what we have been doing at a fairly rapid rate during the last two years. We hope that process will continue.

3724. Are they surcharged at all?—What do you mean by "surcharged"?

3725. Are they themselves expected to make a contribution towards their expenses, or does the Government just keep them?—I do not think I have quite understood your question.

3726. You said that they are evacuees on Government charge. What exactly does the Government pay for them?—They are expected to pay the sort of rent that they would have paid before, as I was trying to say earlier, according to their circumstances.

3727. I am on sub-paragraph 1 of paragraph 28, not on sub-paragraph 2?—I beg your pardon.

3728. I am speaking of the 50,000 or 60,000 who are evacuees.—(Mr. George.) They are unaccompanied children, and that means that the State pays a billeting allowance to the householder, and endeavours, if it can find the parents, to recover part of the cost from the parents.

3729. There are only 8,000 children out of those 50,000 to 60,000 evacuees.—There are anything up to 40,000 mothers with children. They are generally billeted at 5s. for the parent and 3s. for each child. There are some aged and infirm, very old people, who came out and are in institutions and so on. These are people who have no place to go back to, and something has to be done for them.

3730. Are they still billeted in private houses, and is billeting compulsory still?—Billeting never was compulsory. The powers were there, but these people were in fact taken in without using the powers.

3731. The powers were always in the background?—Yes. (Mr. Thurtle.) It is a fact, is it not, that there are still large numbers of families evacuated into the country from many of the areas of London where there was very heavy bombing, and those are families for whom the local authorities cannot find any accommodation at present?—Yes.

3732. Those are the people concerned?—Yes. There is nowhere for them to go.

Mr. Hector Hughes.

3733. These evacuees, I take it, are put into particular houses by the local authority, are they?—(Sir William Douglas.) Yes.

3734. They pay what they can, measured by the rent that they have been previously paying to the local authority. Does the local authority stand any of the loss or does the State bear it all?—The State pays any deficit.

3735. The local authority does not stand to lose any money on the transaction?—That is so.

3736. The system is, if I may say so, very properly in such circumstances a very elastic one, checked only by the departmental billeting inspectors employed by the Ministry of Health?—That is so.

3737. Were they permanent officials?—No, they were temporary officials. They were got together during the war as temporary officers, to help when this evacuation started.

3738. Was there any test of their aptitude for that particular kind of work?—The ordinary tests that a Government Department applies in getting staff, in the exigencies of war.

3739. Were they trained in any way as to the value of accommodation and matters of that sort?—I should not think so. This was in the middle of the war, and one just had to get the best people one could to

7 May, 1946.]

Sir WILLIAM DOUGLAS, K.C.B., K.B.E., and
Mr. H. H. GEORGE, C.B., M.C.

[Continued.]

do the job, and apply to them the rules for guidance laid down by the Department.

3740. They had two jobs to do: one was to test the assessments of the occupiers and the other was to see whether the collections were adequately made?—That is so.

3741. They did require a certain amount of training?—I imagine their main job was to assist in the whole billeting process which went on during the war, and this was one of their functions.

3742. I take it from that that they had no training in either of these particular activities—(a) as to the value of the accommodation, or (b) as to the collection of assessments?—It was rather a novel series of functions. It is difficult to imagine people arriving trained on that job. They would acquire their training as they went along.

3743. Turning to another matter, you said that 50,000 or 60,000 evacuees are still away. Are they tested in any way, or is any inquiry made as to whether they are people who are just voluntarily staying away, perhaps intending to live where they find themselves?—There were 15,000 unaccompanied children. It is now down to about 7,000 or 8,000 unaccompanied children. They are homeless children. Their circumstances are known to the local authorities. Then there are mothers with children, and then there are a certain smaller number of family groups, and then there are the aged and infirm.

3744. Could you tell us how many able-bodied men there are evacuated still?—Under this scheme?

3745. Yes?—I should think none at all.

3746. Or able-bodied women?—There may be a few in those family groups.

3747. What I want to find out is this: Is there an appreciable number amongst those people who are still evacuated who have just settled down in the place to which they have been evacuated, and are living calmly there at Government expense, and may go on living there for some time to come unless they are checked in any way?—From the figures we have of the mothers and children, aged and infirm, it can only leave a very small number, if any, of able-bodied people. After all, the ordinary person, if I may say so, does not particularly want to stay away from his own home if he can find a home of his own.

Chairman.

3748. Are there any further questions on paragraph 28 of the Report of the Comptroller and Auditor General? We turn to the Account, which is on pages 23 to 25. Could you give the Committee some detailed figures under Subhead A: "Measures to deal with Casualties and Disease," an expenditure of nearly £22,000,000? Could you give us the principal subdivisions of that figure?—I could give you the principal

figures. Reserved beds, local authorities—£10,000,000. I will give them to you in round figures. Reserved beds in voluntary hospitals—£6,000,000. Emergency medical services, salaries and wages—£1,500,000. Payments to local authorities in respect of tuberculosis allowances—£600,000; and the inter-hospital transport of the sick—about £600,000.

3749. Those first two items are payments made to local authorities and voluntary hospitals for keeping beds empty in reserve for air raid casualties?—It is both for keeping them empty and also for the use of them as well, when they were occupied.

3750. For the use of them by air raid casualties?—By Service casualties and civilian casualties, but for the most part Service casualties. This was the emergency service created for dealing with war casualties coming back from the Front.

3751. Then under the Details of Receipts, I see an item: "Payments by Gibraltar refugees towards the cost of their maintenance," a figure of £42,000. Are the Gibraltar refugees still with us?—They are mostly in Northern Ireland now. A lot of them have gone back to Gibraltar, but there is a residue still in Northern Ireland who will go back to Gibraltar when there are homes for them to go to in Gibraltar.

3752. Can you tell us the number still remaining?—There are still about 6,000, I think, in Northern Ireland.

3753. That is out of a total or maximum figure of how many at an earlier date?—It must be somewhere about 11,000, but I have not the precise figure with me.

3754. About half of them have gone back?—About half have gone back, yes.

3755. On the following page, in the Receipts of other classes, Item (c) is: "Payments under agreements made with two firms of manufacturing chemists," a figure of £112. That is explained in the final footnote on page 25: "Payments under agreements with two firms of manufacturing chemists, in consideration of financial assistance amounting to £3,670 towards extension of premises and installation of plant for purposes of growing and drying certain medicinal herbs." Could you tell the Committee a little about that?—As part of the emergency medical services the Ministry was interested in the securing of certain medicinal herbs. The consumption, of course, was very much greater in times of war than it was in times of peace. Therefore they asked those two firms, Sir Stafford Allen and Son and William Ransome, to come to their aid, which they did, by extending their premises to get a little more room for drying those herbs.

3756. What sort of herbs are they, or is that too difficult a question to answer?—All sorts. I am not an expert

7 May, 1946.] Sir WILLIAM DOUGLAS, K.C.B., K.B.E., and
Mr. H. H. GEORGE, C.B., M.C.

[Continued.]

on these things, but there are all sorts of plants which are used medicinally, for example the foxglove for the making of digitalis.

3757. The £112 is either interest or repayment of the original loan?—It is an instalment, I think.

3758. Repayment of capital or capital and interest combined?—(Sir Gilbert Upcott.) I think it is a rent.

3759. You think the plant and machinery still belong to the Ministry?—Subject to correction, I think it is a form of rent charge.—(Sir William Douglas.) It is a payment they made under an agreement. You can call it a rent charge, if you like.

3760. That is to say, the property, so to speak, in the plant remains with the firm of chemists concerned?—I have not the details of the agreement with me, but I imagine that is how it was—that, in consideration of making certain payments, the property would remain with them at the end of the day.

3761. Can you say what proportion of the capital expenditure of £3,670 will be recovered in this way?—I am afraid I have not the figure with me.

Chairman.] It is only a small item. I do not think we will bother with it. Are there any questions on the Account?

Mr. Thurtle.

3762. In the Details of Receipts on page 23 there is an item "Sales of stores

and equipment". I wondered what that consisted of? Would that be A.R.P. equipment?—It is general medical stores of a varied kind, that were accumulated during the war for those emergency medical purposes, like occupational therapy equipment, cotton wool, and the equipment of day nurseries.

3763. You no longer want it?—We no longer want it.

Sir Frank Sanderson.

3764. Note 4 on page 25 refers to gifts on a substantial scale received from America. I take it that has nothing whatever to do with lease-lend, and that it applies to gifts by the citizens of that country?—That is so.

Mr. Hector Hughes.

3765. On page 24 in the Details of Receipts (a) is: "Loans to local authorities:—Repayment of principal", a figure of £312,000. What is the total amount lent to local authorities?—There were two local authorities concerned. (Mr. George.) One was about £350,000 and the other was about £40,000, but one has repaid the whole lot in this year.

3766. I was wondering if this was an instalment on account?—No, it has paid the whole lot.

Chairman.] Are there any further questions on the Account?—May I take it that the Account is approved?—(Agreed.)

CIVIL APPROPRIATION ACCOUNTS, 1944.

CLASS V.

VOTE 1.

MINISTRY OF HEALTH.

(Summary Report of the Ministry of Health for the year ended 31st March, 1945.)

Chairman.

3767. Will Members turn to the Civil Appropriation Accounts, 1944, to Class V, Vote 1, the Ministry of Health. The Account is on pages 195 to 200. The only matter I want to ask about is at the top of page 200, in the Details of Receipts. "Loans to local authorities in England and Wales:—Repayment of principal", a figure of £308,000 estimated and £311,000 realised. The footnote gives the details of receipts and the names of the authorities concerned. The loans were made under Section 114 of the Local Government Act, 1929. Could you tell me what was the purpose of these loans?—(Sir William Douglas.) Those were Poor Law Loans. They were in respect of loans made by the Minister for current expenses and in respect of arrears of interest outstanding on the 1st April, 1930, and transferred to the councils of counties and county boroughs.—(Sir Gilbert Upcott.)

They were originally made in 1921 in the first post-war depression. This related to the amount of about £6,000,000 in 1929.

3768. The footnote says that the sum of £311,000 odd comprises the final instalments due to the Exchequer?—(Sir William Douglas.) Yes.

3769. Can you tell me whether any part of these loans has had to be written off as a loss?—No. The sum was to be repaid over a period of 15 years without interest, and it has all been repaid. (Sir Gilbert Upcott.) I must demur to that. That may be legally so. What the Act said was that any loans outstanding which had not been repaid by a 9d. rate were to be written off. Therefore any authority which would need to raise more than a 9d. rate was not obliged to repay more than up to that amount. There has been a loss to the Exchequer for that reason. That was in accordance with the Act.

7 May, 1946.]

Sir WILLIAM DOUGLAS, K.C.B., K.B.E., and
Mr. H. H. GEORGE, C.B., M.C.

[Continued.]

3770. There has been a loss to the Exchequer on these loans?—(Mr. George.) There was automatically a loss, because they had not to pay it all back, by Statute. We have got back what we ought to get back by Statute.

3771. You have got back what is due under the Statute?—Yes. (Sir Gilbert Upcott.) Legally, what the Ministry of Health say is true, but there is a loss.

3772. Could you tell me what was the total amount advanced and what is the total amount repaid?—(Mr. George.) I do not think I could tell you now. (Sir Gilbert Upcott.) I can give approximate figures. The total amount dealt with by this Act was nearly £6,000,000, and about £800,000 was remitted.

Chairman.] Are there any questions on the account?

3773. Sir Frank Sanderson.] On page 195 I see the net total of the grant was

£27,000,000, and the expenditure £26,900,000. Then it states that the surplus to be surrendered is £357,000. What I would like to ask is: Is that money in fact surrendered and repaid to the Treasury, or is it carried forward to the next Account?—(Sir Herbert Brittain.) It may be partly unissued altogether, because we knew there was going to be a saving. In so far as it was issued and then saved by the Department and has to be surrendered it is reckoned against their grant for the following year.

3774. No actual payment in fact has taken place?—It enables them to do with slightly less cash in the following year. (Sir Gilbert Upcott.) If you will look at paragraph 2 of my Report, you will see that every year I certify that the balances have been surrendered.

Chairman.] Are there any further questions on the Account? May I take it that the Account is approved? (Agreed.)

CLASS IX.

VOTE I.

EXCHEQUER CONTRIBUTIONS TO LOCAL REVENUES, ENGLAND AND WALES.

(On this Account no questions were asked.)

(Sir William Douglas and Mr. George withdrew.)

CIVIL APPROPRIATION ACCOUNTS (WAR SERVICES), 1944.

CLASS X.

VOTE 18.

DEPARTMENT OF HEALTH FOR SCOTLAND (WAR SERVICES).

Mr. G. H. HENDERSON, C.B., called in and examined.

Chairman.

3775. Mr. Henderson, you are here to answer questions for the Department of Health for Scotland?—(Mr. Henderson.) That is so.

3776. Will Members turn to the Civil Appropriation Accounts (War Services), 1944. The Account is on pages 60 and 61. Would you give me, please, some subdivision of the expenditure voted under Subhead A: "Measures to deal with Casualties and Disease"?—The main items are the cost of providing or reserving accommodation for the treatment of casualties and disease, about £2,500,000. Emergency port sanitary administration, £24,000. Nurses' salaries grants, £98,000, and tuberculosis maintenance allowances, £114,000.

3777. Subhead B deals with the expenses connected with evacuation. I just wanted to know what was the amount involved there for billeting?—Billeting allowances were £360,000.

3778. Could you tell us the present position as regards evacuees in Scotland?—

The total number of persons still billeted at Government expense at the end of March of this year was 4,517.

3779. I might ask a more general question which arises out of our previous discussions with the Witnesses for the Ministry of Health. Are you satisfied with the settlement of claims by local authorities for the agency services which they carried out for you during the war?—The agency services generally—not only evacuation?

3780. No, agency services generally?—Yes, I think so. Of course, our audit system is quite different from the audit system in England and Wales. We rely on appointed auditors, fully qualified chartered accountants appointed by the Secretary of State, to audit the accounts of the various local authorities. We have no district system, no Government auditors acting in a dual capacity, as they do in England and Wales.

3781. The auditing of the Local Government Service is all done by commercial firms?—By commercial firms appointed by the Secretary of State. These are particular appointments to local authorities,

7 May, 1946.]

Mr. G. H. HENDERSON, C.B.

[Continued.]

3782. They report to the Secretary of State?—They report to the Secretary of State on any deficiencies or any irregularities, and they sign the abstract of accounts of the particular local authority for which they are the auditors.

3783. Do their reports bring to light instances of uneconomical expenditure?—I am in just a little difficulty, because my Department is not the Department responsible for the audit system, but answering the question out of my own knowledge I should say that it brings to light illegal expenditure and expenditure not properly vouched. I should myself be doubtful whether it brings to light extravagant expenditure. (Sir Gilbert Upcott.) Perhaps I ought to supplement that by saying what the Witness did not perhaps wish to say, that, no doubt for the very reason which he mentioned, in my experience the control exercised by the Department of Health in Scotland is much closer than the control which the Ministry of Health attempt to exercise over Exchequer expenditure by local authorities, by inspection and otherwise.

Chairman.] Are there any questions on the Account?

Mr. Hector Hughes.

3784. Has your system of audit you have just told us about brought to light any irregularities or illegal payments?—(Mr. Henderson.) Yes. Again, I must say that I am not the Accounting Officer for the audit system, but I remember in my own experience a very definite report by an Auditor on illegal expenditure in connection with public assistance in one of the large burghs in the West of Scotland.

3785. It is effective to spot those things?—It ought to spot illegal expenditure, expenditure not covered by statutory authority.

3786. What other kind of irregularity do you envisage?—It may disclose, for example, defalcations by officials.

3787. Has it disclosed any of those?—Yes.

3788. Serious ones?—Sufficiently serious to justify imprisonment.

3789. But I mean large as to amount, affecting the State?—Not affecting the State, no.

Mr. Hector Hughes.] You are quite satisfied with your system.

Chairman.] Are there any further questions on the Account?—May I take it that the Account is approved? (Agreed.)

CIVIL APPROPRIATION ACCOUNTS, 1944.

CLASS V.

VOTE 15.

DEPARTMENT OF HEALTH FOR SCOTLAND.

(Summary Report of the Department of Health for Scotland for the year ended 30th June, 1945.)

Chairman.

3790. Will Members turn to the Civil Appropriation Accounts, 1944, Class V, Vote 15, Department of Health for Scotland. We turn, first, to page xiii, paragraph 34, of the Report of the Comptroller and Auditor General: "Housing: Advances under the Housing (Scotland) Act, 1944." This is dealing with issues made: "from the Consolidated Fund to the Secretary of State for Scotland, to enable him to make advances to the Scottish Special Housing Association for the provision of houses for the working classes in areas where the need is greatest." Could you shortly explain that scheme to me?—(Mr. Henderson.) The advance to which the Comptroller and Auditor General calls attention is an advance towards the cost of a scheme which is, broadly, the equivalent of the scheme for the erection of demonstration houses by the Ministry of Works in Northolt. It was thought convenient and appropriate that that kind of work in Scotland should be done by the Scottish Special Housing Association, which, of course, had its headquarters in Edinburgh, and also had statutory powers under the Scottish Housing Act, 1938, to build demonstration houses throughout the country generally. The

scheme itself is a scheme for erecting houses by non-traditional methods of construction. It is done through contractors, and any firm which considers it has something to contribute in the way of non-traditional construction can approach the Housing Association, and, with the consent of the central Department, the Housing Association builds a prototype or a demonstration house. For example, there have already been built a Weir steel bungalow, an Atholl steel house, certain forms of cellular concrete construction, and one or two special forms of foam slag construction. Those are merely examples. It is the Scottish counterpart, done by a different agency, of the Northolt scheme in Middlesex.

3791. The Comptroller and Auditor General speaks of the provision of houses for the working classes in areas where the need is greatest?—That is under the Act of 1944. This Housing Association which has existed since about 1937 is now under that Act given power to erect houses in areas where, in agreement with the Treasury, the need for houses is greatest. The practical effect of that is that the Housing Association is empowered to build houses in about 33 local authority areas (I think my figures are approximately cor-

7 May, 1946.]

Mr. G. H. HENDERSON, C.B.

[Continued.]

rect) out of a number of 200 odd in the whole of Scotland.

3792. Are those areas prescribed by the Secretary of State?—They are decided in conjunction with the Treasury in accordance with a certain formula—not a statutory formula. The formula contains a mixture of the need for houses in relation to the total population of the area and the rating resources of the local authority.

3793. By the application of this formula you find that some 30 or 33 areas are eligible?—Yes.

3794. In sub-paragraph 2 the Comptroller and Auditor General states: "As shown by the statement appended to the Appropriation Account, advances up to 31 March 1945 amounted to £6,000 only."—(Sir Gilbert Upcott.) That was merely for that demonstration scheme that Mr. Henderson was describing just now.

3795. I was wondering what was the ultimate programme of expenditure?—(Mr. Henderson.) Of the Housing Association as a whole?

3796. Yes?—The programme given by the Secretary of State is 100,000 houses in the next ten or twelve years.

3797. The idea being, I suppose, for the Association to supplement the work of the local authorities where the need is greatest? Is that right?—That is the idea.

3798. Are there any questions on paragraph 34 of the Report of the Comptroller and Auditor General? We turn to the Account, which is at pages 229-233. Could you give me the explanation of Subhead C on page 230: "Special Inquiries and Services," an expenditure of £7,568?—That includes a variety of items. The more important are the contributions towards the expenses of regional planning committees. The next important item is the cost of a hospital survey. In addition, of course, it includes the cost of a large number of Government committees.

3799. Sir Gilbert, have you any comment on that item?—(Sir Gilbert Upcott.) That was the planning expenditure which was mentioned to the Committee last year. It is a case in which the provisions of the Appropriation Act have been used to override the statutory provision that these expenses should be borne by local authorities. It is supposed to be used only for emergency purposes, and this Committee has always protested against it being used as a continuing arrangement. It means that what Parliament has provided by statute is overridden by taking a Vote.

3800. Are you telling me that the Department of Health for Scotland were told last year that they must not do this again?—No. I think they were asked why they did it, and the Treasury said there were very good reasons for it. This Committee has always protested against it being a continuing proceeding.

3801. It appears that it is a continuing proceeding now.—It has certainly occurred twice. (Mr. Henderson.) The expenditure appearing in this Account is really part of a block of expenditure which ought to finish within the next year or so. Whether the planning committees will continue as a permanent feature of administration I am not able to say, but the present approval is only for a specific *ad hoc* job—that is, to survey the whole of the Clyde Valley area, for example, for the committee in the west, and to prepare a report. The circumstances I think will be rather different if the committee is continued after that report is prepared merely as an advisory committee to advise the local authorities on current day to day problems. That should not involve the same type of expenditure; but the question has not yet been raised as to the continuance of a grant.

3802. I take it, if this expenditure is going to continue you will probably seek some statutory authority for it?—I presume we should, yes. It will not continue on this scale.

Chairman.] Are there any questions on the Account?

Mr. Thurtle.

3803. I am curious about one small item. It is G.3 on page 230: "Grants to Voluntary Hospitals in respect of Duty on Spirits". What does that mean?—That goes back into rather ancient history. I understand that many years ago (I cannot tell you how many, but I should think probably 30 or 40 years ago), when the Spirit Duty was increased, voluntary hospitals protested that they were unable to pay this extra duty, and a benevolent Treasury appears to have agreed with them, and agreed that they will be repaid, in effect, this extra tax. That has been stereotyped for the last 20 years at least, and it has always appeared in these Accounts at the same figure.

3804. In Scotland whisky is officially recognised as a medicine!—This is for medicinal purposes. That was the argument.

Chairman.

3805. There is one further question I would like to put. On page 232, amongst the Details of Receipts you will see two items near the foot of the column, the first of which is: "Receipts in connection with Rosyth Housing Scheme:—Interest and repayment of principal in respect of advances under the Housing Act, 1914 . . ." and the second item is: "Receipts from Second Scottish National Housing Company (Housing Trust), Ltd." The first item speaks of interest as well as repayment of principal, and the second item does not draw any distinction between the two. I wondered if interest had been waived in the second case?—That is towards repayment of the capital advances after interest has been waived as it has been for the past ten years.

7 May, 1946.]

Mr. G. H. HENDERSON, C.B.

[Continued.]

Chairman.] Are there any further questions on the Account?

Mr. Hector Hughes.

3806. On page 232, under the Details of Receipts, what is the "Morbidity and Certification Statistics Scheme"? It sounds rather dreadful?—This was a special attempt by the Department to collect a special series of statistics to try to ascertain what might be the reasons for the higher incidence or the lower incidence of sickness at any particular time. This is the cost of the collection of that material to enable that inquiry to be conducted.

Mr. Benson.

3807. On page 230, F.3 is: "Rosyth Housing Scheme", an expenditure of £23,765. What exactly is that?—F.3 is really tied up with F.2 and with an item appearing in the Appropriations in Aid. The position is that during the last war it was necessary to develop Rosyth as a naval base, and a special housing company was set up to build about 1,700 houses. The amount required for the building of those houses was obtained to the extent of 90 per cent. from the Exchequer and to the extent of 10 per cent. by issuing share capital. The financial arrangements with the company required them to pay 3½ per cent. interest on the money originally

advanced to them by the Exchequer, to pay dividends at 5 per cent. on share capital, ½ per cent. to the Exchequer on advances over a period of 60 years in redemption of the loan, and feu duty on the Admiralty land on which the houses were built. These sums I have just mentioned appear as Appropriations in Aid of the Vote. The company, of course, gets rents from these houses, but the rents it gets are not sufficient to enable it to meet these payments, and, therefore, a payment under F.3 is made by the Department to the Company in order to square its accounts.

3808. Does that mean, in other words, that this share capital of 10 per cent., which is privately held, is a permanent Government guarantee of 5 per cent.?—Yes.

3809. It is in effect the Government issuing money at 5 per cent. in perpetuity?—Yes. We hold a large number of the shares.

3810. Of the 10 per cent. share capital?—Yes, of the 10 per cent.—almost two-thirds. The privately held share capital is a very small thing.

Chairman.] Are there any further questions on the Account? May I take it that the Account is approved?—(Agreed.)

HOUSING ACT, 1914, ACCOUNT, 1944.

Chairman.] Will Members turn to the White Paper, the Housing Act, 1914 Account, 1944. It seems that the Treasury are the Accounting Officers for this White Paper. It is signed, or part of it at any rate is, by Sir Wilfrid Eady. I have no questions on it. Has any Member any questions on the Account? May I take it that the Account is approved?—(Agreed.)

(*Mr. Henderson withdrew.*)

CIVIL APPROPRIATION ACCOUNTS, 1944.

CLASS VI

VOTE 4.

EXPORT CREDITS.

Mr. E. C. ADAMS, C.B.E., called in and examined.

Chairman.

3810/1. Will Members turn to the Civil Appropriation Accounts, 1944, Class VI, Vote 4, Export Credits. The Account is at page 257. Mr. Adams, your activities are designed to facilitate export trade, are they not?—(Mr. Adams.) Yes.

3810/2. By means—? —of guarantees given in connection with exports from the United Kingdom.

3810/3. You guarantee the exporter against loss?—Yes.

3810/4. Whether it be by default or foreign exchange?—Insolvency and transfer risk and sundry other risks. The two main risks are the insolvency of the overseas buyer and the transfer risk, both economic and political.

3810/5. Do you cover the exporter to the extent of 100 per cent. of his risk or only part?—Not 100 per cent. We normally go not beyond 90 per cent. There are varying rates, but we do not, as a rule, go beyond 90 per cent. We think it proper that he should bear a share in the risk.

3810/6. During the war your activities were greatly curtailed?—As exports went down of course our guarantees naturally declined.

3810/7. Subhead C of this Account shows us the expenditure compared with the grant for payments under guarantees?—Yes.

3810/8. Any loss you incur through having to meet the guarantee is borne by the Vote in this way, is it?—Yes.

7 May, 1946.]

Mr. E. C. ADAMS, C.B.E.

[Continued.]

3810/9. Could you tell the Committee what the amount of expenditure of £269,000 there consists of?—Yes. The largest item of that was, of course, one to which I referred at the last meeting. It was one of the payments due to the overrunning of one of the Continental countries. That accounts for roughly £257,000 out of this total of £269,000.

3810/10. I take it it would not be a good thing for the name of the concern to be published? It would not be good for your Department?—We do not as a rule mention names at all.

3810/11. If the Committee desire to have the name of the concern, I suppose you would wish to take it out of the evidence?—(Sir Gilbert Upcott.) I think this case has been mentioned before.

3810/12. Has it?—I am sure it has. (Mr. Adams.) It was a case in Poland—a large case. The name of the concern this side is the Westinghouse Brake and Signal Company. It was due entirely to the over-running of Poland that this loss was incurred.

3810/13. I think we will take this Account down to the bottom of page 258. Page 259, the Acquisition of Guaranteed Securities Fund, I think we will take more easily with your account in the Trading Accounts and Balance Sheets, 1944. With regard to that loss in Poland, the firm concerned lost the 10 per cent. you spoke of? The guarantee covered only 90 per cent. of the risk?—I would not like to say in that particular case whether it was a 90 per cent. guarantee or not. Speaking from memory, I think on some parts of it at any rate we gave them 100 per cent. guarantee. When it is a question of facilitating finance on some of these longer-term contracts—capital goods contracts—we do in certain cases give a higher percentage, but generally speaking one finds that the responsibility for a part of it is kept by themselves, so that instead of giving a 90 per cent. guarantee you may find we take a block and give 100 per cent., and the balance is borne by themselves. Normally, you will find that in these transactions the trader does bear a share himself.

Chairman.] Are there any questions on the Account down to the bottom of page 258?

Mr. Benson.

3810/14. On page 258, under the Details of Receipts, there is an item: "Recoveries in respect of payments made under guarantees," and the figure realised is £112,837. What exactly does that comprise?—Those are recoveries after we have made payment. In this particular case I think the bulk of those recoveries, or at any rate a good proportion of them, was in respect of recoveries on cargoes which were diverted when Far Eastern territories were

overrun. The ships were diverted to Australia and India, and the goods were then sold after being requisitioned by the countries concerned, and the proceeds came to us. We having paid out our guarantee then, of course, these come back in the shape of recoveries.

3810/15. There was a sum of £162,000 estimated in respect of that item, and in respect of premiums, etc., the figure estimated was £304,000. Do those estimates correspond with the estimates for the year?—Yes. This is our estimate for both purposes.

3810/16. How do you arrive at that conclusion? Is it a guess?—The premium side is easier to assess, obviously, than such a thing as recoveries, or, turning to the other side, payments on claims which it is very difficult to assess. But you can start, bearing in mind that this is a token Vote, by getting a good idea of your short-term premiums. In this particular instance we were in a position to expect that we should get some recoveries from these diverted cargoes, so that we could make provision for that.

3810/17. Did you estimate with the knowledge in mind that the cargoes had been diverted? I take it your premiums refer to a year later, approximately, than your recoveries?—Roughly that, yes—something under a year.

3810/18. So that when you make your estimate for recoveries you must have in mind what has happened in the previous year?—Yes. Most of these policies, the short-term ones, which is the greater part of our business now, run from year to year, and it is just a matter of renewing, and you can make a pretty shrewd guess whether or not you are going to get a renewal, so that you know roughly, knowing what you earned the previous year, what you are likely to get in the following year.

Mr. Hector Hughes.

3810/19. In the case of these guarantees, is there any provision as to how the loss is to be allocated? Where the Crown bears 90 per cent. and the firm bears 10 per cent., does that mean that the firm bears the first 10 per cent. of the loss?—On many of the policies in connection with the year under review we had a first charge on recoveries. In other words, having paid out 90 per cent., if we got only 90 per cent. back we should take the whole lot in this year. As a matter of fact, I may tell the Committee that we have changed that procedure now, and exporters get also a share in the recoveries. In the year under review the procedure was in most of the cases—not in all—that we had a first charge on recoveries.

7 May, 1946.]

Mr. E. C. ADAMS, C.B.E.

[Continued.]

3810/20. Suppose there was only a 10 per cent. loss, would that whole 10 per cent., under any of your guarantees, fall on the firm only and leave the Crown free?—Yes. In that case, if a debt for £100 went wrong, we should have paid him £90,

and he would, if no recoveries came in, stand the £10 loss himself.

Chairman.] Are there any further questions of the Account down to the bottom of page 258?

TRADING ACCOUNTS AND BALANCE SHEETS, 1944.

EXPORT CREDITS GUARANTEE DEPARTMENT CREDIT INSURANCE SCHEME.

(Confidential Statement on Export Credits Guarantee Department Credit Insurance Scheme.)

Chairman.

3810/21. Will Members turn to the Trading Accounts and Balance Sheets, pages 14 to 17. There is furnished with that a confidential statement, comparing the balance of underwriting income with the maximum liability at the 31st March, 1945, in respect of each year's business. I have only a question or two on the Underwriting Reserve Account, at the top of pages 16 and 17. That shows a balance (I am not quite sure what date it is struck at) of £1,177,000.—(Mr. Adams.) Yes. That is at the 31st March, 1945.

3810/22. Is that sufficient to cover the outstanding maximum liabilities at that date?—It is rather a difficult question to answer, but that in fact, with the two balances on the Underwriting Accounts, is the actual reserve we had to meet liabilities to which we were committed at that date. As to whether it is sufficient, I personally hope we shall see it increased a little, as it is to-day, by recoveries and so forth. I am hoping to see that get a little larger. It certainly is not too large.

3810/23. Footnote 1 to the Balance Sheet says: "During the year ended 31st March, 1945, the Department undertook potential liabilities aggregating" nearly £23,000,000. That, of course, is a very big increase on anything you have done during the war years, is it not?—Not a large increase. It is roughly the same. It is going up now. It went down. It does not differ very largely from the remaining period of the war.

3810/24. I should like to know what is the maximum duration of the potential liabilities?—That, of course, varies. I think that perhaps comes on the Confidential Statement, which shows the years of business, balance of income and maximum liabilities. This includes both short-term and medium-term; out of that total of £25,965,000, short-term is £22,000,000.

3810/25. What do you mean by "short-term"?—Consumer goods mainly, where the credit is very short.

3810/26. A few months only?—Yes—anything from cash against documents up to, say, a maximum of about 90 days. It is continually revolving.

3810/27. The balance of £3,000,000 or £4,000,000 is long-term?—Medium-term, and it includes a certain amount under the guarantee agreements that we concluded with Russia and Turkey.

3810/28. What would be the sort of ordinary term there? Would it be five years or ten years?—The Turkish Agreement ran up to a maximum of about ten years. It is varying periods running from one year to ten years.

3810/29. Is there a Russian Agreement?—The Russian Agreement is practically finished. In actual fact there is only £10,000 outstanding today.

Chairman.] Are there any questions on the account in the Trading Accounts and Balance Sheets or on the Confidential Statement?

Sir Frank Sanderson.

3810/30. The Confidential Statement shows the maximum liabilities outstanding at 31st March, 1945, as roughly £26,000,000. At least £20,000,000 of that will already have completed its circuit; in other words, it will have been recovered?—It is revolving, so that as payments are made others come on.

3810/31. At this particular date, the 31st March, 1945, you had £25,965,000, and of that particular credit would you not say that at least £20,000,000 will have already completed its circuit?—Yes.

3810/32. I realise other credits will have taken its place?—Yes.

3810/33. I want clearly to demonstrate, to satisfy myself, that it is not only revolving but is constantly completing its circuit?—I quite agree that particular amount would have run off.

3810/34. One other point, and that is in regard to the underwriting. Speaking generally, does it not function on practically identical lines with that of Lloyd's Underwriting? That is to say, it takes the first, second and the third year before you get your complete picture?—That is the theory on which it works.

3810/35. It works on the same theory?—Yes.

7 May, 1946.]

Mr. E. C. ADAMS, C.B.E.

[Continued.]

Mr. Benson.

3810/36. On your Confidential Statement, the Underwriting Reserve Account seems to be struck at 1942. You struck your balance then. Is there any particular reason for choosing that year?—Yes, because it is then that it is transferred to the Underwriting Reserve, after three years. (Sir Gilbert Upcott.) It is a moving line.

3810/37. It is always three years behind?—(Mr. Adams.) Yes.

3810/38. Looking at your balance of income, the most outstanding point is the extraordinary fluctuations. The fluctuations in 1939 and 1940 obviously were due to war troubles; but in 1934 you have a large deficiency. 1934 was not a particularly bad year. Then you go to a surplus in 1935, and then in 1936 you jump to a larger surplus?—The answer to the question about the deficiencies in 1933 and 1934 is simply this, that this is a balance of income of the years in which the guarantees were given. In 1934 policies were issued on long-term. Then owing to the war troubles arose, and they were not paid, and this is putting back the loss to the actual year in which the policy was issued. That gives you your balance of income for the particular year in which the guarantees were given.

3810/39. In 1934—that means long-term capital goods were guaranteed?—Yes.

3810/40. So that 1934 was a year in which there was an exceptional export of long-term capital goods under guarantee?—I would not say exceptional, but it so

happened that the guarantees given in 1934 did not mature, some of them, until the war came in 1939, and therefore they resulted in a loss. (Sir Gilbert Upcott.) That was the year of the Polish guarantee which has just been mentioned?—(Mr. Adams.) Yes.

3810/41. In 1931 there was a large surplus sandwiched in between two smaller surpluses. There is an extraordinary fluctuation in the actual outturn of each year's activities?—Yes. Speaking from memory, I think in some of those early years we were doing a certain type of business which was attracting good premium rates. The losses were comparatively small, and therefore the balance of income was gratifyingly high.

3810/42. It would suggest that the direction of your business fluctuates very considerably?—It does.

3810/43. It is not a question of guaranteeing an account which runs on smoothly from year to year?—No. Usually we find, quite naturally, that exporters come to us on capital goods in respect of countries perhaps which are not quite so good as others.

3810/44. Does that imply that in the main your fluctuations are due to capital goods rather than to current goods?—I think that would be the case, that the major fluctuations are due in the main to the capital goods rather than to the short-term.

[Chairman.] Are there any further questions on the Account? May I take it that the Account is approved? (Agreed.)

CIVIL APPROPRIATION ACCOUNTS, 1944.

CLASS VI.

VOTE 4.

EXPORT CREDITS.

Chairman.

3810/45. I want now to turn back to the Civil Appropriation Accounts, 1944, the Acquisition of Guaranteed Securities Fund, on page 259. The footnote says: "The total amount of securities held by the Fund on 31st March, 1945, was £8,360,000." Would you explain to the Committee what the Fund is, why it holds securities and what securities they are?—(Mr. Adams.) Actually, the securities held cover promissory notes on various countries. Originally, if I may explain the purpose of this Fund, when we gave guarantees to a country they gave promissory notes payable at a certain tenor—say, five years—and at one time up to the summer of 1939 I think these bills, having been guaranteed by endorsement by us, were sold in the market. Then it was decided that that was no longer desirable, and instead of selling these bills on the market they are now acquired by the Treasury, and this account shows what happens. If you turn to the left hand

side, the receipts side, of the account, you will see we obtained advances from the Consolidated Fund—£772,000—with which to acquire the securities, and, of course, make the money available for the country having the benefit of this credit.

3810/46. That £772,000 on the right hand side represents new securities acquired during the year?—That is so.

3810/47. The last item on the left hand side: "Securities redeemed" represents securities sold during the year?—Those are the repayments of securities—securities redeemed during the year, and obviously we get an identical amount, because we have to repay to the Treasury the advances that were obtained from the Treasury when the securities were acquired. So those are two self-balancing items.

3810/48. With regard to the next item on the right hand side, you pay interest on the Consolidated Fund advances?—Yes.

7 May, 1946.]

Mr. E. C. ADAMS, C.B.E.

[Continued.]

3810/49. Are we allowed to know the rate of interest?—It is a varying rate according to the length of time. It is rather a complicated rate, but it is agreed with the Treasury. I may tell the Committee it roughly averages somewhere in the neighbourhood of 3 per cent.

3810/50. On the other side, the interest on securities held must average a higher rate, because that gives you the profit on the account?—Yes. We have been getting on most of them something in the neighbourhood of 5½ per cent., and the excess receipts represent that difference—"Excess receipts:—(a) Paid to the Exchequer."

3810/51. I wanted to know how you disposed of your profit. It is divided, apparently, between the Exchequer and Appropriation in Aid?—Yes.

3810/52. Is that done on some fixed formula?—It is simply this, that the amount of excess paid to the Exchequer represents the excess interest on guarantees given under the Overseas Trade Guarantees Act, which we merely administer, and the remaining item of £69,000 odd is what one might call the Commercial Act—that is, the Export Guarantees Act. The amount paid to the Exchequer is, for want of a better phrase, the political side. "Non-commercial" would be a better term to use.

3810/53. The securities held are all short-term Foreign Government securities—is that right?—Yes—medium-term Foreign Government securities.

3810/54. Giving an average of 5½ per cent.?—Yes, when they were given. They were all given before the war. (Sir Gilbert Upcott.) There is one point which has not been brought out. One would think, from that account, that the interest on securities held and securities redeemed has all been paid by the borrower. That is not so. It has to be linked up with the Vote of Credit, with the Rumania, Greece and Finland entry, which shows that the Governments defaulted on their obligations, and the Government made good on the Vote of Credit. This account is made to balance by the Vote of Credit.

3810/55. That does not appear on the face of the account?—No. It links up with the account on page 13, of the Vote of Credit Appropriation Account, which is before the Committee, which shows that the Vote of Credit has made payments in implementation of guarantees given under the Overseas Trade Guarantees Act, 1939, in respect of bonds and promissory notes issued by the Government of Rumania, the Government of Greece and the Government of Finland.

3810/56. I am obliged to you, Sir Gilbert, for drawing my attention to that. If you have that document in front of you, Mr. Adams, perhaps you would say a word on that?—(Mr. Adams.) Those payments for Rumania and Greece are payments which are falling due periodically every half year, and so long as Rumania and Greece are in default they will appear. (Sir Gilbert Upcott.) They are published in the Vote of Credit Appropriation Account. (Mr. Adams.) Similarly with Finland, these payments were necessarily made. I might add that in the case of Finland an agreement has been reached with them so that this will be the last item appearing as a payment. Agreement has been reached whereby the old notes have been cancelled and replaced by new ones and the results will appear in later accounts.

3810/57. Are these sums which are shown here regarded as permanently lost, or are you hoping one day you may get some of this money back?—We are hoping to do so. They are recoverable, but that depends on what settlement can be made.

Chairman.] Are there any questions on the Account?

Mr. Benson.

3810/58. The differential rate of interest between what the country pays and what the Treasury lend the money at is, I take it, the insurance premium?—Yes.

3810/59. There is no further charge against the country for the borrowing?—No.

Mr. Hector Hughes.

3810/60. These securities that you acquire are due, are they not, year by year?—Yes, less those redeemed.

3810/61. So that in the year under review you acquired £772,000 of securities valued at £772,000, and they were added to the other securities, the total amount of which held by the Fund on 31st March, 1945, was £8,360,000?—Yes.

3810/62. Is the £8,360,000 treated as security for this country's obligations to the foreign countries who have given notes?—That is the security.

3810/63. Is it adequate security for the amount guaranteed to foreign countries?—This is an obligation given in the shape of promissory notes to pay those sums at due dates. That is the risk which is taken when the credit is given to the foreign country.

3810/64. What I have in mind is this: Do our obligations to the foreign countries not total more than £8,360,000?—Not for guarantees given under these Acts.

Chairman.] Are there any further questions on the Account in the Civil Appropriation Accounts, 1944? May I take it that the Account is approved? (Agreed.)

7 May, 1946.]

Mr. E. C. ADAMS, C.B.E.

[Continued.]

VOTE OF CREDIT APPROPRIATION ACCOUNT, 1944.

EXPORT CREDITS GUARANTEE DEPARTMENT.

Chairman.

3810/65. We have already made reference to this Account. This shows that you have received £451,668 from the Vote of Credit in order to pay out, I take it, the guarantees you have given on these Foreign Government loans?—(Mr. Adams.) Yes, that is the position. It is paid to the Fund. This £451,000 is paid into the Fund, but it keeps the Fund solvent.

3810/66. It says: "Payments made in implementation of guarantees"?—(Sir Herbert Brittain.) It is a guarantee. This is the guarantee side of the business. We are carrying on two businesses, firstly, the guarantee business, and, secondly, the financiers' business. The financiers' business is the one we have been talking about recently. In order to keep the financier side of the business straight the Vote of

Credit has come to the rescue of the guarantee side.

3810/67. You hope that at some time you may be able to enforce payment from these countries?—(Mr. Adams.) We are hoping so. As I mentioned in the case of Finland we have come to an agreement already.

3810/68. Under which you will get the money in full?—We hope so. There are new bills with interest up to the new due dates.

3810/69. And what is the position as regards Rumania and Greece?—I find it rather difficult to say. We must just hope for the best, I think.

Chairman.] Are there any questions on the Vote of Credit Appropriation Account? Thank you very much, Mr. Adams.

(The Witnesses withdrew.)

CIVIL APPROPRIATION ACCOUNTS, 1944.

CLASS VII.

VOTE 10.

STATIONERY AND PRINTING.

CLASS IX.

VOTE 2.

EXCHEQUER CONTRIBUTIONS TO LOCAL REVENUES, SCOTLAND.

*(On these Accounts no questions were asked.)**(The witnesses withdrew.)**(Adjourned till Thursday next at 2.30 p.m.)*

THURSDAY, 9TH MAY, 1946.

Members present:

Mr. PEAKE in the Chair.

Mr. Benson.
Mr. Cuthbert.
Mr. Hector Hughes.

Sir John Mellor.
Mr. Thurtle.
Mr. Wadsworth.

Sir GILBERT UPCOTT, K.C.B., Sir HERBERT BRITAIN, K.B.E., C.B., and
Mr. C. E. I. JONES called in and examined.

CIVIL APPROPRIATION ACCOUNTS (WAR SERVICES), 1944.

CLASS X.

VOTE 16.

MINISTRY OF WORKS (WAR SERVICES).

Sir PERCIVAL ROBINSON, K.C.B., and Mr. B. L. PEARSON, D.S.O., M.C.,
called in and examined.

Chairman.

3811. Sir Percival Robinson, this I believe will be your final appearance before the Public Accounts Committee, will it not?—(Sir Percival Robinson.) Yes. I am handing over at the end of this week. On Monday my successor takes over.

3812. Are you accompanied by Mr. McBain?—He is from the Ministry of Supply. That arises only on the Housing (Temporary Accommodation) Account, 1944.

3813. Will Members turn to the Civil Appropriation Accounts (War Services) 1944, page xx, paragraph 53 of the Report of the Comptroller and Auditor General. Paragraph 53 deals with the provision of buildings and plant in connection with the provision of meals for children in schools. As I understand the position, until the Act of 1944 was passed (as this is an educational matter probably you may not be able to answer) it was optional upon local authorities to provide meals in schools, and in May, 1943, the educational authorities were urged by the Board of Education to accelerate the extension of the school meals service in order to safeguard children from nutritional dangers arising from the war and to meet other wartime difficulties. No doubt for those reasons this was treated as a War Service at that time?—In so far as I am concerned we were told to do the work—that is our function really—and the Treasury, I think, and the Board of Education between them decided that that was the best way to finance it.

3814. The Comptroller and Auditor General states that "it was arranged that the Ministry of Works would supply, erect and equip kitchens, sculleries and canteens and carry out any adaptations required to school premises." Then in the second sub-paragraph Sir Gilbert states: "Treasury approval was obtained by the Ministry in September, 1943, for expendi-

ture estimated at approximately £8,000,000 on works and supplies and it was agreed that the cost should be borne as a final charge on the Ministry's War Services Votes." Then the Education Act of 1944 was passed which made the provision of meals in schools obligatory upon local authorities. I see that the Ministry's expenditure to the 31st March, 1945, was £1,149,000, and a sum of £2,225,000 was included in the Estimate for Miscellaneous Works Services for 1945. I understand that a figure has been provided in the 1946 Estimates but under a different heading. I think it comes under "Public Buildings," and not under "Miscellaneous Works Services" in the 1946 Estimates?—Yes, that is right.

3815. Could you give us the figure included in the 1946 Estimates for these services?—£3,970,000. (Sir Gilbert Upcott.) Accompanied in another column by a provisional total estimate of £8,775,000. (Sir Percival Robinson.) That is right, of which we would have expected to have spent £2,925,000 by the end of 1945—that is, by the 31st March, 1946.

3816. I think the other questions which arise on this paragraph (which arise on the final sub-paragraph) are mainly for the Treasury. The Comptroller and Auditor General in the final sub-paragraph states: "The arrangements under which the cost of this service is borne on Votes of the Ministry of Works appear to be a departure from the principle embodied in successive Education Acts, whereby expenditure on educational services for which local education authorities are responsible is incurred by the authorities themselves, subject in appropriate cases to the payment of grants towards the cost by the Ministry of Education and the Scottish Education Department." Members of the Committee are of course aware that for a good many years the Public Accounts Committee has laid it down that it is objectionable for

9 May, 1946.]

Sir PERCIVAL ROBINSON, K.C.B., and
Mr. B. L. PEARSON, D.S.O., M.C.

[Continued.]

Estimates followed by an Appropriation Account to override a provision contained in a statute, and I should like the Treasury to explain to us whether what is here being done constitutes a reversion of the proper form of doing things hitherto laid down by the Public Accounts Committee?—(Sir *Herbert Brittain*.) No, not in the least. We should not wish to quarrel at all with the Comptroller and Auditor General's statement of the general principle underlying the Education Acts, but, quite shortly, I think we should submit to the Committee that in this case it is quite a misnomer to speak of the local authorities as being responsible for the service or the expenditure. They themselves did not bear a penny of it, of course, because it was 100 per cent. grant and not, as in other educational cases, 50 per cent. or 60 per cent. or whatever the figure may be. Further, they did not carry out the work themselves; they did not even place the contract, or anything like that. The Ministry of Works was wholly responsible for the work. As the Exchequer was responsible for 100 per cent. of the money and the Ministry of Works were responsible for 100 per cent. of the physical provision, and it did seem to us, and does seem now, that this principle could hardly be said to apply to this particular provision.

3817. I do not think the Committee would have any quarrel with what was done up to the passing of the Education Act, 1944, because up to that date the provision of these meals was regarded as a war service, necessitated by difficulties connected with rationing, housewives being away from home at work, and so on. It was properly then regarded as a war service and carried out by the Ministry of Works. But when as from the passing of the Education Act, as I understand it, the obligation of providing school meals was laid on the local authorities, I should have thought some statutory provision was called for if the Ministry of Works were going to carry out a service which I think was laid upon the Education Authorities by the Act?—The grant regulations continue to provide 100 per cent. for this service, and at the time the Education Act was passed you were in the middle of the service, so to speak; it had already been commenced as a war service. It was a continuing war service, the actual provision of the buildings, so there was a strong case for continuing the existing arrangements in so far as it was necessary to do so, whereby the Ministry of Works were responsible for this particular part of that service. In the memorandum on the Ministry of Education Estimates for this year and the subsequent year it was pointed out that this arrangement was being made.

3818. You regard the whole thing as merely a temporary phase; that is to say, when the necessary buildings have been erected at schools the Ministry will step

out of the picture, will they?—So far as this particular programme is concerned, that is so. I have here Mr. Pearson from the Ministry of Education, and he confirms that that is so.

3819. That is to say, what was contemplated in September, 1943, was a programme running over two or three years which the Ministry of Works would carry out?—Yes.

3820. Am I right about that?—(Mr. *Pearson*.) The programme which was announced in 1943 and to which the 100 per cent. grant was attached was a programme designed to provide accommodation for 75 per cent. of the children, and that programme is still in process of being carried out, first in its war-time shape which you have mentioned, and then in the post-war aspect for providing for benefits in kind under the Family Allowances Act. The programme is still in progress of being completed and will take a year or so to complete.

3821. Is it contemplated that the Ministry of Works will have permanent functions in regard to the provision of kitchens and kitchen equipment?—Not beyond the completion of the present programme, no.

3822. That is the programme?—Which was started in 1943.

3823. Involving an expenditure of about £8,000,000?—That was the estimate at the time, yes.

3824. I think the previous rulings of this Committee speak of using this method of an estimate followed by the Appropriation Act to override a statutory provision only in the case of a temporary emergency or something of that sort?—(Sir *Herbert Brittain*.) Yes. I must confess it had not been suggested to us before that we were liable to be pulled up for breaking that particular rule, because it seemed to us this is rather an accounting point. We could have said: "The Board of Education shall provide on its Votes the whole of this money in order to repay the Ministry of Works," or; "The Board of Education should have provided the same money on its Votes in order to pay the local authorities, who then should have repaid the Ministry of Works, as it is a 100 per cent. grant throughout." But it seemed to us, certainly during the war and even now it would seem to us, that that was quite an unnecessary proceeding, and that it was a much cleaner and indeed advantageous way from the Government's point of view to bear the cost finally on the central Government's Votes, thereby getting a complete control over the whole programme.

3825. The difficulty I think arises from the fact that, as I understand it, the Education Act of 1944 definitely lays the

9 May, 1946.]

Sir PERCIVAL ROBINSON, K.C.B., and
Mr. B. L. PEARSON, D.S.O., M.C.

[Continued.]

burden of making these provisions upon the local education authorities. Am I not right?—Yes, but they get 100 per cent. grant for it.

3826. That may be, but the statute lays this task upon the backs of the Education Authorities, and it is in fact being carried out by the Ministry of Works?—Yes, this particular part of their responsibility. The buildings are not the whole.—(Mr. Pearson.) It does not cover the whole of it. To some extent the local education authorities are doing it themselves.

3827. They are in fact obliged by the Act of Parliament to do it themselves, are they not?—Yes.—(Sir Herbert Brittain.) In some cases they are also providing the buildings themselves.—(Mr. Pearson.) Yes, in some cases they are providing the buildings, but in order to get the programme completed in time it was necessary to be able to get the work done quickly and to keep control both over its progress and the cost, too.

3828. It seems to me that there must have been some omission in the drafting of the Bill which finally became the Act, because surely if it were intended that this task should continue to be carried out by the Ministry of Works temporarily, it would have been wise to have put enabling provisions to that effect in the statute and not to have laid the burden of carrying it out upon the local authorities?—Of course, the obligation still rests upon the local authorities, and if for any reason the Ministry of Works had been unable to continue this, we must have had the requirement of the local authorities to proceed with the programme. This is a quick way of getting it done, and it enables us to control the expenditure better.

3829. At any rate, Sir Herbert, so far as the Treasury is concerned, we may take it that there is no intention to depart from the rules hitherto previously laid down as to the use of Estimates to override a statutory provision?—(Sir Herbert Brittain.) No. We abide by everything that has been agreed between the Treasury and the Committee on that.—(Sir Gilbert Upcott.) Might I put the position as it appeared to me?

3830. Please.—I first of all start with the numerous recommendations of the Public Accounts Committee to which you referred, the most clear of which is that which was made in their First Report of 1908, which is headed: "Payment of Expenses for which Local Authorities are liable." The Committee said: "Your Committee . . . are of opinion that, while it is undoubtedly within the discretion of Parliament to override the provisions of an existing Statute by a Vote in Supply confirmed by the Appropriation Act, it is desirable in the interests of financial regularity and constitutional consistency that such a procedure should be resorted to as rarely as

possible, and only to meet a temporary emergency. In cases where such an emergency arises, and there are reasons against the amendment or repeal of the Statute governing the case, your Committee recommend that the fact that the proposed Vote overrides an existing Statute should be clearly stated on the face of the Estimate, with the reasons for adopting that course, so that no doubt can exist of the deliberate intention of Parliament." In this case I did not raise any question while the expenditure was quite clearly of a war emergency nature, supplementing anything local authorities might choose to do according to their option, but the Act of 1944 contains a Section 49 which says: "Regulations made by the Minister shall impose upon local education authorities the duty of providing milk, meals and other refreshment for pupils in attendance at schools and county colleges maintained by them; and such regulations shall make provision as to the manner in which and the persons by whom the expense of providing such milk, meals or refreshment is to be defrayed, as to the facilities to be afforded (including any buildings or equipment to be provided)." It seemed to me perfectly plain from that that the Ministry of Works had been taking over the functions of the local education authorities. It is not for me to say whether a grant should be 100 per cent., 50 per cent. or any other percentage, but it is quite clear that the case is one of the kind to which the Public Accounts Committee was referring in 1908. I should not have thought it required any special attention to be drawn to it if the Treasury had inserted in the Estimates for 1946 a note saying that this procedure was being adopted, and giving the reasons for it. But there is no such note, and while Sir Herbert Brittain may say that in point of fact it is merely an accounting question and comes to much the same thing in the end, if that kind of departure, even in form, from the rule which the Committee has laid down on numerous occasions is passed over it is very apt to be turned into a precedent. What is, I think, striking about the case and the reason why I particularly felt obliged to draw attention to it is that there is no reference in the Estimate in accordance with the recommendation of the Public Accounts Committee to the nature of this expenditure.

3831. Sir Herbert, would you like to comment upon what Sir Gilbert Upcott has just told us?—(Sir Herbert Brittain.) May I mention two points? If in any particular case the Ministry of Works were asked to act as the agent of a local authority or a local education authority for building purposes, in carrying out a service which was laid on the local authority under the Act, that would not be a breach of the Statute in

9 May, 1946.]

Sir PERCIVAL ROBINSON, K.C.B., and
Mr. B. L. PEARSON, D.S.O., M.C.

[Continued.]

any way. The only difference between that sort of case and the present case, I think, is that we have short-circuited the grant arrangements. Instead of paying the local authority 100 per cent. of what the local authority had to pay the Ministry of Works, we have in fact taken the whole burden direct on to the Ministry of Works. The other point I would like to mention is that this can quite well be regarded as an emergency. It was certainly, up to 1945, a war emergency, and even since there has been an emergency, as the Committee knows, in the building trade, and the Ministry of Works, as I understand it, largely come into this service, because of difficulties that local authorities have in providing this accommodation out of their own resources.

3832. The only question I would like to ask on that I would like to put to Sir Percival: Are there cases where the Ministry of Works undertake jobs as agents of the local authorities?—(Sir Percival Robinson.) Yes, I think so. We are doing some school repairing at the present time which I happen to know about. (Sir Gilbert Upcott.) There is a provision in the Estimate for agency services. There would be no doubt about it if it were an agency service. It would be plain on the face of it. (Sir Percival Robinson.) I thought the Chairman was asking whether we did agency services for local authorities. (Sir Gilbert Upcott.) On what Sir Herbert said, it would be quite plain.

3833. I know you do for other Government Departments, but I do not know whether you carry out agency services for local authorities in any way?—(Sir Percival Robinson.) I was inquiring yesterday, with a view to this meeting today, and I am told we are certainly entitled legally to carry out agency services for local authorities—or for anybody for that matter—and that we do in fact carry out some services for local authorities.

Chairman.

3834. Are there any questions on paragraph 53?

Mr. Cuthbert.] How long will it be before this direct arrangement, shall we say, of the Treasury paying it instead of the local authority, ceases to go on?—According to the Estimates, we expect to finish the programme in the year after this one. That is to say, in the Estimates for this year there is an amount required to complete the service of £1,880,000, that being less than the amount required for this year. I assume we are expecting to finish it in the year after this one.

3835. I do not know whether this second question is relevant. Is it possible to say when we do get on to the proper statutory arrangement of the local Government paying, there is still likely to be a 100 per

cent. grant, or is any portion likely to fall on the local authority?—I am afraid that is quite beyond my knowledge. It is a matter of Ministry of Education policy. (Sir Herbert Brittain.) I think that is perhaps a matter of policy for the future. I do not think that we could say now. (Sir Gilbert Upcott.) Perhaps I might mention that although the Ministry of Education may finish this programme in a year or two, the Ministry of Works have undertaken a new programme of the same kind—that is, the provision of accommodation to maintain schools in preparation for raising the school-leaving age to 15, which amounts to £7,500,000, which begins this year. That is the same thing again.

Chairman.

3836. Are those figures included in this year's Estimates?—Yes.

3837. That, you say, is, again, carrying out a function which is properly laid on local authorities by statute?—(Sir Herbert Brittain.) We do not propose to follow the same procedure with that particular programme. In that case the local authorities will pay rentals to the Ministry of Education and the Ministry of Education will, from their Vote, pay over a series of years the full cost of this to the Ministry of Works. The difference in treatment between the two cases is that in the second case the Comptroller and Auditor General has mentioned we are not in fact bearing the full cost. The local authorities are in fact contributing something, and we must bear it on Ministry of Education Estimates to show the difference between the two. (Sir Gilbert Upcott.) I should very much like to suggest that it is a matter for consideration whether that procedure is prescribed in the Education Orders. (Sir Herbert Brittain.) That does not arise on the 1944 account. (Sir Gilbert Upcott.) No. When it is suggested that this case of using the Appropriation Act to override the statute is just about coming to an end, I suggest that here is a new example.

Chairman.] I do not think we can go further into that example to-day. It has only recently appeared in the Estimates. Are there any further questions on paragraph 53?

Mr. Benson.

3838. The 100 per cent. grant was fixed in 1943, was it not? Was there any reference to the amount to be borne by the local authorities in the 1944 Act?—(Mr. Pearson.) No.

3839. So that the 100 per cent. grant carries over into the later period?—The rate of grant is prescribed by regulations made under the Act.

3840. Under which Act?—Whichever Act it is—the 1921 Act or the 1944 Act.

3841. The regulation was made in 1943, I understood?—Yes.

9 May, 1946.]

Sir PERCIVAL ROBINSON, K.C.B., and
Mr. B. L. PEARSON, D.S.O., M.C.

[Continued.]

3842. Obviously, the regulation made in 1943 cannot be under the 1944 Act?—No. Further regulations have been made under the Act of 1944.

3843. And the regulations made under the Act of 1944 also include the 100 per cent. grant?—Yes.

3844. So it is, as Sir Herbert says, a matter of accounting?—(Sir Herbert Brittain.) That is how we regarded it.

3845. Surely the functions of this Committee are very largely concerned with accurate methods of accounting as well as accurate results of accounting. The mere fact that it was an accounting matter does not absolve the Treasury from following a particular form of accounting?—No. All I said to the Chairman was that it never occurred to us that we were in fact trying to override a statute by this particular method of procedure.

3846. There is one other point I should like to ask Sir Percival. I think you said that the Ministry of Works could build for local authorities or anybody on an agency basis. Does that mean that you could go out into the open market and solicit contracts?—(Sir Percival Robinson.) I am told legally we could, yes.

3847. I ask that merely as a matter of interest?—Legally we could.

Chairman.

3848. Your powers are not laid down by statute at the Ministry of Works at all, are they?—Not in that sense. They are restricted in some ways, but not in that sense.

Mr. Thurtle.

3849. As these installations and buildings are completed, I take it the responsibility of the Ministry of Works ceases, and, so far as expenditure on care and maintenance is concerned, that falls upon the local authorities or the Ministry of Education?—Yes,

(*Mr. Pearson withdrew.*)

Chairman.

3859. Now we will turn to paragraph 54 of the Report of the Comptroller and Auditor General. This deals with standard factories. The Comptroller and Auditor General states: "Early in 1944 the Ministry were requested by the Ministry of Production, in consultation with the Board of Trade, to erect a number of small factories of standard design in Great Britain and Northern Ireland with the dual object of providing reserve factory space for use in the event of damage to essential war factories and of facilitating the redistribution of industry after the war." Is this programme completed?—(Sir Percival Robinson.) No. There is a provision in this year's Estimate of £216,850.

3860. That is to complete the original programme of 18 factories, is it?—Yes,

that is right, subject to grant. So far as we are concerned, we are not responsible for maintenance when we have once handed them over.

3850. You are engaged merely in the construction?—We are the contractor who builds the building.

3851. Even before the programme comes to an end, you will not spend money on care and maintenance of buildings which are already completed?—No. I imagine that there is probably a provision that the contractor who does it for us is responsible for putting right defects within a certain short period after completion. I do not know that it applies in this case, but that is common form. Subject to that we are only the original builders and we are not responsible for maintaining the buildings.

Chairman.

3852. I should like to ask one more question of the witness from the Ministry of Education. The rates of grant, you say, are laid down by regulation?—(Mr. Pearson.) Yes.

3853. They may be varied from time to time, then?—Yes.

3854. By new regulations?—By laying new regulations.

3855. Do those have to have the approval of the House of Commons?—They have to be laid before Parliament.

3856. They do not require an Affirmative Resolution?—No.

3857. They are subject to prayer?—Yes.

3858. Therefore the grant on this particular service which we have been discussing might at some future date be at a lower figure than 100 per cent.?—Yes. The Ministry could alter the rate of grant by laying a new regulation which would be subject to a prayer in the House if it were opposed.

Chairman.] I am much obliged.

The original programme was 10 factories of 1 million square feet, but when it was worked out it was thought better to provide the 1 million square feet in the form of 18 factories. Of the 18 factories, 14 are completed now. The other 4, as is obvious, have a certain amount of work to be done on them.

3861. 14 are completed. That leaves 4 to complete?—That leaves 4 to finish. Those are more or less up-to-date figures. It was not the position at the end of the year of account.

3862. If you look at the last subparagraph of paragraph 54, you will see the Comptroller and Auditor General states that in one case the contract for erection was not placed until the 31st May, 1945. At that time, of course, one of the two objects of the plan had disappeared; that is to say,

9 May, 1946.]

Sir PERCIVAL ROBINSON, K.C.B.

[Continued.]

there was no risk of dislocation owing to war damage at that stage?—No, perhaps not.

3863. So as far as that factory is concerned we must take it it was going to be erected in connection with the redistribution of industry after the war?—I think there is no doubt that when the scheme was first started it was started solely as a dispersal scheme; that is to say, to provide factories in place of damaged war factories. It was mere prudence, I suggest with deference—although this is perhaps policy rather than anything else—when deciding in what parts of the country to put those factories, that you should have had regard to the places where they were most likely to be useful in peacetime if the war did not result in their destruction. I feel that is a fairer way of putting it than to say it was done originally with a dual purpose. Then the programme was continually interfered with by other alarms and excursions, and also by the fly-bomb attack, which made them start on it again, and so forth. Then, as you rightly pointed out, it was finished off as a programme perhaps after the time for dispersal in relation to one factory in particular had ceased to apply.

3864. The Redistribution of Industry Act of last year enables the Board of Trade, I think it is, to erect factories?—Yes.

3865. But I take it, from what you said, that there is nothing in your Estimates for the current year for expenditure on their behalf?—Not other than this programme. These factories have all been passed over to the Board of Trade for them to manage and handle.

Chairman.] Are there any questions on paragraph 54?

Mr. Hector Hughes.

3866. Why were these factories allocated to tenants? Had they become redundant for war purposes?—I am not quite sure that I have your point.

Mr. Hector Hughes.] At the top of page xxi the Comptroller and Auditor General states: "The Board of Trade were to be responsible for allocating the factories to tenants and for the general terms of the leases, while the Ministry of Works were to negotiate the leases, collect the rents and discharge landlords' functions generally." I am not quite clear why they were allocated to tenants. Was it because the war purpose for which they had been acquired—

Chairman.] I am not sure that Sir Percival Robinson can answer this question anyway, because he is really only concerned with the construction of the factories.

Mr. Wadsworth.

3867. I take it that once the present contracts are completed no further factories will be built, because the Board of Trade

will build factories under this Redistribution of Industries Act?—So far as I know there is no proposal at present before us that we should act as agents for the Board of Trade and build factories for them under the powers that they have under that Act, but I should be surprised if the Board of Trade themselves actually built factories in the sense in which we build them—that is to say, as the sort of architectural Department. (*Mr. Jones.*) I think the Board of Trade are using their trading estate companies to build factories on their behalf, under their powers under the Distribution of Industry Act. The trading estate companies in the development areas are acting as contractors to the Board of Trade for this purpose, and as managers on behalf of the Board of Trade of the factories.

3868. So that so far as this scheme is concerned, it will automatically now come to an end?—(*Sir Percival Robinson.*) Yes, that is right, when we have finished the two further factories. (*Mr. Jones.*) I believe it is true to say that these particular factories have been transferred to the Board of Trade and are managed on their behalf by the trading estate companies, like the new factories. (*Sir Percival Robinson.*) I have already said that.

3869. So there is a tie-up there with the Board of Trade?—Yes.

Mr. Benson.

3870. Am I to understand from that answer that all these factories are in areas where there were these trading estates—that is, the distressed areas?—Yes, I think so. (*Mr. Jones.*) Except two in Northern Ireland. (*Sir Percival Robinson.*) Yes, There were six in Northern England, six in South Wales, four in Scotland, and two in Northern Ireland.

3871. Were they built on the site of the trading estates, or were they separate units entirely?—They were on separate requisitioned sites, with the exception of one case. I do not think they were deliberately built in connection with the trading estates.

Mr. Thurle.

3872. You were asked to build these factories for a certain purpose. When that purpose ceased to exist, was it any part of your function as a Ministry to inquire whether it was necessary to carry on with the programme or not?—I do not quite know how to put my answer to that. We do in fact always ask that sort of question. But it is for us to provide buildings which other Government Departments want and which the Treasury agree should be built, so that we could not refuse to build these buildings because the purpose for which they were being built was changed. We could ask whether, in view of the change, the Department which was asking for these buildings—which at that time was the Ministry of Production—still wished them to go on.

9 May, 1946.]

Sir PERCIVAL ROBINSON, K.C.B.

[Continued.]

3873. It was on the question of initiative that I wanted some information. At a certain date it would become clear that the primary reason for building these factories, the need for dispersal, had gone?—Yes.

3874. Which Ministry would it be which would have to say: "Is it necessary to go on with these buildings"?—The real responsibility for making that decision or for initiating that inquiry is with the Department for whom the buildings were being built, which on this occasion was the Ministry of Production.

3875. It would not occur to your Ministry to ask the Ministry for whom you are building whether, in the changed circumstances, they wanted to go on with it?—I think it would. We should ask. We should be quite sure that they had addressed their minds to the question, unless we knew otherwise.

3876. Did you do that?—I am quite sure we did. The way this thing works in Government circles is that under those conditions there would be some form of inter-departmental conference to consider what was the best action to be taken in regard to this programme of factory buildings, in view of the fact that there had been this change, and the officials from the Departments concerned, including ourselves, would meet together and discuss the problem, and put it up to the Ministers, and the responsible Minister in this case would have been the Minister of Production, if it was then in being, or the President of the Board of Trade, if they had succeeded to it.

3877. You are quite satisfied that in this particular case such a conference took place?—I am quite satisfied in this particular case full consideration was given to the question whether or not the programme ought to stop, now that the war had come to an end, or that the war situation was easing.

Chairman.

3878. Now may we turn to the Account at page 53? This shows an allocation from the Vote of Credit of about £74,500,000 net. The main details of expenditure are given in the table at the foot of page 53. Could you give me some break-up of Sub-head A, a figure of £19,000,000 for public offices, etc.?—I have a list here. I think the Committee likes me to try to pick out some of the big ones.

3879. Please?—Under the heading of Admiralty I have a sum of £222,000 for the accommodation of industrial workers, and £124,000 for training establishments. Then we have some work on prisoner of war camps for the Ministry of Agriculture, £145,000. Camps for the Air Ministry, £446,000. Then there is a great deal of work for the Ministry of Aircraft Production classified as factories, stores units, landing grounds, etc., £3,200,000, hostels,

£600,000, and an old friend, the Gold Coast Railway, £167,000. Then the school canteens and kitchens, £692,000, and the corresponding figure for Scotland is £185,000. Then under the Ministry of Food we spent £386,000 on grain silos, and on cold storage accommodation, £195,000. For the Ministry of Fuel and Power, miners' hostels, just under £3,000,000. Ministry of Health hospitals £218,000. Then the Ministry of Production—the erection of the standard factories which we have just been talking about, £647,000. For the Ministry of Supply, £897,000 on storage buildings, £273,000 on hostels and £354,000 on accommodation for research stations. The War Department Bolero Co-ordinating Committee programme (that is American troops, mostly, the Bolero Programme, we call it) camps and hospitals, £2,135,000; storage accommodation, again, £414,000. I could go on giving more examples, but those are the biggest ones that caught my eye, reading down the list.

3880. You mentioned one figure which surprised me, if I heard it aright. Did you say £3,000,000 for miners' hostels?—Yes.

3881. What are they? Where were they situated?—They were mainly the hostels for the Bevin boys, so-called.

3882. You actually built hostels, did you?—Yes. There was a large programme of hostel building.

3883. Are they permanent structures?—Yes.

3884. Like small hotels—or large hotels?—It was hatted construction.

3885. They were hatted, were they?—It was hatted construction, like our temporary office buildings—a bungalow sort of type of construction. I do not mean Nissen huts.

3886. I want to ask about Sub-head M: "Pre-fabricated Huts—General Stock (net)", a figure of £3,596,000. This is, I think, after deducting a small sum for sales noted on page 55. Were the pre-fabricated huts things which you built or things which you bought?—I suppose you bought them?—Yes. That is the purchase of huts. It does not include the erection cost.

3887. When it says: "General Stock," it indicates that you have that amount of expenditure lying somewhere in huts which are available but not yet erected. Is that it?—It has always been the policy of the Ministry since the war to keep a stock of these huts. They are often kept at the manufacturer's works. But we always keep a reserve stock to meet emergency needs, and at the present time we have about 7,000 what we call Nissen equivalents. As I explained to the Committee last year, the huts are made in sections, rather like a Globe Wernicke bookcase, and you can build up a hut of any particular length, and according to the length you only want two ends—if you have two sections you only want two ends, whereas if

9 May, 1946.]

Sir PERCIVAL ROBINSON, K.C.B.

[Continued.]

you put up each section separately you want four ends. So we do get our huts made and we hold them in the sections and put them together according to need. It is very difficult, in consequence, to say exactly what stocks we have, but we try to calculate our stocks out in terms of what is known as a Nissen equivalent. That is the one unit. In wartime the largest number we carried was about 20,000. We had a stock of about 20,000 altogether, and it has now run down to about 7,000, but there is a continual demand for these small huts.

3888. So that that figure is not, in your view, excessive, considering the times through which we have been living?—No. We are rather careful about the stocks we carry of these huts. In an earlier year—I think probably it was last year—the Committee asked a good many questions about a particular kind of hut, namely, the plasterboard hut, of which I think the Comptroller and Auditor General said at that time we were holding unnecessarily large stocks, and that we had rather made a bad bargain on that particular hut. But we have more or less cleared it now. It was extremely useful for a temporary purpose, and I do not think we have lost any money on it to speak, if any.

3889. Sir Gilbert, have you anything to say on this question of pre-fabricated huts before we pass from it?—(Sir Gilbert Upcott.) No. I am not quite sure whether Sir Percival includes his stock of plasterboard roofs in his satisfactory certificate, so to speak. (Sir Percival Robinson.) I have not a particular note about the roofs. The present stock of plasterboard huts we have is about 212 completed plasterboard huts with 304 potential huts worth of miscellaneous components.

Chairman.

3890. Thank you. I want to ask you a few questions about a matter on which the Committee has made previous inquiries, and that is Subhead K: "Opencast Coal Production." The arrangement is that the costs of opencast coal getting during the year of account were borne by your Ministry, and the proceeds from the sale of the coal were an Appropriation in Aid for the Ministry of Fuel and Power?—That is so.

3891. It is a curious way of the Government keeping its trading account, but there it is!—(Sir Gilbert Upcott.) It represents the Appropriation, because the Ministry of Works did get the coal and the Ministry of Fuel and Power did dispose of it. This is not a trading account. It is an Appropriation Account, and the charge follows the Appropriation.

3892. It seemed to me a little hard that the Ministry should bear all the cost and get none of the credit. (Sir Percival Robinson.) I hope we have got a lot of credit. We did a very good job of work.

3893. That is all you have got—credit!

Sir Percival, last year you gave to the Committee certain figures for the year ended 31st March, 1945. The paper which you handed in is printed at page 256 of the Appendices to the Report of the Committee of last year. You handed in a memorandum to the Committee which gave certain figures of the cost of production, and the tonnage of coal excavated. In the right hand column on page 256 there is shown as the approximate cost per ton 44s. 3d., and the tonnage of coal excavated is shown as 9,121,000 tons. Those figures were stated to be not yet final. Could you give the Committee the final figures as they worked out?—I am in a little difficulty over this, because, of course, the responsibility having been passed over to the Ministry of Fuel and Power, they have taken over with them all the staff that were doing it, and also all the records, so that all I could do was to ask the Ministry of Fuel and Power accountant to give me the revised figures on this statement. If I have not all the information that the Committee asks for, I am afraid I shall have to ask if I may put it in. I asked him to bring these figures up-to-date in order that I might give this evidence. He has given me the following corrections in the column on the right hand side of that table of the cost of production. The first figure is a figure for production cost at site. The 29s. 6d. should be 30s. 1d., which is an increase of 7d. over what we thought at the time. He has not corrected any of the other figures in that second column, so that the total, instead of 39s. 9d. should be 40s. 4d. But under the heading 3, which is the amortization of capital, the 4s. 6d. has been reduced by further investigations and calculations to 3s. 7d. That figure always was a *pro forma* figure. It includes an element for amortizing the American plant which we got in fact on lease-lend. An imaginary figure was put on it, but in order to get a fair overall picture of the cost per ton of producing the coal the Treasury directed that that should be included, and also an element on account of amortization of the capital cost of certain plant which we in fact did pay for. That 4s. 6d. should be 3s. 7d. So that the total approximate cost per ton falls to 43s. 11d., as opposed to 44s. 3d. I do not know that I want to claim any particular credit for that, because it is a sort of accountancy business, and the important figure is that our 29s. 6d. figure has gone up to 30s. 1d.

3894. The item under No. 2, of establishment charges at 5 per cent., is just a calculated figure of overheads?—It is a calculated figure of overheads for the staff of the Ministry of Works.

3895. Could you correct the figure of tonnage of coal excavated?—No. He did not give me a correction of that, and I have not got it with me, but perhaps I could let the Committee have it.

9 May, 1946.]

Sir PERCIVAL ROBINSON, K.C.B.

[Continued.]

3896. I take it in the absence of it having been corrected that figure probably stands?—That is what I should have thought, but I did not actually verify that.

Chairman.] I have no further questions on this page of the accounts. I think it might be convenient for the Committee to take the account to the foot of page 53. Are there any questions on that page?

Mr. Cuthbert.

3897. I might be quite wrong in this, but I see under Subhead Q there appears to be no amount in the Details of Expenditure, and yet on the other page, in the Details of Receipts there is a net credit on Subhead Q of £306,000. Could that be explained? There is, in other words, no debit side?—(Sir Gilbert Upcott.) The actual description of the out-turn on Subhead Q is at the top of page 56.

Chairman.

3898. Perhaps Sir Percival would explain that?—(Sir Percival Robinson.) This is rather a technical point, but I think I have the answer right. The reason there is nothing against Subhead Q is that the receipts we got for work which we had done in that year, which obviously were brought to account in the year we are now talking about, exceeded the amount which we had spent on recoverable services in that year. It is a sort of running account, and we may either get bigger Appropriations than expenditure or bigger expenditure than Appropriations, and the net amount has to be shown either under the Subhead or under an Appropriation Subhead.

Mr. Benson.

3899. On Subhead B: "Expenses of Trade Union Representatives on Building Sites"—how is that scheme working now?—That, of course, was the original scheme for having Trade Union representatives on the large sites which the Government itself was interested in. It was gradually run down to very little. Now, of course, it has turned round the other way, and they are starting these production officers, who are performing very similar functions, although not quite the same functions, for all building sites.

3900. The production officers are Trade Union representatives?—They are to be representatives of the production councils, which are joint bodies representing the two sides of the industry.

3901. Are these your housing sites?—All kinds of sites, but particularly housing sites. I think it would be true to say that this scheme which is referred to here of Trade Union officials on the sites has been wound up, but it has been replaced by something very similar.

3902. I cannot remember whether there was a lot of criticism on the Public Accounts Committee when the matter came

up, or whether it was criticism by the employers when the scheme was first introduced?—There was a history which was this, that we endeavoured to finance the scheme by a levy on Government contracts—or rather, a levy on all contracts, but in fact they were only Government contracts—and to have a trust fund into which that levy was paid and from which these salaries were to be paid. The Public Accounts Committee I think took the view that that was rather an objectionable arrangement, inasmuch as all the actual money was coming from the Government, and that the whole thing ought to be shown on the face of the accounts and not by means of this fund. We had more or less come to the conclusion that it was not a good arrangement at about the same time, and we were able to report that we had done away with the scheme or were in the process of doing away with it, about the time it came before the Committee.

3903. The result of having the Trade Union representatives there was to ease and facilitate matters in general?—Yes.

3904. That was the report we had when it first came up. That has been borne out by subsequent experience?—Yes. I think everybody agreed that the scheme as such was a very valuable one. There is room for difference of opinion as to who should pay for it, but having the men there was very valuable.

3905. You referred from time to time to building or doing work for a Government Department. Does that involve more than a mere architectural clerk-of-works and general supervision? Do you have your own staffs on large schemes outside? I know you do for Government buildings; I know you have them in the House of Commons. The figure against public offices is £19,000,000. Are those buildings all open tender?—Broad and large they are built by contractors using their operatives. We have a directly employed staff, but mostly it is used on maintenance work, although there is also what we call a special repair service—these mobile people who do a certain amount of new work by direct labour.

3906. With regard to the Bevin hostels, what was the accommodation?—41 hostels are occupied as miners' hostels. The full programme was 74 hostels.

3907. What bed accommodation does that represent?—14,000 places in the 41, which have been so occupied.

3908. Are you still continuing to build the odd 33 or is that in abeyance at the moment?—We are not building any more now.

3909. You built 41 out of 74 and then stopped. Is that it?—I am not quite sure whether the 41 was the whole lot.

3910. It does not matter. The main point is that you built 41?—Yes, and they have a capacity of 14,000 places.

9 May, 1946.]

Sir PERCIVAL ROBINSON, K.C.B.

[Continued.]

3911. What was your average occupation?—The occupation was not very satisfactory. The resident number 7,634, so that they are only about half full. (Sir *Gilbert Upcott.*) I raised it in my Report last year. The occupation was about 50 per cent.

3912. The Government, when it provides hostels, does rather tend to take an optimistic view?—(Sir *Percival Robinson.*) Yes. I do not wish to throw mud or anything of that sort, but once again we built what we were asked to build.

3913. Have you any idea what the present tendency is? I suppose of those 14,000 places less and less will be occupied now?—It is a very difficult problem. The Ministry of Labour are trying to find means of using them I believe in a way which is slightly different from that which was originally intended.

3914. Can you give us some idea of where they were, mainly?—They were of course all in the coalfield areas, close to the coalfields.

3915. Did any particular coalfield require more than others?—Not that I know of. I have now found the figure I was looking for, if I may interrupt. The 41 are occupied as hostels for the miners, and there are 21 further ones which have been built and are not being used for miners. Some of those are being used by the Ministry of Health for displaced children from the Continent, some by the Ministry of Labour for training centres, and some by the Home Office as police training centres.

3916. These are temporary buildings?—Yes. They are the usual sort of what we call temporary buildings.

3917. Wood construction?—Better than that. Have you seen the temporary Government offices anywhere? They are that sort of thing.

3918. I have seen the excrescences in Westminster?—No, I meant one of our temporary buildings in the Provinces.

Mr. *Benson.*] No, I have not.

Mr. *Thurtle.*

3919. Is this practice of carrying a considerable reserve of temporary huts a wartime practice, or did it exist before the war?—It is a wartime practice.

3920. Do you intend to continue it, or will you discontinue it now the war is over?—A hut is a very unsatisfactory form of accommodation, and I hope that as soon as we see our way clear to be able to provide accommodation which may be needed in a hurry without using that sort of expedient, we should immediately drop huts. The only huts which we are now buying are those known as standard huts, which we ourselves designed, with sort of concrete pillars and blocks. They are not nice to look at, and, although extremely

serviceable for their purposes, they are not the sort of thing we should want to scatter about the country the moment it became clear that we could find something better.

Chairman.

3921. Sir Gilbert, has the Committee been into this question of the Bevin boys' hostels on a previous occasion?—(Sir *Gilbert Upcott.*) Yes, last year. (Sir *Herbert Brittain.*) It should come up on the Ministry of Fuel and Power Vote. The Comptroller and Auditor General has a paragraph about it on the Ministry of Fuel and Power Vote for this year. The Ministry of Fuel and Power will be before the Committee in a short time. (Sir *Gilbert Upcott.*) Yes. It is paragraph 27 of my Report on the Civil Appropriation Accounts (War Services) 1944.

3922. I was going to ask Sir Percival one or two more questions on that. I think you told us 62 hostels altogether had been completed?—(Sir *Percival Robinson.*) That seems to be right.

3923. At a cost of something over £3,000,000?—£4,908,193.

3924. The figure you gave me when I asked you for some details of Subhead A, in respect of miners' hostels, included other items, did it?—Yes, it must have included some which we have adapted, I suppose. (Sir *Gilbert Upcott.*) There are quite a lot of statistics in paragraph 27 of my Report. That is on the Ministry of Fuel and Power Account, which the Committee will have before it later.

3925. You say that it is raised in paragraph 27 of your Report, Sir Gilbert?—Yes.

3926. It would probably be most convenient to pursue the matter at that stage. I wanted to arrive at the average cost per hostel?—(Sir *Percival Robinson.*) We could perhaps send you the average cost of a place in one of these hostels. Would that be useful?

3927. Yes—the average cost per bed?—Yes, per place—I meant that.*

3928. If you please?—(Sir *Gilbert Upcott.*) The Ministry of Works, of course, are doing this as an agent for the Ministry of Fuel and Power. The maintenance expenses of the hostels are charged to the Coal Charges Account. That is why I have reported on it on that Account.

3929. We will turn now, I think, to page 54. The only question I want to ask there is about rebates on quoted prices for certain supplies, a figure of £372,000. This is amongst your receipts. Those are discounts you obtain off manufacturers' list prices for material, are they?—(Sir *Percival Robinson.*) Yes. When I first went to the Ministry about three years ago, there was established a fairly well recognised

* Paper circulated to Members: not printed.

9 May, 1946.]

SIR PERCIVAL ROBINSON, K.C.B.

[Continued.]

arrangement under which, for certain building materials, we let the list price stand and paid the list price ourselves, and then by reason of the size of Government contracts and all the other reasons which justify a lower price to the large customer, we negotiated at the end of each year a rebate on the amount of Government business which had been handled either direct or indirect by the firm. That is one form.

3930. These are not refunds by contractors who made excessive profits?—No.

3931. These are ordinary rebates off list prices?—They were rebates off list prices. There is one special one—the cement one, which probably the Committee has heard of before. In the case of cement the Cement Federation formed a voluntary pool at the beginning of the war. They all paid their profits into a central pool, and paid out an agreed figure per ton, and the balance that was left in that fund known as the Suspense Account was ultimately to come back to the Exchequer. There will be nothing on that account in the Votes which we are discussing, but you asked me about rebates generally, so I thought I would just mention it.

3932. At the top of page 56 Mr. Cuthbert has already asked you to explain why Sub-head Q shows a nil figure for expenditure, but I would like to know the main details of the expenditure for 1944 of £11,000,000 odd, which is expenditure on repayment terms on behalf of the Defence Departments?—This is rather like the question you asked me before. I have a list of the items here.

3933. Could you let me have only the very large ones?—The largest is work done on the repair of houses and other property at the cost of the War Damage Commission. That is £9,000,000 of it.

3934. That is more than three-quarters of the total?—It is £9,000,000 out of £11,000,000.

3935. That is on the repair of houses by the War Damage Commission?—Yes, it is doing war damage work, the cost of which is recoverable from the War Damage Commission.

3936. Do you do that by your own direct labour or through contractors?—This is mainly London. It was done partly by contractors organised by us, either to work as separate contractors or to work in groups, and partly by our own special repair service, but much the larger part I think by contractors.

3937. You will recover that money from the War Damage Commission in due course?—That is paid for by the War Damage Commission. We did some work at Corsham for the Ministry of Aircraft Production which cost us £230,000.

3938. I do not think I am interested in the smaller items?—There is a figure of

£857,000 for the Royal Ordnance Factories for the Ministry of Supply.

3939. I should like to know a little bit about the fraudulent claims, a little lower down on that page?—I do not know quite in what detail you would like it. It is one of the cases in which there was a fraudulent contractor who did the usual game of charging the dead head. He charged up the same men both to us and to the local authority for whom he was also working on war damage repair. The local authority prosecuted and we discharged the men who were in our service who were implicated.

3940. Have those sums been lost, the £5,800 and the £7,000?—We have not been able to get the money back, because it was not so much a debt as an estimate of the amount by which we had been swindled.

3941. If you have been swindled, you can very often sue the swindler and get damages or recover your money in some way?—I am afraid I am not a lawyer, but I thought you had to choose whether you prosecuted the man or sued him.

3942. I dare say you do. Did you prosecute?—No. The local authority I understand prosecuted.

3943. I should have thought that would not have stopped you pursuing a claim for recovery?—My note is: "It is not possible to proceed to recovery of any sum overpaid owing to fraud. The evidence was insufficient to support a prosecution and it was impossible to determine the items which were erroneously charged, and therefore the actual amount of over-payment could not be calculated."

3944. It comes to this, that there was insufficient evidence?—Yes.

Chairman.] Are there any questions on this page?

Mr. Cuthbert.

3945. What check have you that enables you to discover there is a fraud like that, that the local authority have paid on the one hand and you have paid on the other for the same job?—The only check you can possibly have in your own supervising staff making a check round of the men who are at work—that sort of thing. It is a very easy fraud to perpetrate. It is well recognised.

3946. Your foreman or supervisor must have found out from the local authority that they were being charged as well?—Yes, that sort of thing.

3947. Is there any system or is it just by chance that it is discovered?—I think the only thing I can say about that is that all our supervising officers are thoroughly aware of that risk, and therefore they are always on the look-out for it.

3948. They would inquire from the local authority?—We were working under conditions then under which it would have been very difficult to have a cast iron system for proving that everybody was honest.

9 May, 1946.]

Sir PERCIVAL ROBINSON, K.C.B.

[Continued.]

Mr. Hector Hughes.

3949. There is no legal reason why, when the fraudulent contractor was prosecuted, he could not be sued for the amount of which he had defrauded the Crown?—No. I am afraid I made a very silly remark then. I apologise.

3950. Unhappily, it generally happens that such a man is a bankrupt or is impecunious; otherwise he would not resort to fraud. I would like to ask a question on the rebates on page 54. In the Details of Receipts there is an item: "Rebates on quoted prices for certain supplies". I am at a loss to know why there should be rebates. Are they like trade discounts?—First of all, we are not having them any more. We are now arranging our price control by controlling the prices for everybody, including the Government. But at that time it was thought that for certain articles the Government was only interested in the prices that it itself was paying for the commodities in question. Plasterboard was one of them and asbestos cement was another, which we were buying for our own building programme. There are several ways in which you can get a satisfactory price for a Government purchase. One is to go to open competition and get a suitable tender. Another is to cost after the event; and this particular method was really costing after the event. We paid for the amount which we purchased at the standard price and then costed the profit which the firms had made in supplying that particular commodity in that quantity to the Government. It is an effective way of preventing the taxpayer at any rate being over-charged for the things that we are buying on his behalf.

3951. I think you agree that if the prices are fair and proper prices there is no room for a rebate?—There are two views about that. The larger purchaser, as a normal rule, gets better terms than the smaller purchaser for various reasons. One is the simplification of handling. The other is better credit; that is to say, less chance of making bad debts, and in the case of the Government the point about not making bad debts is a very important one, and for various reasons the contracting departments I think always expect, or have expected hitherto, to get slightly more favourable terms for Government purchases than the standard for the small purchaser. We do not necessarily get better terms than the London County Council or somebody of that kind.

3952. For both reasons, because the Government is a large purchaser, and also because the security is better than the security offered by the private purchaser?—That is right.

3953. But it is being discontinued?—It is being discontinued in relation to all these things in which we are having fixed prices.

Mr. Thurtle.

3954. May I ask one question? You said you had an agreed figure paid into a pool by the cement manufacturers?—Yes.

3955. Would you know how that agreed figure was arrived at, and if so what percentage of profit was included in it?—As a matter of fact it is the other way round. What was paid into the account was the whole of the profits, but what was taken out for the manufacturer was a fixed figure to cover his profit.

3956. What was the fixed figure?—4s. 11d. a ton, so far as my recollection goes, when it was first started.

3957. I wanted it in percentages. You do not know what percentage that would represent?—No. It was calculated that it was something between 8 per cent. and 11 per cent. (I am not quite sure which) on the employed capital, but there was a good deal of dispute with the cement manufacturers as to what was the employed capital.

Chairman.

3958. On page 57 is the Brick Charges Account. Has that been wound up?—No. It has been laid down that there shall be no more claims in respect of care and maintenance after 31st March of this year, and that there shall be no more claims for the other grant which came out of the fund, namely, for assistance in stocking abnormal stocks after 31st March of this year. So that it has been wound up in the sense that there are no further claims maturing against it, but there are still unsettled claims out against it.

3959. This was a scheme for compensating the owners of closed down brickworks?—That was the original scheme, and later on, towards the end of last year, it was also used for assisting to pay the cost of the stacking, which involved double handling where the brickworks had made more bricks for stock than it could stock on its own.

3960. The fund will not entertain any more claims as from 1st March, 1946, you say? Anybody who has a claim on the fund for compensation must put it in by that date?—No. I said they will not get paid compensation for costs of maintaining their brickworks after the 1st March. There has not been a direction that claims must be lodged before a certain date, as far as I know.

3961. That is to say, from the 1st March, if you are the owner of a closed down brickworks, you have either to open it up or stand the racket?—That is right.

3962. Could you say what the result of that will be upon the balance in the fund, which was nearly £300,000 at the close of the year of account?—The balance of the fund that is in this account is what it was at March last year. The present balance in the fund is £236,000.

9 May, 1946.]

Sir PERCIVAL ROBINSON, K.C.B.

[Continued.]

3963. When the account is finally closed something will have to be done with the surplus?—Yes. The Order provides that it can be used for any purpose of which the Treasury approve.

Chairman.] Are there any questions on this page?

Mr. Benson.

3964. Does this payment to the brickworks include any element of profit or is it pure care and maintenance?—It is pure care and maintenance, and it is limited by a ceiling based on the number of bricks they did produce, and only the refund of their actual expenses, and proved expenses at that, within that ceiling.

3965. It would appear that they were treated rather less generously than other industries under the Concentration of Industry Order, who received some element of profit?—I am afraid I do not know the background of it.

3966. I was wondering why there was this rather unusual form of dealing with this?—It was a scheme which was worked

out by the brick industry itself, and put forward to us, as we were to handle the matter.

Mr. Thurtle.

3967. In the light of the existing shortage of bricks, would it not have been advantageous if this payment had been stopped earlier than it is to be stopped now? Would there not have been an economic inducement then to the brickmakers to get going before they have got going?—I would love to talk to you about that, but it is really rather a question of judgment as to what was the best way to handle a very difficult situation. The real shortage was labour. Is it better to open all the brickworks and let them each have one man, or to try to get something rather between, whereby the brickworks that does open up gets reasonably manned up? It is that sort of consideration. That is not the only point, but it was a very difficult problem as to what was the right way to handle it.

Chairman.] Are there any further questions on the Account? May I take it that the Account is approved? (*Agreed.*)

HOUSING (TEMPORARY ACCOMMODATION) ACT, 1944: ACCOUNT, 1944.

Mr. A. R. MCBAIN, C.B., O.B.E., called in and examined.

Chairman.

3968. Will Members turn to the Housing (Temporary Accommodation) Act, 1944, Account 1944, to page 3, the Report of the Comptroller and Auditor General. The Comptroller and Auditor General states: "This is the first account rendered under the Housing (Temporary Accommodation) Act, 1944, which provided that the expenses incurred by the Minister of Works in the manufacture, construction or erection of temporary structures for use by local authorities in the provision of housing accommodation should be met by issues from the Consolidated Fund up to a total of £150,000,000 (increased to £200,000,000 by the Building Materials and Housing Act, 1945) repayable in instalments from moneys provided by Parliament." Can you tell me what the number of instalments and what rate of interest is charged?—(*Sir Percival Robinson.*) Ten instalments. (*Sir Herbert Brittain.*) The advances are repayable by annuities over ten years at $2\frac{1}{2}$ per cent.

3969. The account on the opposite page shows expenditure of £1,000,000. That is not for a full year?—(*Sir Percival Robinson.*) No.

3970. This service did not begin before the year of account. Can you tell me the period covered by the account? When did expenditure commence?—We brought into the account some expenditure we had incurred before the Act was passed. (*Sir Gilbert Upcott.*) The Act was passed on 10th October, 1944. The expenditure, of course, is not £1,000,000 actually. That

was the issue. The actual expenditure is £740,000.

3971. Yes, I am obliged to you. The actual expenditure was £740,000. I take it that covers expenditure between the passing of the Act and the end of the year of account?—(*Sir Percival Robinson.*) Yes, and a little expenditure which was probably incurred before hand, and during the course of that year it was decided should properly be charged to this account. (*Sir Gilbert Upcott.*) £50,000 was issued from the Civil Contingencies Fund in anticipation. (*Sir Percival Robinson.*) Yes. Here, again, we are purveyors.

3972. In paragraph 2 the Comptroller and Auditor General states: "The expenditure of £463,573 os. 6d."—that is on the manufacture and construction of temporary houses, etc.—"consists largely of payments on account to various contractors. The Ministry of Works contracts for manufacture and construction of temporary houses have as a rule been placed at maximum prices subject to costing." Are there any cases in which costing has been completed?—Yes, on one of the Tarran houses, I think.

3973. With what results?—There was a substantial reduction on the ceiling price.

3974. You are speaking of the Tarran house?—Yes.

3975. There are two or three types of emergency houses, are there not, of which the Tarran is one?—Yes.

3976. In that case you have actually completed the costing?—We have for one

9 May, 1946.]

Sir PERCIVAL ROBINSON, K.C.B., and
Mr. A. R. MCBAIN, C.B., O.B.E.

[Continued.]

467

section of it, and there, as I say, we got a reduction. I am not sure it would not be of assistance to the Committee if I explained a little bit how it works, rather than answer that particular question. There are three types of house covered by this account, the pressed steel house, which is referred to in a later part of the Comptroller and Auditor General's Report, and the Uni-Seco house and the Tarran house. The other main house we are interested in is the Arcon. In the case of the Uni-Seco it was a small firm, making a special kind of bungalow, but it did not do any manufacture itself. It got sub-contractors to make asbestos sheet units, out of which the house was built. There the arrangement is that the Uni-Seco people have placed their own sub-contracts with sub-contractors, subject to our approval, and we are paying the Uni-Seco firm itself a sum on account of their Head Office expenses and a fee for management. That covers only the shell or the hull of the house. All the fittings inside the house we provide, and where possible we have provided those fittings by going to open competition. In some cases it has not been possible to go to open competition either initially, or in other cases where we could go initially, we have not been able to go subsequently. There are cases where the main reason for not going to competition was where the output required was conditioned by the amount of capacity in the industry, and we had to find people who had the space in factories, the machines, labour and so forth, who were ready and able to take on this particular production piece of work. In those cases the price has had to be a negotiated price, and sometimes it is costed after the event. Sometimes, particularly of late, we have calculated out ourselves what we think would be a fair price, and we have then asked a large number of firms to quote a price at which they will take on the orders in relation to our, what we called, offered price. If they are only prepared to take it on at the offered price or slightly above, then the contract is placed subject to post-costing. If on the other hand they offer us a price which is appreciably below what we call our offered price—that is, our calculated price as to what is a fair price—then we make a firm contract with them, as we feel we should not get better terms by costing, and although it is easy to say: "Cost a contract", it is a very expensive and rather troublesome thing to do, and we find firms are prepared often to quote an appreciable reduction in price to avoid having the extra burden of having the contract costed. That is how the Uniseco works. The first block of the Tarran houses, which were 1,000 houses, were for the manufacture of the units and the erection of the house—the complete thing, the complete story right through. The Tarran Industries at Hull had started themselves a scheme for producing this particular kind

of temporary house. There the arrangement made was that we would pay the actual cost of putting up the first 100, that the next 300 houses should be costed, and when those 300 houses had been completed under costing we should then fix a firm price for the whole order. Unfortunately, that has not worked out quite as we intended, because we have not been able to fix a price, and the order is very nearly through, but that was an accident of accounting difficulties. We could not get the necessary figures from Tarrans. Then the major Tarran order, which was for units as opposed to erected houses—there we did as is suggested in the note: we had a ceiling price subject to costing after the first section of the order had been carried through, in the hope of arriving at the final price for the balance of the order, and in the case of one of those (there are two firms independently doing the Tarran house) we have just concluded our negotiations and have secured a price of £310 for components, as compared with a ceiling price of £330. The fourth house, the Arcon, is not in this year of account. There, if you would like to have it, the principle is that there are four or five large manufacturing firms who were interested in this house and worked it out amongst themselves jointly, with the help of a sort of architectural firm, and they really were interested in the house from the point of view of the materials to be used in it. A single firm has been selected by them to be the promoter of the scheme as a whole, and the contracts with the various firms for the materials and bits which are put into that house have all been made direct by the Ministry, either by open competition or on this system of costing, and we pay a fee to the managing contractor, as we call him, the fee being partly repayment of identifiable expenses and agreed expenses (agreed beforehand, not after the event) and a fee for those expenses which cannot be isolated, such as the managing director's remuneration and so on, and profits for the shareholders.

3977. That explains the various methods you have adopted in placing the contracts?—That is what I hope.

3978. The Comptroller and Auditor General goes on to say: "Contracts for erection are generally competitive". Is that satisfactory? There is not much competition in the world today, is there?—I think we found it very useful. I thought you were going to criticise us for having only the word "generally".

3979. The word I am criticising is the word "competitive," when competition virtually does not exist?—We have not found that.

3980. Have you not?—No.

3981. You are more fortunate than private persons who want to get work carried out?—There, again, we have our own ideas

9 May, 1946.]

Sir PERCIVAL ROBINSON, K.C.B., and
Mr. A. R. MCBAIN, C.B., O.B.E.

[Continued.]

as to what it ought to be done for, and we have in effect what we call a ceiling price, and we do not accept a tender which is more than very little above our standard price. If the best tender we get is above that price we usually go out to tender again over a wider field, so as to get some more competitors in, but of late we have found that on the whole it is better to find a contractor who is already in the neighbourhood doing that kind of work for us, and doing it satisfactorily and at a satisfactory price, and to negotiate with him to take on a bit more at a price which we generally try to get slightly lower than the price he was getting for the first block, on the ground that it is cheaper when he has a bigger contract to cover himself on.

3982. You normally do the erection for the local authorities?—Yes. We do the erection and the foundation work within the curtilage, as it is called. They are supposed to do the roads and sewers.

3983. The local authority is?—Yes. That is done at their expense. It is normally done by them, but there is a little elasticity. Occasionally we do that sort of work for them if they want us to, but occasionally they do the slabbing work for us if they want to.

3984. Can you give the Committee any firm figures of any particular completed contract or any particular type of house, as to the ultimate result?—I do not think I can do better in respect of that than to refer you to the Government's White Paper on it, which was issued as you know in October last. It is Command 6686.

3985. That gives the full picture?—That gives the average costs for the different types of house.

3986. I suppose the figures there exclude anything for the work which would normally be done by the local authority—the roads and sewers?—Yes.

3987. And possibly exclude also the cost of the land?—Yes. The cost of the land, too, is excluded because this White Paper deals only with the expenditure which is chargeable against this account.

3988. Then in paragraph 6 the Comptroller and Auditor General says: "This head also includes a payment of £40,000 on account of the production of four prototypes of pressed steel bungalows." Are those the houses to which the name of Lord Portal has unfortunately got itself attached?—That is right.

3989. They have been a failure, have they not?—Well, we are not erecting any.

3990. That answers my question. The Comptroller and Auditor General goes on to say: "In the circumstances explained by the Minister of Works in the House of Commons on 23rd February, 1945, the production of this type of temporary house was not proceeded with. Settlement has

recently been effected with the firm responsible for the production of the prototypes at £91,572, of which approximately £18,000 represents the cost of press tools, jigs, etc., which remain the property of the Ministry." You have had to make some payment to the contractor for the discontinuance of the contract, have you?—Not as such, no. We have had to pay him for the cost of the tools and jigs which were made for the purpose of turning out these houses, which are not going to be used for that purpose.

3991. But these jigs remain your property?—They will be our property on that particular piece.

Mr. Wadsworth.

3992. Have they any value? I take it they have no value now, because the jigs are purposely made for a specific job?—Yes. I think I ought to ask my colleague from the Ministry of Supply to answer that question in detail. Broadly, I think you are right. Broadly, they have no value for the purpose for which they were made.

3993. Exactly.—On the other hand, a lot of expenditure has been incurred on the Portal houses which is not nugatory expenditure. Even if it is not used for the permanent steel house which is in the wind, although it has not got beyond that, it still has a general engineering value.

Chairman.

3994. Could you tell me how the profit to be made by the contractor in this case was to be ascertained?—For the pressed steel bungalow scheme?

3995. Yes?—I do not think one ever got as far as that.

3996. You had a contract for prototypes, I understand?—Yes. At that stage we got into the realm of finding how costly it was likely to be, and dropped it. What was done on the steel bungalow was that it was initially worked out by Lord Portal, with the help of a large number of people—but it was really worked out by him. As soon as it appeared to be a practicable scheme, the production of it was passed over to the Ministry of Supply, the production both of the bungalow and of the kitchen and bathroom units.

3997. I had better put this question to the Ministry of Supply witness. A settlement was effected with the firm responsible for the production of the prototypes at £91,572. How much of that figure represents profit to the contractor?—As a matter of fact, that is our figure. We did settle with the firm for the prototypes. I thought before you were asking about the terms for the contract as a whole.

3998. Then can you tell me how much of that figure represents profit to the contractor?—I am afraid not at the moment. I know that in all these contracts we have been operating very much on the same

9 May, 1946.]

Sir PERCIVAL ROBINSON, K.C.B., and
Mr. A. R. MCBAIN, C.B., O.B.E.

[Continued.]

lines as Government Departments operated during the war with regard to profit.

Sir *Gilbert Upcott.*] It was about 5 per cent. on cost, I think. (Sir *Percival Robinson.*) It was about 5 per cent. on cost, I should imagine.

3999. Are there any questions on the Report of the Comptroller and Auditor General down to the end of paragraph 6? Paragraph 7 has to do with capital assistance to contractors. The Comptroller and Auditor General states: "The Ministry of Supply's contract arrangements include varying forms of capital assistance to contractors. In some cases additional plant, machinery and buildings are provided at contractors' own works, in others contractors have the use of suitably adapted Government factories." Could Mr. McBain tell us a little more about this arrangement?—(Mr. *McBain.*) Yes. The Ministry of Supply, as you realise, became responsible for certain services to the Ministry of Works in October, 1944, so they are concerned only as far as this account is concerned with the period from October, 1944, to the 31st March, 1945. That explains the relatively small figure referred to in the Comptroller and Auditor General's Report in paragraph 7 of £190,209 3s. 6d. The Ministry was responsible for kitchen and bathroom units, and cupboards and a variety of other small components like taps, draining boards, and so on. We adopted normal contractual methods as far as possible for the great majority of these items—that is to say, maximum price contracts subject to costings or fixed price, with the important exception, of course, of kitchen and bathroom units and cupboard units which were an entirely new venture. They were arranged for on the basis that the first 1,000 should be at cost plus a negotiated profit—

4000. I did not want particulars about the contracts. I wanted particulars of the capital assistance which you have rendered to the contractors?—The capital assistance that we rendered as far as this account is concerned is comprised in the figure of £190,000, and the break-up of that is £110,828 in respect of jigs and tools for the manufacture of kitchen and bathroom units, £50,000 advance payment for presses for the manufacture of kitchen fittings, and £29,381 3s. 6d. to a firm for capacity for kitchen and bathroom units. That was real capital assistance and covered buildings and plant. I can give you the break-up if you wish it.

4001. In the case of the £110,000 spent on jigs, tools, etc., do those remain the property of the Ministry of Supply or the Ministry of Works?—The Ministry of Supply.

4002. They remain your property?—Yes.

4003. You instal them or provide them for the manufacturers?—Yes, for this particular company. Part of these jigs and

tools were manufactured by them and a number of them were bought by ourselves, by usual competitive methods, and issued free to the company—issued on loan.

4004. You say they were issued on loan to the company?—Yes. It is called a free issue by some Departments. It is called an embodiment loan by the Ministry of Aircraft Production. It means that they use them and that we retain property in them for our production only.

4005. You do not charge them any rental?—No. No element appears in the price, of course, for the stores produced. It is quite a normal contractual method. We do it with munitions and various other stores.

4006. Some allowance is made in the contract price for the fact that the machinery was provided by the Department?—That is right.

4007. Can you tell us the total commitment in respect of capital assistance to manufacturers at present? In the year of account it was £190,000, but I suppose it has gone a good deal beyond that now?—Yes, it has, because this was just the beginning. I have not those figures with me, I am afraid. (Sir *Percival Robinson.*) I have roughly the figures. About £2,750,000 is the total commitment under that heading, of which £500,000 is in tools and jigs and that kind of thing, and the balance in buildings, large machines and so forth, to which I referred just now as having a general industrial value, so that it is £2,250,000 which we should think had a general industrial value, in spite of the fact that we are not going on with this thing, and £500,000 of which about £150,000 is directly appropriated to this particular bungalow, the jigs, tools and things which will not be of any use for any purpose, except possibly scrap.

4008. The scheme is not for the companies or firms concerned to raise the money for this plant and buildings and machinery, in order to repay the Government Department. The scheme is that the buildings and tools are lent to them in perpetuity, apparently?—(Mr. *McBain.*) Not in perpetuity. (Sir *Percival Robinson.*) For the purpose of this contract. (Mr. *McBain.*) For the purpose of delivering the stores which the Ministry, whichever one it may be, requires, and only for that purpose.

4009. In the case of buildings you have something which is a valuable asset which you can use for other purposes, but in the case of jigs and tools, they are going to wear out in the course of a few years?—Yes, jigs and tools are really consumable stores and are generally charged to production. It is the plant which is permanent and disposable after the contract has been completed. The special dies and cutting tools attached to machine tools and that sort of thing are consumable, and do wear out, and are normally charged to production and not to capital account.

9 May, 1946.]

Sir PERCIVAL ROBINSON, K.C.B., and
Mr. A. R. MCBAIN, C.B., Q.B.E.

[Continued.]

4010. Unless some corresponding arrangements are made in the prices for the ultimate products, it would seem a little unfair to provide the plant and tools for one manufacturer and not to do the same for another with the same article?—They would get different prices and different profits, too, because the profit would be normally assessed on the capital employed.

Chairman.] Are there any questions?

Mr. Wadsworth.

4011. I do not know whether this is the position at all, but I should imagine that the very biggest expense is incurred in jigs and tools in proportion with the size of the contract. If the cost of jigs and tools were distributed over the number of units turned out in one contract, it

(Mr. MCBAIN withdrew.)

would mean that each item would be rather expensive. If these jigs and tools are distributed over a number of contracts, not necessarily by the same firm, then you get per unit a very small amount. Is that the principle?—That is perfectly right, and that was the point I think Sir Percival had in mind when he said that we have in mind a two-storey steel house in which a great number of these jigs and tools and this plant and equipment will continue to be used if that type of building is approved, because the kitchen and bathroom unit and the cupboard unit is common to all these types, and can continue to be so produced.

Chairman.] Are there any further questions on the Account? May I take it that the Account is approved? (*Agreed.*)

CIVIL APPROPRIATION ACCOUNTS, 1944.

CLASS VII.

VOTE 1.

HOUSES OF PARLIAMENT BUILDINGS.

Mr. E. N. DE NORMANN, C.B., called in and examined.

Chairman.

4012. Will Members turn to the Civil and Appropriation Accounts, 1944, Class VII, Vote 1, Houses of Parliament Buildings? This Account contains an item in respect of new expenditure in respect of the rebuilding of the House of Commons, does it not?—(Mr. de Normann.) Yes.

4013. The expenditure was £11,750 out of a grant of £20,500. That, I take it, mainly is in connection with Architect's fees?—Yes. It was mainly payment on account to the Architect. There was a small amount to the Engineers for diversion of pipes. There was a payment for the model and some expenditure on making boreholes.

Chairman.] Are there any questions on this Account?

Mr. Benson.

4014. What progress has been made with the work? I do not mean the actual material?—We have completed, as you are aware, the demolition contract. We started the foundation contract in February. We hope to complete the foundations plus a certain amount of work in connection with the superstructure by November, and we reckon to start the main superstructure contract in November next.

4015. You are ahead of your original time-table?—I would not like to say that, but I do not think we are far behind. We may be three months behind.

Chairman.] Are there any further questions on the Account? May I take it that the Account is approved? (*Agreed.*)

VOTE 2.

MISCELLANEOUS LEGAL BUILDINGS, GREAT BRITAIN.

(On this Account no questions were asked.)

VOTE 3.

OSBORNE.

Chairman.

4016. These premises are used as a convalescent home, are they not?—(Mr. de Normann.) Yes, but during the year of account they were in use as a Ministry of Health Emergency Hospital.

4017. Can you tell me the number of patients for whom accommodation is available?—During the year of account?

4018. Yes?—41 persons was the average number.

4019. What is the accommodation?—60.

Chairman.] Are there any questions on this account?

4020. I should like to ask whether you regard this as an economical proposition? There were 41 persons and the cost was £20,000, which is about £500 per patient. What is the normal cost of running a hospital or convalescent home?—(Sir Percival Robinson.) Osborne, as the Committee

9 May, 1946.]

Sir PERCIVAL ROBINSON, K.C.B.
and Mr. E. N. DE NORMANN, C.B.

[Continued.]

knows, has always been a rather expensive place to run as a convalescent home, because it is not designed as such.

4021. Is that a euphemistic way of calling it a white elephant?—(Sir Gilbert Upcott.) It was a gift. (Sir Percival Robinson.) I have visited Osborne myself, and I feel that it is a little hard to call it a white elephant. It is rather a lovely place, and it has a good deal of romance attached to it of a kind. Certainly, from the point of view of the people who use it, it must be a very nice place to go to.

4022. That may well be, but can you give us any indication as to what Osborne, as a show place and as a park, would cost to run, as compared with running Osborne as a hospital?—Yes. The Appropriation Account gives the figure that the convalescent home expenditure is roughly £18,000. Then we spent £1,400 on the grounds and £473 on the state apartments. So if we stopped running it as a convalescent home it should cost us £18,000 a year less, but I do not think it would.

4023. There is also maintenance?—We do maintenance and that kind of thing. (Sir Gilbert Upcott.) The astonishing thing about Osborne is that although, as Sir Percival says, it is an extremely lovely place and an extraordinary cheap convalescent home, the beneficiaries do not seem to appreciate that. They do not go there.

4024. I gather there were only 60 beds available. Is that the full complement?—(Sir Percival Robinson.) That is the number we estimated would be likely to be there in the year of account, which included of course, a number of Service patients. We expected Service patients under the Emergency Medical Service Scheme, but we did not get them to the same extent as we had expected, and that affected the whole estimate.

Mr. Benson.] I have a feeling, Mr. Chairman, that Osborne has always been an extremely expensive convalescent home or hospital. I wonder if we might have a memorandum, purely from a financial standpoint, as to the cost of running Osborne as a convalescent home, and why it has been so expensive. I do not know whether that can be done.

Chairman.

4025. Could you do that for us, Sir Percival?—The first part, certainly. (Sir Gilbert Upcott.) It has been done, of course. (Sir Percival Robinson.) It has been done on several occasions. When you say that it is expensive, it is not expensive to the convalescents. The charge is very cheap.

4026. No. I was thinking of the Government. The Appropriations in Aid are very small. The figure is £850 out of £21,000 expenditure. Is there any other use to which it could be put?—We have not thought of any, because the present use is the purpose for which it was given.

Mr. Wadsworth.

4027. What was that purpose?—As a convalescent home for ex-members of the Services. Then Civil Servants were added, and also all Colonial Services were included. That was the purpose for which the Sovereign presented the place to the nation, in order that it should be run for that purpose.

Chairman.

4028. It was in the time of King Edward VII?—Yes.

4029. Before that it was a naval institution, was it not, for cadets?—(Sir Gilbert Upcott.) It was Queen Victoria's residence. She died there.

4030. Originally; but I thought there was a time when it was used for naval cadets?—(Sir Percival Robinson.) Not the main building. There was a sort of camp place built at the entrance, which has now been taken down.

Mr. Benson.

4031. Will this come under the Ministry of Health under the new Health Bill?—No, I do not think so. I do not think it counts as a hospital.

Sir John Mellor.

4032. Are the general public admitted to the grounds?—Yes.

4033. Quite freely?—Yes. It is very popular.

Chairman.] Are there any further questions on the Account? May I take it that the Account is approved? (Agreed.)

VOTE 4.

MINISTRY OF WORKS.

VOTE 5.

MISCELLANEOUS WORKS SERVICES.

VOTE 6.

PUBLIC BUILDINGS OVERSEAS.

VOTE 7.

ROYAL PALACES.

(On these Accounts no questions were asked.)

9 May, 1946.]

Sir PERCIVAL ROBINSON, K.C.B.
and Mr. E. N. DE NORMANN, C.B.

[Continued.]

VOTE 8.

ROYAL PARKS AND PLEASURE GARDENS.

Mr. Benson.

4034. May I ask a question on this Account? Does this include Hyde Park?—(Sir Percival Robinson.) Yes.

4035. I see among the Details of Receipts there is nothing that I am able to identify as rent from caterers?—It is under "Licences for the sale of newspapers and refreshments," a figure of £6,000.

4036. Speaking from experience, it strikes me that the service given is extremely bad?—Do you mean in Hyde Park?

4037. In St. James's Park I was thinking of. The service is extraordinarily expensive and extremely bad. I take it you have some responsibility to the public?—Certainly. If I may say so, it comes as a shock to me and I am sure to my colleagues that that should be your view, because we do take, I know, a great deal of trouble to see that those refreshment places are properly run.

4038. Kew is run well?—Kew is not ours, unfortunately. Hampton Court is ours. I have not visited them very often myself. There may be room for improvement, but I should have thought it would be a pity if we got the impression that it is a bad service.

4039. The impression I have is that it is poor, and it certainly could be stepped up.—You will realise that these poor caterers have been having a very bad time in the last few years, because of the falling off of their trade and shortage of staff; like everybody else. I think they have had difficulties; but, if I may say so, we will gladly take note of your comment and have it gone into, because it is a great disappointment to me to hear you say that.

Sir John Mellor.] As Mr. Benson has expressed a view, I should like to express the opposite view. My experience last year in Kensington Gardens was that the catering was done with great efficiency.

Chairman.

4040. I want to ask two questions. In the Details of Receipts on page 325 there is an item: "Receipts from recreational facilities:—Richmond Park golf courses," a figure of £1,000 estimated and a figure of £1,445 realised?—We made a small profit. We made what we call a surplus of £148. That is just under 10 per cent.

4041. A little lower down there is an item: "Sale of produce cultivated in Royal Parks," a figure of about £4,000. What

type of produce is that, and is that profitable?—Yes. On the whole we do well with that business, although they are small amounts. But this year was a bad year, and in the central parks—that is, Hyde Park and so on—the crops grown were various vegetables, potatoes, tomatoes, carrots and so on. Unfortunately, on that particular venture we did badly, because a fly bomb came down in the middle of our greenhouses, where most of the tomatoes were, and did most frightful havoc. I do not know whether you know the frame ground in Hyde Park. That did that crop in. Some of the other crops also suffered from the fly bomb attack, but at Regents Park, where we grew vegetables of various kinds, the excess of receipts over expenditure was £202. At Greenwich, similarly, it was £71. At Hampton Court, on vegetables, £375. These were the figures of excess receipts over expenditure that I am giving. Field crops were grown at Richmond, Bushey and Hampton Court—that is, wheat, rye, barley, etc. Richmond earned, on this very elementary system of accounting, £179, and Bushey and Hampton Court £357. But, of course, it is not so much the money (so long as we do not lose money on it) that matters as the actual production of food.

4042. Parts of Hyde Park were let, were they not, as allotments to be cultivated, to individuals?—Yes. Where there are allotments, they were let to local authorities.

4043. Is Kensington Gardens one of the Royal Park and Pleasures Gardens?—Yes. It is usually included as part of Hyde Park—part of the central parks, for this purpose.

4044. Is it you who have put all the barbed wire up there lately?—The word "lately"—certainly not. No, we have just finished what we hoped would clean them up a bit, with the help of German prisoners and so on.

4045. The War Office is the responsible Department?—They are putting up the barbed wire for their camps, yes.

4046. You will recover some damages from them at the end of it?—There are no interdepartmental payments, I think, are there, Sir Herbert? (Sir Herbert Brittain.) No.

Chairman. Are there any further questions on the Account? May I take it that the Account is approved? (Agreed.)

9 May, 1946.]

Sir PERCIVAL ROBINSON, K.C.B.
and Mr. E. N. DE NORMANN, C.B.

[Continued.]

VOTE 12.

WORKS AND BUILDINGS IN IRELAND.

Chairman.
4047. These, I think, are mainly
Ministry of Pensions hospitals?—(Sir
Percival Robinson.) That sort of thing.
Chairman. Are there any questions on

this Account? May I take it that the
Account is approved. (Agreed.)
Chairman. That concludes your evi-
dence, I think. Thank you, Sir
Percival.

(The Witnesses withdrew.)

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

TUESDAY, 14TH MAY, 1946.

Members present:

MR. PEAKE in the Chair.

Mr. Benson.
Mr. Cuthbert.
Mr. Douglas.
Mr. Haworth.
Mr. Hector Hughes.

Sir John Mellor.
Mr. Thurtle.
Mr. Wadsworth.
Mr. Williamson.

Sir GILBERT UPCOTT, K.C.B., Mr. D. F. C. BLUNT and Mr. C. E. I. JONES,
called in and examined.

NAVY APPROPRIATION ACCOUNT, 1944.

Sir HENRY V. MARKHAM, K.C.B., M.C., Mr. C. B. COXWELL, C.B., O.B.E., and
Mr. E. C. JUBB, C.B., O.B.E., called in and examined.

Chairman.

4048. I am sorry we could not complete
your accounts on the last occasion, Sir
Henry. I hope we shall not be very long
this afternoon. The Treasury Minute on
paragraphs 9 to 11 of the Report of the
Committee of Public Accounts, 1945, is the
first item on our agenda. That relates to
paragraph 17 of the Report of the Comptroller
and Auditor General on the Navy
Appropriation Account, and we will there-
fore take the Treasury Minute when we
reach that paragraph. On the last occasion
we had got to the end of paragraph 14 of
the Report of the Comptroller and Auditor
General on the Navy Appropriation
Account. We start to-day at paragraph 15
on page vii. Sir Henry, in this paragraph
the Comptroller and Auditor General states:
"In paragraph 22 of my last Report I
mentioned a case where a contractor's use of
higher proportions of expensive alloying
elements and a process requiring a heavier
ingot had resulted in considerably higher
costs for forgings than those incurred by
other contractors." I do not know whether
you would like to take it out of the Minutes,
but I think the Committee would be
interested to hear the name of the firm?—
(Sir Henry Markham.) [Name given.]

4049. Can you give us any details regard-
ing the extent to which the costs were
higher in their case than in the other cases?
—Yes. The difference was £86 per unit.

4050. What sort of proportion of the cost
would that represent?—I am very sorry:
that is rather an obvious point, but I have
not got it at the moment.

4051. It occurred to me that £86 might
be a small percentage on a very high figure,
or a high percentage on a very low figure?—
(Sir Gilbert Upcott.) The difference is
between £271 and £184. (Sir Henry Mark-
ham.) Thank you very much. The con-
stituent parts of that excess were about a
quarter due to the larger ingot mould which
the firm agreed to reduce; they cut down
the size of the ingot mould, and that is
covered. About 50 per cent. of the
difference was due to the lay-out of the
establishment—and here it is fair to point
out that the firm had in mind an im-
proved lay-out before the war which could
not be carried out because war broke out,
whereas their competitors had improved
their lay-out in 1935. That made a con-
siderable difference in cost. The firm are
now carrying out the improved lay-out
which will cover 50 per cent. of the

14 May, 1946.]

Sir HENRY V. MARKHAM, K.C.B., M.C., [Continued.
Mr. C. B. COXWELL, C.B., O.B.E., and Mr. E. C. JUBB, C.B., O.B.E.

difference. The remaining 25 per cent. of the difference was due to the larger use of vanadium in the compound. There, of course, one has to take into account that the use of this higher alloy has resulted in fewer rejections at initial inspection as far as this firm are concerned. There is a certain difficulty, obviously, in our insisting upon their adopting some other composition. We should certainly be incurring at any rate a moral obligation towards them in the matter of risk. I think all I can say about that is that in that remaining part of the difference we shall take account of the difference in cost between the two firms, both in allocating work and in agreeing prices with them.

4052. This was a case of a firm pursuing, if not an old-fashioned method, a rather conservative method of manufacture. Is that it?—Their lay-out, of course, was an old-fashioned method, and that they are improving now. The use of the particular mixture I should hesitate to call necessarily conservative. This is their own form which they regard as the proper mixture to use for this work, and, as I said, they do get a smaller proportion of rejections than their competitors.

4053. In paragraph 16 I see that you have informed the Comptroller and Auditor General: "that, subject to avoidance of breach of trust and to the protection which in peace-time may attach at law to particular methods and processes designed by individual contractors, it is the duty of technical costs officers to secure that the most efficient technique practicable is employed by contractors on Admiralty work." That involves their requesting the contractors to modernise their processes?—In many cases it would do so. The Principal Technical Costs Officer, or one of his officers, would visit the firm, examine the process, and advise on what they ought to do, and also advise the Director of Contracts what is a reasonable prime cost for the process.

4054. In the final sub-paragraph of paragraph 16 the Comptroller and Auditor General says: "The Admiralty have not, it seems, introduced the systematic use of efficiency returns and comparative costs on the lines adopted by the Ministry of Supply." and then there is a reference to a paragraph in the Second Report of this Committee of 1944. Do you agree with that statement as a statement of fact?—The statement of fact is true. There is one small reservation, and that is that in the case of our agency factories during the war, which correspond very largely to the field in which the Ministry of Supply have used this method, returns of this kind, which were used in the consideration of production efficiency and costs at Headquarters, were made. Conferences were held from time to time. We got these returns half-yearly. I think it is fair to say that this method

is probably much more suited to the problem which the Ministry of Supply have to face. They used it over the relatively limited categories of ammunition and explosives. There they had a very wide field and a very large number of firms, mostly their own agency factories, whose costs were easily comparable, and who were all under their control. I think that the extent to which they were able to use this in the general contract field was very limited. Our problem was rather different. We had a smaller field and a greater variety of things to deal with. There is less opportunity of getting an exact comparison of processes, but so far as the agency factories were concerned, they were all placed under the production control, as it were, or examination, of the Principal Technical Costs Officer, who is an officer of the Ministry of Supply, incidentally, and it is our view very strongly that we got quite as efficient a control and do get quite as efficient a control by that method as by the other one.

4055. Sir Gilbert, have you any observation to make on these two paragraphs?—(Sir Gilbert Upcott.) I do not think I can add to what I said. The Committee mentioned in the last sub-paragraph did consider rather fully the Ministry of Supply's methods, which were systematic, which were based on systematic efficiency returns and the use of them by production branches, and the application of information derived by means of visits of production engineers to firms' works. The Committee were very well satisfied with the Ministry of Supply's Account of their procedure, and they said in 1944 that they welcomed the increasing attention now being given to efficiency questions and the close collaboration between the financial and production branches. However, the Admiralty have very different methods, and it is rather difficult for me to say whether, in the practical application, they are as effective or not.

4056. The general impression I have gained, Sir Henry (I do not know whether it is a fair one or not) is that until recently you have rather left the technical questions to the contractors and have not yourselves taken a great part in that direction?—(Sir Henry Markham.) I should not like that impression to remain, because that really would not accord with facts. I think your reference to efficiency probably arises from what I was saying the other day about shipbuilding firms. Here the area under consideration is the general area of engineering, and there (I think Mr. Jubb will correct me if I am wrong) we have always made an extensive use of the Principal Technical Costs Officer who has, I believe, about 400 production engineers working under him; who works for us over a considerable field and, by the operation of those people, does get just precisely that

14 May, 1946.] Sir HENRY V. MARKHAM, K.C.B., M.C., [Continued.
Mr. C. B. COXWELL, C.B., O.B.E., and Mr. E. C. JUBB, C.B., O.B.E.

co-ordination of method between firms and that close co-operation with the contract departments to which it is the Comptroller and Auditor General's desire to draw the Committee's attention. Certainly, this matter of production efficiency has been with us for many years before the war, and, of course, it is bound to be a matter to which we pay considerable attention, because we infinitely prefer fixed prices to any other form of contract. (Sir Gilbert Upcott.) I should make it clear (I did not quite catch what Sir Henry said) that there is no ground for supposing that the Ministry of Supply methods are limited to agency factories. The Ministry of Supply methods are applicable to their contracts generally. In fact, it is stated in the Committee's Report of 1944 that the Ministry have instituted group systems amongst contractors by which contractors manufacturing the same store exchange information about their methods of manufacture. The Ministry of Supply method is not confined to agency factories, by any means. (Sir Henry Markham.) The group system is rather a different method. We certainly use the group system, but I imagine that with the change in the state of affairs, having no longer war conditions, the group method is much less likely to be operative. (Mr. Jubb.) I think the feature of the Admiralty system is that the Principal Technical Costs Officer exercises his efficiency control during the course of the order, whereas the Ministry of Supply rather exercise their control when the actual costs are known after the event. As Sir Henry has said, the Principal Technical Costs Officer has a staff of about 400, who are employed on this technical costing, and part of their instructions is to watch the question of efficiency.

4057. I gather from what you said that you regard the case of this firm as a rather unusual one, Sir Henry?—(Sir Henry Markham.) I think there the Principal Technical Costs Officer got all that he could have done, and certainly quite as much as any method used by any other Government Department would have got. The Principal Technical Costs Officer was working on this problem as early as 1943, and it was then, I think, that they first began to try to meet us over the matter of the ingot mould. Over the lay-out, of course, they could not meet us at that stage, and not until 1945 could they consider it, because they could only have improved their lay-out by reducing production, which was not a matter we could face any more than they could during the war. (Sir Gilbert Upcott.) I am sorry to be captious, but I am afraid I must demur to Mr. Jubb's suggestion that the Ministry of Supply methods were based mainly on costing after the event. They quite definitely told the Committee that it was carried out by production officers during the process of production. In fact they gave a rather par-

ticular example, in which a gun platform was redesigned and the cost brought down from £800 to under £100 during the process of production. I do not think they would accept the theory at all that it waited until after the costs were ascertained and the production was completed.

Chairman.] Has any Member of the Committee any questions to ask on paragraphs 15 and 16?

Mr. Douglas.

4058. What number of units of this forging were you purchasing?—(Sir Henry Markham.) I am afraid I have not that information, but I could supply it to the Committee.*

4059. Was it hundreds, thousands or millions?—(Mr. Jubb.) Not millions. I should say hundreds.

Chairman.

4060. They were gun forgings, were they not?—Yes.

4061. For naval guns?—(Sir Henry Markham.) For 4-inch naval guns.

Mr. Douglas.

4062. You referred to the reduction in the percentage of rejections. What was the percentage in the case of other firms and what was it in the case of this firm?—There, again, I think I shall have to get the figures for the Committee.*

4063. Without the figures we have not the faintest idea of what it really amounts to in terms of cost, have we?—(Mr. Jubb.) The figure in the case of this firm, speaking from memory, was about 2 per cent.

4064. Rejections?—Yes, speaking from memory.

4065. Unless we know what the percentage was in the other cases we cannot compare what the degree of saving was, can we?—(Sir Gilbert Upcott.) In that particular case which I asked the question about the amount at stake is about £100,000—the difference in these two prices. That relates to the particular case which I asked about.

4066. Does not this generally indicate, Sir Henry, the need for much closer arrangement, if not a common arrangement, between all the purchasing Departments?—(Sir Henry Markham.) I am not quite clear how the common arrangements would have achieved the object in the case of this firm. During the war, as I have indicated, they could not alter their lay-out, which accounted for about 50 per cent. of the difference; otherwise we should have had reduced production. If we could have given up production at this firm and concentrated on their competitors altogether, then, admittedly, we should have made a saving. We should doubtless have been glad to do so, but we had to use their production as well as the other people's.

* See Appendix No. 9.

14 May, 1946.] Sir HENRY V. MARKHAM, K.C.B., M.C., [Continued.
Mr. C. B. COXWELL, C.B., O.B.E., and Mr. E. C. JUBB, C.B., O.B.E.

4067. They were not your contractors prior to the war?—Yes, they were, but I do not know whether they were on this item? (Mr. Jubb.) They were on gun forgings. We had to use both.

4068. Even prior to the war?—Even prior to the war, because we had to keep two sources of supply going.

4069. You have not any effective weapon in that, if that still remains the position, to get the prices of these reduced.—(Sir Henry Markham.) They are already reduced by 75 per cent. They have met us on the ingots, which is 25 per cent. of the difference, and they are meeting us on the lay-out, which is 50 per cent. of the difference. The only thing left now is the vanadium which accounts for 25 per cent.

Mr. Benson.

4070. I am not quite clear about the technical process. The firm forged the ingot for you for the 4-inch gun?—Yes.

4071. And then you transferred the ingot to the firm that manufactured the gun from the ingot?—(Mr. Jubb.) No. They made the complete gun.

4072. What was the difference in cost per gun between this firm and your other source of supply? What was the cost of a gun barrel—or did you buy the whole gun, the mountings and everything?—We should buy the gun separately from the mountings, and sometimes we should buy forgings separately from the gun.

4073. What was the cost of this firm's 4-inch gun?—I could not say off hand.

4074. Did you buy from only two sources?—Those particular guns, yes.

4075. From this firm and who else?—[Name given]. They obtained their forgings from [Name given].

4076. The other firm did?—Yes.

4077. Did you supply them with the forgings, or did they buy the forgings and then supply you with the gun?—They bought the forgings from [Name given].

4078. You do not know the relative cost of these two guns?—I have not the relative cost with me. I could supply that.*

4079. If you would. You say you were buying these guns from the same two firms prior to the war?—Yes.

4080. Was there a difference in price then?—Not a very striking one. The first named firm were apt to be a little above the others but not to a great extent.

4081. Did it ever occur to you to inquire of that firm why they were above the other?—I do not think the difference was greater than one would expect, having regard to the difference in the quantities that they received.

* See Appendix No. 9.

4082. Is the vanadium ingot any better, from a military point of view? Does it stand up better to use?—I should think it gives, or tends to give, a higher standard of quality, yes, but that is rather a technical question.

4083. Surely, that would be one of the points into which the Admiralty would inquire very closely?—The actual composition in that respect is left to the contractor. He has to meet certain tests.

4084. Including the test of wear?—Including the firing tests that the gun has to pass before it is accepted.

4085. You were ordering in thousands. Can you give us any idea of the order of difference between these two firms in cost, roughly what did the gun barrel cost? I do not want to tie you down to £50. Was it £1,000 or £500?—The 4-inch gun? £800 to £1,000, off hand, I should have said.

4086. What was the approximate difference between the two—10 per cent., 20 per cent. or 30 per cent.?—I should think about 20 per cent., but I should like to verify that figure. I have not the figures with me.

4087. I wanted just to get the order of the thing?—It was substantial.

4088. But that did not apply to before the war?—No, not to that extent.

4089. With regard to your method of costing, I am not quite sure whether I understood Sir Henry when he said that you ordered a larger range of materials than the Ministry of Supply?—(Sir Henry Markham): What I endeavoured to convey was that we used this method of technical costing over a wider field of article. We had a more diverse field. It is not so large an area as that of the Ministry of Supply, but, as I said earlier on, to the best of my knowledge the Ministry of Supply used their methods over one area—a large one, admittedly, but homogeneous—ammunition and explosives. We used the technical costs over all electrical gear, machinery, armaments, and various other stores.

4090. In your costs and in your relationship with your contractors, were you continuously comparing the relative prices of the different contractors?—(Mr. Jubb.) That is one thing we regularly do before we fix a price with the contractor. We see what we are paying to other contractors for the same item.

4091. Having done that, do you then go and find out why the one contractor is more expensive than the other?—Sometimes we should, but usually we regard that as the function of the Principal Technical Costs Officer when he furnishes an estimate of cost at the particular contractor's works. He visits the works.

14 May, 1946.]

Sir HENRY V. MARKHAM, K.C.B., M.C., [Continued.
Mr. C. B. COXWELL, C.B., O.B.E., and Mr. E. C. JUBB, C.B., O.B.E.

4092. Merely to do that means that you can limit, to some extent, the profits of a contractor?—No. The Principal Technical Costs Officer goes far beyond that. If he sees that the lay-out or the operations proposed are not what he regards as efficient, he would tackle the contractor on that point, as part of his regular job.

4093. Does that apply also to shipbuilding?—No.

4094. The only prices that we have details of are the ships, and there there was an extraordinary spread for the same type of ship?—Yes, but he does not function in the area of shipbuilding.

4095. I was wondering what your general policy was. Here on these 4-inch guns you had a 20 per cent. spread between two firms?—He functions there and did induce the firm to alter their methods to some extent.

4096. Is that your general policy, to try to step up the efficiency of an individual firm and make it toe the line with the most efficient in that particular branch?—It is definitely part of the duty of the Principal Technical Costs Officer.

Mr. Hector Hughes.

4097. I should like to ask a few questions about the last sub-paragraph of paragraph 16: "The Admiralty have not, it seems, introduced the systematic use of efficiency returns and comparative costs on the lines adopted by the Ministry of Supply." I think you said, Sir Henry, that the system in use in the Admiralty is as efficient as that used by the Ministry of Supply?—(Sir Henry Markham.) Yes.

4098. Why, then, is it worth making the comment as to the difference between them?—I have not made any comment.

4099. The comment is in that paragraph.—Doubtless the Comptroller and Auditor General would answer that question.

4100. Is that your opinion, that one is as good as the other?—I should certainly say that. I might even say that this is better, but perhaps that would not be quite fair. Certainly we do hold the view that this is as good as the system in force in the Ministry of Supply.

4101. It is of extreme importance to have the best possible system, is it not?—It is vital. It is particularly vital when you are trying to work as we always do on fixed prices, rather than on maximum prices, subject to costing, or whatever it may be. It is absolutely vital.

4102. You are clearly of opinion that the system that you use is better suited to the Admiralty work than the system used by the Ministry of Supply would be to Admiralty work?—That is our opinion.

Mr. Douglas.

4103. Might I just put this question? It is an inference from what has been said which I think might be better put expressly, namely, that the pre-war price which you were paying to the second named firm for these forgings was too high in relation to their costs?—(Mr. Jubb.) We had no reason to think that. We checked the prices of this firm before the war by the same methods as we adopt now; that is, by using the Principal Technical Costs Officer on prime costs and our Principal Accountant on overheads.

4104. Has there been an improvement in their efficiency as compared with the efficiency of the firm first named?—(Sir Henry Markham.) There is, in so far as their layout was improved in 1935 or 1936, which put them in a position of advantage as compared with the other firm, and accounts for quite a considerable part of the difference.

4105. Then there should have been a relative reduction in their price on that account. Has that been verified?—(Mr. Jubb.) You are asking me to go back to pre-war prices. All I can say is that those prices were carefully vetted every time by the same methods as we adopt now.

Mr. Douglas.] That is exactly why I am asking the question.

Mr. Hector Hughes.] May I ask Sir Gilbert a question?

Chairman.] Yes.

Mr. Hector Hughes.

4106. Why did you think it worth making this comment in the last sub-paragraph of paragraph 16?—(Sir Gilbert Upcott.) Why did I think it worth making this comment?

4107. Yes.—Because from the particulars I received from the Admiralty it appeared to me that they had not a systematic system.

4108. Do you not take the same view as the witness takes, that the system used by the Admiralty is more suitable for Admiralty work than the system in use at the Ministry of Supply?—I do not think I can venture an opinion on that. That is for the Committee and the Admiralty.

4109. I am at a loss to know why the comment is made as to the comparison between the two systems.—Because the Committee had ascertained and welcomed the system which the Ministry of Supply explained to them two years ago, and because I had ascertained that there did not appear to be a similar system in the Admiralty.

Chairman.] Are there any further questions on paragraph 16?

14 May, 1946.] Sir HENRY V. MARKHAM, K.C.B., M.C., [Continued.
Mr. C. B. COXWELL, C.B., O.B.E., and Mr. E. C. JUBB, C.B., O.B.E.

TREASURY MINUTE ON PARAGRAPHS 9 TO 11 OF THE REPORT OF THE
COMMITTEE OF PUBLIC ACCOUNTS, 1945.

NAVY APPROPRIATION ACCOUNT. 1944.

Chairman.

4110. We pass now to paragraph 17 of the Report of the Comptroller and Auditor General on the Navy Appropriation Account, and we take with that the Treasury Minute which is mentioned at the head of our agenda. The Committee are getting very familiar with this question of the control of sub-contractors' prices. The First Report of 1945 had three paragraphs dealing with this question of sub-contractors' prices in relation to the Admiralty. The Treasury Minute contains a letter to the Secretary of the Admiralty, and finishes by saying: "Their Lordships will be glad to receive a report from the Lords Commissioners of the Admiralty showing the progress made in this matter before the end of the present financial year." That report has been made?—(Sir Henry Markham.) That has been made to the Treasury.

4111. I take it the information contained in it is the same as the information contained in this paragraph?—Yes.

4112. Although possibly in a fuller form?—Yes. It was quite a big report to the Treasury.

4113. Paragraph 17 of the Comptroller and Auditor General's Report tells us that out of nearly 6,000 firms brought within the field of survey, the trading results of 504 firms, employing capital of £50,000 or more, showed average profits of 25 per cent. on the total capital employed, or 13 per cent. on the cost of sales. I take it those figures—in fact it says so in terms—are the average results are they not?—They are the average results.

4114. Of the 504 firms. Are these the average results of the only firms whose results were examined, or are these a selected portion of the 6,000 firms?—It is the results of those 504. (Mr. Jubb.) Yes.

4115. Those were all that had been examined to that date?—1,255 had been handed over to other Departments, who were more interested than the Admiralty were, because their proportion of sub-contracts was greater than ours.

4116. The point I am trying to get at is this: Do you accept that the 504 firms would be a fair sample of the 6,000?—Not necessarily, no, because of the 6,000, about 1,700 cases were not pursued as, for various reasons, we did not think there was anything to be gained by pursuing them.

4117. Were the 504 selected because you thought their profits would show a high figure?—No. Those 504 cases were cases where we had had the profits and the turnover and the capital employed, and which

we were pursuing because we thought there was a chance of getting a rebate. (Sir Gilbert Upcott.) They were all large firms, of course. The emphasis is on the large firms of over £50,000 capital.

4118. They were selected because they were the largest?—(Mr. Jubb.) Out of the 504, there were 387 employing £50,000 capital and over.

4119. The Comptroller and Auditor General states that all the 504 firms were employing capital of £50,000 or more?—Yes, I beg your pardon. The whole 504 were.

4120. It appears the firms were selected because they were the larger firms in the sub-contracting area?—Yes.

4121. They showed an average profit of 25 per cent. on the capital employed. That being the average, can you tell the Committee what was the highest individual percentage of capital employed?—No, I have not that figure without looking through the whole of the 504 cases.

4122. Have you sub-divided the 504 firms into groups making between the particular range of profit?—No. We sub-divided those firms into those who earned over 15 per cent. on capital and those who earned under 15 per cent. on capital. There were 387 firms who had earned over 15 per cent. on capital, and 117 who had earned under 15 per cent. on capital.

4123. You cannot say how many firms were making over 50 per cent. on capital?—Not without going through the whole of the 500 cases. (Sir Henry Markham.) I think perhaps it is fair to mention, with regard to that average, that it is exceedingly difficult to get a true picture from an average of that kind, because it has to be borne in mind that the profits on capital not only include the work which the firms are doing for private contract, but also work which they are doing for other Government Departments, and that is why I felt that in a sense I had not made the position sufficiently clear to the Committee last year. I felt rather a stab of self-reproach about it, when they referred to Admiralty sub-contractors, because these are not by any means Admiralty sub-contractors in the sense that this is all Admiralty work. The Admiralty takes charge of their accounting business, because they are the major user of that sub-contractor, but there may be quite a lot of work for other Government Departments as well as for private contractors. (Sir Gilbert Upcott.) I have an analysis which goes a little further than the Admiralty analysis. Subject to correction, I make out that 170 odd

14 May, 1946.] Sir HENRY V. MARKHAM, K.C.B., M.C., [Continued.
Mr. C. B. COXWELL, C.B., O.B.E., and Mr. E. C. JUBB, C.B., O.B.E.]

firms made over 30 per cent. and of those 65 made over 50 per cent. on their capital. That is subject also to the qualification which Sir Henry has just mentioned.

4124. As a result of investigations in the case of these and other firms, you obtained rebates up to the end of December last, totalling just under £2,500,000, from 113 firms, and offers totalling £250,000 from 19 firms were under consideration. Have you more up-to-date figures now on those refunds?—(Mr. Jubb.) Yes. Up to the 23rd April about £3,250,000 had been obtained and further offers were under consideration of about £750,000. (Sir Gilbert Upcott.) To make the story quite clear, it should be understood that the classification of the rates of profit are prior to those rebates.

4125. Those rebates are small in total, compared with the amount of contracts concerned. Have you the amount of the contracts?—(Mr. Jubb.) No, because we have only the total of their trading, which of course includes direct Government contracts and commercial contracts.

Chairman.] Are there any questions on paragraph 17?

Mr. Thurtle.

4126. It has come out in the course of the questions that a certain number of these firms have been making over 50 per cent. profit. I wondered why, instead of the statement that it was an average of 13 per cent., it was not made clear in the comment that there were cases of profit exceeding 50 per cent., which would be a rather striking fact?—(Sir Gilbert Upcott.) I think perhaps you have confused the 13 per cent. The 13 per cent. is on the cost of sales. The profits mentioned are on employed capital.

Mr. Thurtle.] I did not hear that.

Mr. Douglas.

4127. Could you say what is the total capital employed by the 504 firms which were investigated?—(Mr. Jubb.) About £291,000,000.

4128. And by the others which have not been investigated?—That relates to the 504.

4129. Let me put it in more general terms. Do you know anything about the amount of capital employed by the remainder? You must have known something, because you have chosen those which have more than £50,000. Therefore you had prior knowledge about it of some kind or other?—I have not the figure for firms with capital under £50,000.

4130. What I want to get quite simply is what is the field which you have not investigated?—The number of firms whom we are investigating is nearly 3,000.

4131. You have gone far beyond the 504?—Yes. (Sir Henry Markham.) Yes, far beyond.

4132. Now, with regard to the rebates, are these in respect of only Admiralty contracts, or do they relate to all the Government contracts of the firms in question?—(Mr. Jubb.) Generally speaking, all the Government sub-contracts.

4133. So that in these cases you have been acting for the other Departments concerned?—Yes.

4134. There is another field in which some other Department has been obtaining rebates, part of which relate to transactions connected with the Admiralty?—Yes.

Mr. Benson.

4135. I believe that in certain Government Departments their contracts include a clause to the direct contractor that sub-contractors' contracts shall be subject to investigation. Do you include that clause in your contracts?—In a great number of contracts. That is, it relates to substantial sub-contracts or major sub-contracts.

4136. Here you have firms who have made £72,000,000 profit. There must have been some very substantial contracts there?—That £72,000,000 relates to the whole field, including commercial contracts as well.

4137. Yes, but I think Sir Henry said that you were the major contractor?—(Sir Henry Markham.) Of the Government Departments concerned.

4138. We know that the Government took a very, very large percentage of engineering output during the war. Their percentage of private contracts must have been very small?—I think some of them were quite high. Mr. Jubb quoted a case to me the other day. Do you remember that one? (Mr. Jubb.) Yes. (Sir Henry Markham.) Could you quote that one? (Mr. Jubb.) We had one case where a firm showed about 14 per cent. on cost, which represented 35 per cent. on employed capital, and in order to show that they were not getting an unreasonable rate of profit on the Government work, they ascertained the relative profits on commercial and on Government work, and they were obtaining about 50 per cent. on commercial work and under 5 per cent. on the Government work. So it just shows that when you get a figure like that of 35 per cent. on employed capital or 14 per cent. on cost, it does not follow that those profits have been made on the Government work.

Mr. Douglas.

4139. One swallow does not make a summer?—We have more swallows than that, Mr. Douglas.

Mr. Benson.

4140. What is commercial work? Engineering was so very much monopolised

14 May, 1946.] Sir HENRY V. MARKHAM, K.C.B., M.C., [Continued.
Mr. C. B. COXWELL, C.B., O.B.E., and Mr. E. C. JUBB, C.B., O.B.E.

by the Government or on Government account, directly or indirectly. One knows very well that the vast majority of it was. That may not have applied to an individual firm, but taking 500 firms, the percentage of work that they did for private industry would be a very small percentage?—Not necessarily. Some of them worked even up to I think a figure of 97 per cent. commercial work.

4141. Some, yes. But what is commercial work? The Government was the chief buyer of practically everything, and certainly the chief buyer on the engineering field?—At the same time there was a considerable volume of commercial work going through. (Sir Gilbert Upcott.) I think the Committee wish to get what is precisely meant by commercial work—whether it includes work for the railways, for millers or shipbuilding? (Mr. Jubb.) I should regard those as commercial work. (Sir Gilbert Upcott.) That is what is meant by commercial work, it means that that is Government work, indirectly. (Sir Henry Markham.) But not Government work for which the Admiralty has any responsibility. (Sir Gilbert Upcott.) No, but that is taking perhaps a rather narrow view of the subject. What Mr. Benson is trying to get at is what is the meaning of Government and commercial work respectively?

4142. I cannot believe that firms with £290,000,000 capital and £72,000,000 profit were engaged—one or two may have been—very largely on private work. They must have been engaged a good deal more than 50 per cent. on the average on direct Government work. Yet they made £72,000,000 profit, and I think you say that you got rebates to the tune of something like £3,000,000 or £4,000,000?—(Mr. Jubb.) Yes.

4143. It is not very satisfactory, is it?—I would not agree with that. I think you have to take into consideration the steps that the Admiralty have taken to check prices in the first place. Take the Emergency Repairs Agreement which, after all, covered about £250,000,000 of naval expenditure.

4144. Is that included in this £290,000,000?—No. That is total expenditure under the Emergency Repairs Agreement.

4145. Yes—but what about these particular sub-contractors' prices? Do these involve emergency repairs as well as the direct supply of material?—Yes. Emergency repairs are referred to in the last sub-paragraph.

4146. We are not dealing with that yet. We are dealing with 500 firms who made £72,000,000 profit?—Some of those would be firms who were engaged on repair work which is governed by the Emergency Repairs Agreement.

4147. What is the average profit on direct contracts for the Government on a similar type of work to this? Can you off hand give me that figure?—Do you mean shipbuilding or armaments?

4148. Does this include shipbuilding? I have no idea what these 500 firms were doing?—It would include some shipbuilders, armament firms, and all sorts of firms.

4149. We have a figure here of an average of 25 per cent. on capital employed. Those are indirect contractors. What did your direct contractors get?—No—they were occupied on direct work as well. It is direct work, indirect work, and commercial work.

4150. These are sub-contractors' prices. Do you mean that the same firm would do sub-contract work and direct contract work as well?—Certainly, and their overall trading results cover the whole of that.

4151. So that some of this very high rate of profit may have been on direct contract work as well?—Yes.

4152. It makes it even more unsatisfactory?—It does not follow that it was on Admiralty direct work.

Mr. Wadsworth.

4153. One question in amplification of what Mr. Benson said. I would like an answer to the inquiry as to what, on direct contracts made with the Admiralty by private contractors was the average percentage of profit on, say, both sales and on cost?—The shipbuilding rate of profit we dealt with a fortnight ago. There we had a rate of profit of 6½ per cent. on cost in one year and of 7 per cent. on estimated cost for the following year. The Emergency Repairs Agreement works out at about 4½ per cent. on cost. Then over other fields such as armaments we should aim, as far as possible at a rate of profit which would give somewhere between 7½ per cent. and 15 per cent. on capital employed when we were settling the prices.

4154. The 7 per cent. estimate was a percentage of capital employed in the contract?—No, 7 per cent. was on estimated cost.

Mr. Haworth.

4155. I would like to ask one or two questions. Have you any firms with whom you have been negotiating who have refused to make rebates?—Yes.

4156. What happens in that case? Would you report those to this Committee?—No.

4157. What would you do?—I should do my best to get a rebate, and if I could not succeed, and had no legal claim to a rebate, I should have no alternative but to drop it. Where I have any costing rights, I pursue them.

4158. That does not seem to me to be very satisfactory. I think some further steps ought to be taken?—(Sir Henry

14 May, 1946.] Sir HENRY V. MARKHAM, K.C.B., M.C., [Continued.
Mr. C. B. COXWELL, C.B., O.B.E., and Mr. E. C. JUBB, C.B., O.B.E.

Markham.) I think it must be borne in mind that we have not in this war had the power which existed in the last war of reopening sub-contractors' fixed prices. These are rebates on overall trading. We cannot have any contractual rights, obviously, there. These are not rebates on particular contracts where there might be residual contractual rights. This must be by favour of the contractor, and the other Supply Departments are in precisely the same position in this matter.

4159. Would the question of future contracts come into it if a firm refused to be reasonable? Would that be taken into account in placing subsequent contracts?—It certainly would, and of course also in fixing the prices. That is one of the side advantages, as it were, that one can get out of this, and that is, the information obtained can be used for future contracts. As a matter of fact, perhaps it might not be inappropriate at this moment, Mr. Chairman, to say that during the course of the year we took the opportunity of appointing a Committee to examine the whole of this question of sub-contractors' prices, and we got the assistance of an outside accountant of eminence to help us. What we really felt about the whole of this business was that although these rebates of sub-contractors' overall trading were all very well, they were not a control of prices, because they do not control the costs. They really operate very much like excess profits tax. We did feel that this is a secondary control, and what we really want to do is to improve the primary control of sub-contractors' costs. That is particularly what we had in mind when we appointed this Committee, because we also recognised that with the diminution and disappearance of excess profits tax we could assume that we should not find the readiness in sub-contractors that we found in the past to negotiate these things or to make rebates on overall trading. We shall take steps to improve, so far as we can, what I call the primary control of sub-contractors' prices, though we shall obviously pursue this secondary method for as long as it can be carried out, but the sort of measures that we have in mind is that in large warship sub-contracts the main contractor could incorporate a clause which would provide for the submission after the completion of the work of a certified statement of cost. This is parallel to what we are doing over ship main contracts. This would give us the information necessary for ensuring that in the next contract placed or the next sub-contract with the sub-contractor for the same kind of work we should have, as it were, a china egg for judging what would be a fair price, and as we have already arranged with the shipbuilders that they shall submit their tenders in detail and split up between the prime cost, overheads,

and so on, we can exercise quite a good check there. Another point is that in other substantial sub-contracts we hope to make it obligatory on the main contractor to embody a clause giving the Admiralty the right to satisfy itself that the price to be paid is reasonable. We shall also extend—we have done quite a lot of it already, but we shall extend further—the practice of checking sub-contractors by technical costings which we have been referring to in another connection. By such means as that we do hope to improve the primary control of sub-contractors' prices, which will be of enormous value when this secondary control virtually comes to an end, as one fears that it may very soon.

4160. It is to prevent the need for rebates at all?—Exactly.

4161. With regard to these 504 firms, is this a spot check, or is it merely the first instalment of the checking of the whole 5,910 firms mentioned?—(Mr. Jubb.) It is the first instalment of checking large firms. Out of the 5,900 we have already handed over 1,255 to other Departments. We have also scrutinised 1,700 odd and found that there is no case for pursuing those.

4162. So that it is intended either to scrutinise them yourselves or to have another Department to scrutinise every one of these firms eventually, is it?—Yes.

4163. It will be done before the Treasury come in with excess profits tax, will it?—If we get any rebate that reduces their profit; and it is only the net figure that counts for excess profits tax. Excess profits tax comes in after that.

4164. Arising from previous inquiries we made, I think it was understood that if the excess profits were paid over you would cease to worry about anything. You cease to negotiate for rebates.—If excess profits tax had been finally settled?

4165. Yes. There is not any danger, if I may put it that way, that excess profits tax will be paid before you finish your inquiries?—Sometimes it has been, but it would not necessarily follow that we should not pursue our case and get a rebate. (Mr. Blunt.) There was an escape clause for bad cases. We only said normally it would not be pursued if excess profits tax had been settled.

Mr. Cuthbert.

4166. Following on what has been said by Sir Henry, am I right in thinking that as far as the Admiralty's contracts are concerned, really what it amounts to is that you are getting the rebate back through this system of investigation now, which really amounts to this, that instead of paying excess profits tax, they are paying you the rebate?—(Sir Henry Markham.) That is what it comes to.

14 May, 1946.] Sir HENRY V. MARKHAM, K.C.B., M.C., [Continued.
Mr. C. B. COXWELL, C.B., O.B.E., and Mr. E. C. JUBB, C.B., O.B.E.

4167. So that the Admiralty are getting the money that really would go in excess profits tax. If you get it excess profits tax is less.—That is so. (Sir *Gilbert Upcott.*) That is subject to an important qualification. The first thing is the question of standard. That may make a good deal of difference. Secondly, of course, the rebates do not carry the refund.

Mr. *Benson.*

4168. Is there not also another very important point, namely, that to obtain a rebate is a very inadequate substitute for close estimating and close contracting.—(Sir *Henry Markham.*) We would agree with that wholeheartedly. That is a point I feel very strongly about.

Mr. *Cuthbert.*] I was going to ask that question but Sir Henry has already dealt with that. He has an organisation which will follow this up.

Mr. *Douglas.*

4169. This Committee has laid down, of course, that recovery by means of excess profits tax is not a thing to be taken into account in any way.—(Sir *Henry Markham.*) We do not, of course, take it into account.

Chairman.

4170. I think it was Mr. Jubb who said he could not give us the figure of the highest profit on capital employed without going through a long tabulated list. Is that right, Mr. Jubb?—(Mr. *Jubb.*) Yes.

4171. Sir Gilbert told us 67 firms had made over 50 per cent.—(Sir *Gilbert Upcott.*) 65 according to my figures. I cannot give you any details. It is only a general figure.

4172. Would you accept that there must have been some firms making over 75 per cent.?—(Mr. *Jubb.*) Yes, that is possible.

4173. May I ask the Treasury whether they have any observations to make on what we have been discussing?—(Mr. *Blunt.*) No, I do not think we have anything special to say. We asked for this report, not that we ourselves intended to investigate what the Admiralty were doing, but rather to get a progress report and to see that the picture was being presented for this Committee. We have had these details, and they do give the same sort of picture which Sir Henry Markham and Mr. Jubb have given. There is a good deal, obviously, yet to be done. Sir Henry Markham has described how he proposes to deal with the future by means of his Committee, and I ought perhaps to say, too, that the Contracts Co-ordinating Committee have given a certain amount of consideration to this question. We came to no conclusion at that time (this was about December of last year) except that we thought we ought to look at it again in about a year's time from then, when we see what the shape of the contract world is going to be. I

think we must look at it again and see what the future arrangements are going to be. Meanwhile, these arrangements which have been described are being carried on by Departments, and they will yield further refunds, no doubt, but I expect, as Sir Henry says, that those refunds will be likely to diminish as excess profits tax is being affected. I would like also to say this. I do not know whether I am right in this, but I should have thought that the object of using these overall results to determine future prices was rather more than one of the primary objects of this thing. It was not primarily set up, I think, in order to get refunds. I think it was primarily set up so that they would point their finger at the items which required to be looked after, both for future prices and for those which had a costing clause, which gave the Admiralty or any Department a contractual right to go in and cost. This was a very useful pointer. The voluntary refund part was, I think, a very useful thing, but it was rather a secondary affair. I do not think one ought to look at this procedure as determined entirely or even mainly for the purpose of getting voluntary refunds. Those refunds are voluntary. If a firm prefers not to make them, that is an end of the matter. Nobody has any powers to cause them to make them. You can bring pressure to bear in an extreme case. A Minister can see the head of the firm and do what he can, but there is no law by which you can extract this money.

4174. Certain firms have in the past made refunds from sheer apprehension of the Public Accounts Committee?—Certainly. I think what this Committee has done has had a very great effect that way. Certainly, I would entirely agree with that.

4175. Possibly the prospect of the Admiralty obtaining further refunds would be enhanced if the Public Accounts Committee drew attention to these facts in their Report?—Yes. I am not saying for a moment that that is not useful. All I was really saying was that this is one of the results of the overall review, but it was not, I think, the main purpose of the overall review. The main purpose was to establish the position of certain firms who were in the main sub-contractors, and therefore not in direct relation with the Contract Department. It provided a very easy way of showing what their overall results were, and, therefore, whether they were firms which ought to be followed up, and in the main followed up to see that their prices in future were right. That is the point I want to make.

4176. Sir Gilbert, I do not know whether your officers have been through the more glaring cases of high rates of profits in any detail, but you remember that quite recently the Committee went very carefully into a case where the profit on employed capital turned out to be somewhere about

14 May, 1946.] Sir HENRY V. MARKHAM, K.C.B., M.C., [Continued.
Mr. C. B. COXWELL, C.B., O.B.E., and Mr. E. C. JUBB, C.B., O.B.E.

70 or 75 per cent., and there may be cases here just as bad as that case and on just as large a scale?—(Sir *Gilbert Upcott*.) Yes. That case was not raised specifically because there was a high rate of profit, but because the firm was intransigent and refused to make a price agreement with the Ministry, and had to be subjected to a price direction. The ground on which I mentioned that case was on the ground of the price direction.

4177. You think if there had been any cases which stood in the same position as the one I am referring to, we should have had our attention drawn to the individual case?—If I had found any case in which a firm refused to make a settlement which the Admiralty were prepared to agree to, I should have reported it

Mr. Benson.] On that point, did not that firm come before us as the result of the action of the Department? It was only the action of the Department which drew the attention of the Comptroller and Auditor General to it.

Chairman.] No, I think it was the other way round, if I remember rightly, but Sir *Gilbert* can correct us on this.

Mr. Benson.

4178. It was the desire of the Department to serve a direction on the firm, I understood, that drew Sir *Gilbert*'s attention to it?—We were aware of that case beforehand. The reason for my mentioning it was the price direction.

Mr. Benson.] Here the Admiralty has not thought it necessary to serve any price direction order on any of the sub-contracting firms.

Chairman.] It appeared to me that there might be cases concealed in this great mass which are equally scandalous.

Mr. Benson.] Yes. We might ask how is it that the Admiralty has not found it necessary to serve any price directions on firms that are making such high profits?

Chairman.

4179. Can you answer that one, Sir *Henry*?—(Mr. *Jubb*.) I think a price direction has only been issued in one case in the whole of the war.

4180. That is perfectly true. That is the point. *Mr. Benson* is putting to you: Why have you not served more?—(Sir *Henry Markham*.) That was on a main contract, was it not?

Mr. Benson.

4181. No, they were sub-contractors.—(Sir *Gilbert Upcott*.) In this particular case of *Simmonds Aerocessories*, they were suppliers, but the prices had been fixed from 1940 onwards between the Ministry of Aircraft Production and the sub-contractor, not by the main contractors. It is quite true

that *Simmonds* supplied the main contractors, but the supplies were at prices which had been fixed by negotiation between them and the Ministry of Aircraft Production. These cases, if I understand it rightly, which you are now considering are, of course, mainly the sub-contracts in the proper sense of the word.

Mr. Benson.

4182. I should like to ask the Treasury one question. I should like to know the functions of the Contracts Co-ordinating Committee?—(Mr. *Blunt*.) Their general functions are to consider with the various Departments the general principles of contracts. They are not there, of course, to settle prices or to do any of the detailed work. They are to consider, in such a case as the sub-contractors, whether the machinery is good, and to exchange views on it to see whether any particular Department has any special ideas as to where it could be improved and so on. It is a clearing office of information.

4183. Is it an advisory body?—I should just call it a consultative body with the Treasury in the Chair. (Sir *Gilbert Upcott*.) The Public Accounts Committee considered the functions of the Contracts Co-ordinating Committee before the war. (Mr. *Blunt*.) It is the Contracting Departments sitting together, exchanging ideas, and coming to certain conclusions on general principles.

4184. I am not quite sure whether the question I want to ask is pertinent. I wanted to know how far it considered the contracting methods of the Admiralty, so far as sub-contractors are concerned, adequate as compared with other Government Departments?—I do not think that is a matter which the Contracts Co-ordinating Committee could handle, but I would say this. I referred to a meeting in December of last year at which this subject was reviewed, and it was reviewed because the Admiralty came along, remembering what this Committee had said in its report, and was very anxious to know whether it was behind hand in what it was doing, and whether there was anything it could learn from other Departments, and we had a pretty full discussion of that, and I think it was very useful. I do not think anything very positive emerged to show that the Admiralty was behind or in front of any other Department, but that is the sort of purpose which the Contracts Co-ordinating Committee serves. It is open to any Department to put on the agenda anything of that sort, and the Treasury could, if it wished, put an item on the agenda.

Chairman.

4185. We turn now to the next group of paragraphs, which are largely formal. I want to get one or two answers on to the record. Paragraph 20 relates to a reduction in the scale of the examination given to victualling store accounts, and the

14 May, 1946.] Sir HENRY V. MARKHAM, K.C.B., M.C., [Continued,
Mr. C. B. COXWELL, C.B., O.B.E., and Mr. E. C. JUBB, C.B., O.B.E.]

Treasury consented to a further reduction of scale, on the understanding that it should not continue beyond the end of 1945. Have those arrangements terminated? (Sir Henry Markham.) Yes, they have. We were back to the September, 1944, standard from the 1st January, and we hope to be back in the course of the financial year to full standard.

4186. As regards paragraph 22, the Comptroller and Auditor General states that a report on the extent of stocktaking is to be made by the Admiralty to the Treasury. Has that report been furnished?—That has been made.

4187. I have no further questions on these paragraphs. Has any Member of the Committee any questions? We turn now to the accounts. The first question I have to ask you, Sir Henry, is on page 17, Vote 10. The footnote there says "Subhead B includes *ex gratia* payments for losses incurred on contracts for various works services," and the largest item is £106,000, the balance of an *ex gratia* payment of £341,000. Could you tell the Committee shortly about that matter?—May I ask the Principal Under-Secretary to handle that? (Mr. Coxwell.) This payment relates to a contract for very extensive works comprising the construction of underground magazines at a large armament depot, which were placed before the war after competitive tender, the contract being placed, as is so often the case with works contracts, on a schedule of prices. The schedule of prices total, as originally drawn up, was £434,750. There was no contractual provision for war increases in the cost of labour and materials. For reasons of war disturbance, and particularly the acute shortage and the poor quality of labour in the locality concerned, the contract was 15½ months late in completion. The Admiralty were entirely satisfied that no part of this delay was due to the contractors, who actually organised and carried out the work very efficiently in extremely difficult circumstances. The sum contractually due to the contractors was rather more than the total of the schedule of prices that I have quoted. It amounted to £481,953—nearly £482,000, but the actual cost of the work as certified by Admiralty accountants and agreed by them was no less than £803,410, that including nothing whatever for profit to the contractors or for the heavy finance charges which they had to meet. So that it clearly became necessary for the Admiralty to consider the position of this firm which had made so heavy a loss in doing so good a job of work in difficult circumstances. We did examine their case for an *ex gratia* payment very carefully under the various headings of war disturbance and so on which fell to be considered. We made them a considerable payment. The net result of it all was that the sum we paid them gave them a profit of £19,543, which was a profit of less than 2½ per cent.

on cost, and, bearing in mind the financial charges which they had to incur to carry out the work, they were left on the total £4,000 out of pocket.

4188. I suppose you got Treasury agreement to the *ex gratia* payment?—Yes, certainly.

4189. I have only one more question on the accounts. That is at page, 36, under the heading "Gifts of Stores, etc." Item 1 is: "Various warships were transferred to Dominion and Allied Governments during the year without charge." Could we be given particulars of those?—Yes. The first on the list is the 6-inch cruiser *Uganda*, which was transferred to Canada. That transfer was reported to the House of Commons on the 7th March, 1945.

4190. Reported how?—I should think by Question and Answer. It is normally done by means of Question and Answer, but I cannot recall exactly how it was done. I think that is almost certainly the case. Then there were two frigates of the Loch class, which were transferred to South Africa. That was reported I think, in the same way on the 6th December, 1944. I could give the Committee the values of these ships if they wished to have them. Then there was a modified Flower class corvette called the *Arbutus*, which went to New Zealand. There is no actual trace of a report to the House of the gift of this ship. This, and a ship which was reported in the 1943 Account, called the *Arabis*, were both presented to New Zealand by a decision of the Cabinet given as long ago as the 10th June, 1943. Then the last one is a U.S. Town class destroyer, the *Lincoln*, which was given to Russia. That gift was reported on the 5th June, 1945.

4191. That is the lot, is it?—That is the lot.

4192. With a single exception you think these gifts were referred to in Answers in the House of Commons?—They were all, with the one exception, reported to the House.

4193. I am told that before the war the usual practice was for a Treasury Minute to be issued?—I would have said, from my recollection, that before the war, even then, it was very often done by Question and Answer.

4194. Can you throw any light on that point, Mr. Blunt?—(Mr. Blunt.) No, I do not think that would be right. The pre-war practice was and the post-war practice will be to present a Treasury Minute if the gift is over £10,000.

4195. And to do that before the gift is completed?—If possible. There is an escape clause. If the case is of such urgency that the Government feel it has to

14 May, 1946.]

Sir HENRY V. MARKHAM, K.C.B., M.C., [Continued.
Mr. C. B. COXWELL, C.B., O.B.E., and Mr. E. C. JUBB, C.B., O.B.E.

be done, then the Minute is presented really for covering sanction, but the pre-war practice was to present the Minute beforehand.

4196. It is intended that the pre-war practice shall be resumed?—Yes, and we have issued some Minutes. (Sir *Gilbert Upcott*.) That is a procedure agreed with this Committee some years ago. (Mr. *Blunt*.) I may say at the time when this procedure was agreed with the Committee, the Committee recognised, and it is on record, that it was not the sort of procedure which really could be operated during the war.

Chairman.] Are there any questions on the accounts?

Mr. Douglas.

4197. With regard to this *ex gratia* payment, you said it left the firm, after taking account of financial charges, out of pocket. What do you mean by financial charges—interest on borrowed money?—(Mr. *Coxwell*.) Yes, which a firm normally expects to meet out of its profit.

Mr. Douglas.] If it had not borrowed money, if it had had the capital in its own possession, would you still have given them the extra £20,000?

Chairman.] That is a little hypothetical is it not?

Mr. Douglas.

4198. There are a large number of *ex gratia* payments, some of which fall into this category?—Each case of that sort is in fact considered strictly on its own merits. I should hesitate to say that we would do that in every case, but this case was very carefully considered. It was a difficult case, being one of a contract made before the war lasting nearly two years into the war, and the Admiralty were quite convinced that this was a case for a certain amount of generosity.

4199. Nobody would be entitled to attempt to deduce a general principle from it?—(Sir *Gilbert Upcott*.) Those cases bear on the face of them the evidence that they are individual on their merits, because I observe the settlement varies from allowing a very small profit like the one mentioned to not allowing the full cost—presumably according to the merits of the case. (Mr. *Coxwell*.) If I might supplement what Sir *Gilbert* has said, there are a number of cases mentioned in the footnotes to these accounts where actually all the Admiralty did was to leave the firm with less loss than they would otherwise have sustained.

Mr. Douglas.] That is what I hoped. Thank you.

Mr. Wadsworth.

4200. It would not appear that the Admiralty were actually very generous with these *ex gratia* payments. Having stated

that the firm in question made a very good job of their contract and was very helpful, at the end of four years they actually allowed them a sum of money which still meant a loss to the firm of £4,000. I cannot see that that is being very generous. That is only a comment and I do not particularly need an answer. The other point I wish to raise is this question of the transfer of a battleship, where there was no Minute or no Question and Answer, and the House was not informed. It is quite clear, I take it, that that will never occur again. The circumstances were very exceptional. It was wartime, and it was, I take it, a Cabinet decision.

Chairman.] We cannot take it that anything will never happen again. All we can take is that the authorities concerned will be on their guard against it happening again.

Mr. Wadsworth.

4201. Because it is a very undemocratic way of dealing with the affairs of the House. I should like to feel we were safeguarded from it happening in the near future, anyhow?—(Sir *Henry Markham*.) I should say that these were all Government decisions, and not departmental decisions.

4202. Yes, at Cabinet level, but not the House of Commons level?—Yes. Naturally, I am not concerned with that. (Mr. *Blunt*.) I have stated in any case, even if it is necessary in an extreme case to do it without getting the previous sanction by Treasury Minute, the House will know, because there has to be presented a covering Minute anyhow.

Mr. Wadsworth.] That is actually what I meant. It was not explained.

Mr. Haworth.

4203. On page 30, in the Losses Statement, Item 50 is: "Issue of victualling allowance to crews of landing craft for the period 3rd-15th June, 1944, when the crews were also provisioned in kind," a figure of £22,000. Was this due to the misreading of an instruction, or an error?—(Mr. *Coxwell*.) This was a result of the invasion of Normandy. I think perhaps I had better read the note I have on it. It related to payment of victualling allowances to crews of landing craft. The normal practice there is to pay a special rate to the crew and leave them to make their own arrangements for the purchase of their food. This allowance is paid 14 days in advance, with the customary fortnightly payment of wages. It was realised that during the opening days of the invasion these arrangements would have to cease, as it was quite impracticable for the men to purchase their food. We realised that for the time being we should have to feed them ourselves.

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14 May, 1946.]

Sir HENRY V. MARKHAM, K.C.B., M.C.,
Mr. C. B. COXWELL, C.B., O.B.E., and Mr. E. C. JUBB, C.B., O.B.E.

[Continued.]

to victual them in kind, as the Navy says. To have given them advance notice of the change, to have given anybody advance notice of the change, would clearly have imperilled security, and a sudden alteration in the accounting arrangements during the actual period of the assault would have been quite impossible. The crews were accordingly credited with a fortnight's victualling allowance, on the 2nd June, and were also provisioned in kind from the following day until the 15th June. I hope the Committee will agree that it would have been most undesirable for the Admiralty to have attempted to recover in

the circumstances, the thing being the result of operational measures and the paramount need for security. We obtained the sanction of the Treasury to write off this sum of £22,000.

Chairman.

4204. I expect you are satisfied with that, Mr. Haworth, are you not?

Mr. *Haworth.*] I am perfectly satisfied.

Chairman.] Are there any further questions on the Account? May I take it that the Account is approved? (*Agreed.*)

CIVIL APPROPRIATION ACCOUNTS, 1944.

CLASS VII.

VOTE II.

PETERHEAD HARBOUR.

(*On this Account no questions were asked.*)

Chairman.] Thank you, Sir Henry. That concludes your evidence.

(*Sir Henry Markham, Mr. Coxwell, Mr. Jubb and Mr. Blunt withdrew.*)

Sir HERBERT BRITAIN, K.B.E., C.B., called in and examined.

CIVIL APPROPRIATION ACCOUNTS (WAR SERVICES), 1944.

CLASS X.

VOTE 9

MINISTRY OF LABOUR AND NATIONAL SERVICE (WAR SERVICES).

(Report and Accounts of the National Service Hostels Corporation, Ltd., 1944.)

Sir GODFREY INCE, K.C.B., K.B.E., and Mr. T. W. F. DALTON, called in and examined.

Chairman.

4205. Sir Godfrey, you represent the Ministry of Labour?—(*Sir Godfrey Ince.*) Yes.

4206. Who are you accompanied by?—Mr. Dalton, the Accountant-General.

4207. Will Members turn to the Civil Appropriation Accounts (War Services) 1944, to page 32. In conjunction with this we will take the paper which has been circulated on the National Service Hostels Corporation Ltd. Subhead C contains an item: "Administration of hostels, including loans and grants to the National Service Hostels Corporation, Limited," a figure of £474,153?—Yes.

4208. I have one or two questions about these hostels. You actually manage only the hostels shown at the head of the income and expenditure account—"Expenditure at hostels, camps and canteens: Ministry of Labour and National Service." Then there is a list of the types of hostels which you actually control. Is that right?—Yes, they are run by the National Service Hostels Corporation for us.

4209. You are prepared to answer questions on the whole of the accounts, I take it, except that we shall not go into detail

with you upon the administration of the hostels in the hands of other Ministries?—Yes.

4210. The accounts show that the hostels as a whole were run at a loss in the year ended 31st March, 1945, of just under £775,000. That is correct, is it not?—Yes.

4211. The comparable figure for the previous year, I think is the addition of the sums shown in the left hand column, which would be £802,000?—Yes.

4212. But the total turnover for the year of account is considerably higher than in the previous year?—Yes.

4213. In considering that loss figure one has to look, I think, at the note on the expenditure side. There is an asterisk about half way down the account, and a note which says: "This figure"—that is the expenditure for the previous year 1943-44—"includes expenditure on certain services and supplies (*e.g.* coal and coke, maintenance and renewals of equipment) provided by the Ministry of Works. As from 1st April, 1944, such items were supplied free of charge." That is to say, in the year of account certain services were supplied free of charge by the Ministry of Works?—Yes.

14 May, 1946.]

Sir GODFREY INCE, K.C.B., K.B.E., and
Mr. T. W. F. DALTON.

[Continued.]

4214. Can you give the Committee any figure as to the value of those services?—We have not precise figures on that because, as an economy measure in accounting, owing to the man-power position, these precise figures have not been kept by the Ministry of Works. They amount to something like £300,000.

4215. So that in order to get a true comparison with the previous year, you would have to add that sum to the loss for the current year?—Yes, certainly.

4216. We shall deal with the Ministry of Fuel and Power on this matter at a later date. Can you give the Committee some impression as to what extent these hostels are used? That is to say, how far are they filled to capacity and how far are they under-accommodated?—For the financial year 1944-45 the average percentage of residents to full capacity was 79 per cent.

4217. What is the present position regarding these hostels? The numbers are set out on the front page of the Accounts.—That is at the 31st March, 1945: "Industrial Hostels, 60."

4218. What is the future of the industrial hostels? Will they continue to find a use?—Yes. A number of them have been closed. Some additional ones have been opened. The latest position on the 24th April of this year is that there were 50 hostels open. We anticipate that while the number may go down there will be a substantial number continuing for some considerable time, for the reason that there is no alternative accommodation available for the people who are using the hostels. They are engaged on work of national importance, and if we closed down the hostels then they would go back home and we should be unable to man up those industries to the extent that is necessary. Until there is a substantial improvement in either the housing or the lodging position in these districts, it will be necessary to continue these hostels, although it is quite clear that all of them will not remain anything like full.

4219. You have already reduced the number from 60 a year ago to 50 today.—The number on the 24th April was 50.

4220. What is happening to the 10 which have been closed? Have they been handed over to some other authorities?—They have been handed back to the Ministry of Works.

4221. You cannot say what their future is?—No, I do not know what they are using them for.—(Mr. Dalton.) If I may say so, this is really for the Ministry of Works, but I do happen to know that the Ministry of Education have been after some of them for training colleges and the like, and there are other Departments which have similar kinds of needs; they are being allocated by the Ministry of Works.

49852

4222. Use is likely to be found for them?—Yes.

4223. Then as regards the scale of charges, that was the result of a Government decision, I believe, some years ago, was it not?—(Sir Godfrey Ince.) Yes.

4224. In your opinion, is the scale of charges already so high that if the scales were so increased as to make both ends meet the hostels would tend to empty themselves?—I think if the charges were put up so as to make both ends meet the charges would be substantially too high.

4225. That is to say, increasing the charges would have an adverse effect?—It depends how much you increase them. I think that the present charges could be increased without any adverse effect, or any pronounced adverse effect; but, if you put them up to such an extent as to make both ends meet, then I am quite sure it would be substantially too much.

Chairman.] Are there any questions on the Accounts?

Mr. Thurle.

4226. Are these mainly for the Bevin boys?—No. Some of the hostels which are run for the Ministry of Fuel and Power are for them; but the industrial hostels are mainly for the workers in various industries of substantial importance to the national effort. They were originally put up to provide accommodation for war workers, mainly those in the engineering and allied industries, which have now, of course, to a great extent changed over to civilian production, very largely export production, which is, of course, of vital importance to the country.

4227. In the case of those ten which you have been able to dispense with, do I take it that the labour in those particular districts has gone down to that extent?—Yes. They are in districts where there was an inflated labour force as a result of the war effort, and where there has therefore been a redundancy of labour, and the labour has gone back to a considerable extent to the areas from which it came.

Mr. Douglas.

4228. In the Income and Expenditure Account there are references to the Merchant Navy Club Company, Limited. Is that a subsidiary company of this Corporation?—No, it is a separate company.

4229. On the expenditure side, in the last line it says: "At Merchant Navy Clubs 'managed on their behalf'". Does that mean on behalf of the National Service Hostels Corporation or does it mean on behalf of the Merchant Navy Club?—It means that the National Service Hostels Corporation is managing these on behalf of the Merchant Navy Club Company.

I 2

14 May, 1946.]

SIR GODFREY INCE, K.C.B., K.B.E., and
Mr. T. W. F. DALTON.

[Continued.]

4230. On the income side of the account it says: "Balance paid by the Company". Which company—the National Service Hostels Corporation Limited, or the Merchant Navy Club Company, Limited?—The Merchant Navy Club Company, Limited.

4231. The net result of that is that these items cancel themselves out?—Yes.

4232. There is no net charge. Is that right?—That is so.

4233. The Director and the Finance Director of this Corporation are I presume officers of your Ministry, are they?—No. They are former officers of the Ministry of Labour, but since they have been officers on the Board of the National Service Hostels Corporation, Limited, they have not been officers of the Ministry of Labour. The Financial Director is the former Accountant-General of the Ministry of Labour.

4234. They are not people who are expecting to be re-employed by the Ministry of Labour?—No.

4235. What control have you over them?—They are appointed as Directors. They are appointed under the arrangements between the Department and the Corporation.

4236. There is a financial agreement between the Department and the Corporation?—Yes.

4237. Has that ever been exhibited to this Committee?—I do not think so, as far as I know. (Sir Gilbert Upcott.) It has been described to this Committee. (Sir Godfrey Ince.) Yes, it was described by the Comptroller and Auditor General last year, if I remember rightly. (Sir Gilbert Upcott.) Yes, and in my Report for 1942. The Financial Director has a specific right and, indeed, a duty to seek directions of the Minister if he thinks fit on financial points.

4238. What I want to get at quite simply is this. The Corporation has lost £750,000 plus £300,000 for the cost of fuel. That is over £1,000,000. The Ministry of Labour is presumably consulted about the extent of the loss which it is allowed to make, is it not?—We are supplied every month with information about the accounts, the income and expenditure of the Hostels Corporation, and also if we want any additional information at any time we can obtain it from the Corporation.

4239. Do you ever make any comment upon these particulars as they are returned to you month by month?—If we felt that there was not proper control over the expenditure we should make representations to the Corporation. We have from time to time made representations to them about the control which they should exercise over expenditure—their own internal control.

4240. What I should like to get at is whether you exercise any control over it, and I gather that you do not?—No—only a general control. I think I ought to explain that the losses are due in fact to factors over which the Corporation itself has no control whatever, namely, the charges—over which they have no control, because that is decided for them; over the rebate for people who are away for a short period; again, over the opening of hostels, and over the continuance of them, with only a small user, and over the closing of hostels. They have no control over any of those factors. The control there is with the Ministry of Labour.

4241. You give the direction with regard to all that, do you?—Yes. (Sir Gilbert Upcott.) It was explained to the Committee last year that the Ministry do in fact take a close interest in the financial management of the Corporation, and I think I told the Committee that I had satisfied myself that they did take active steps to see that the running was as economical as possible, subject to its general directions on policy, which came from a higher level.

Mr. Williamson.

4242. I notice that last year there were only four miners' hostels, according to the front page?—(Sir Godfrey Ince.) Yes.

4243. There are now 47?—Yes.

4244. Is this increase due to the Bevin Boys' Scheme?—It is an increase due to that and also to increased training facilities for the mining industry which did not apply merely to Bevin boys, and there are the hostels for the trainees in these training centres.

4245. So that as far as training is continued in the future, these hostels will remain probably at a loss?—They may do. It really depends on the housing and lodging condition in the area. (Sir Gilbert Upcott.) Perhaps I should say that I think you will get more detailed information about the miners' hostels from the Ministry of Fuel and Power, and in my Report on their Account I have a paragraph on miners' hostels which you will come to later on in the session.

Mr. Williamson.] Thank you very much.

Mr. Cuthbert.

4246. We have heard an explanation from Sir Godfrey as to these enormous losses. How did the prices that were charged for these hostels compare with ordinary prices outside—the prices for accommodation or food or whatever it might be that they are getting in these hostels. How did they compare with whatever prices they would have had to pay if they had been staying somewhere else?—Do you mean the charges of 25s. and 20s., compared with outside?

14 May, 1946.]

Sir GODFREY INCE, K.C.B., K.B.E., and
Mr. T. W. F. DALTON.

[Continued.]

4247. Yes?—It depends very much on the area, but a comparable charge outside is 30s., and in some areas up to 35s.

Chairman.] Are there any further questions on the Account or on the Report and Accounts of the National Service Hostels Corporation, Limited? May I take it that the Account is approved? (*Agreed.*)

CIVIL APPROPRIATION ACCOUNTS, 1944.

CLASS V.

VOTE 8.

MINISTRY OF LABOUR AND NATIONAL SERVICE.

Chairman.

4248. Will Members turn to the Civil Appropriation Accounts, 1944, to page xii, paragraph 31, of the Report of the Comptroller and Auditor General. It gives the out-turn of the account for the year, which is at page 210. Sir Godfrey, it appears from the Comptroller and Auditor General's Report and from the account that on this account, which is your account on a peacetime model, there was an over-estimate of something like £3,000,000?—(*Sir Godfrey Ince.*) Yes.

4249. There is a surplus to be surrendered of £2,950,000?—Yes.

4250. Could you explain to the Committee how that over-estimate came to be made? It is comprised mainly of two figures, I see. Administration was £1,174,000 less than the grant, and Unemployment Insurance was £1,719,000 less than the grant.—On administration it was due to the reduction in the staff arising out of the man-power position. We had mobilised the man-power of the nation right up to its peak in September, 1943, which I think was a little earlier than we had originally anticipated, and during the year 1944-45 we were able to make a quite substantial reduction in the staff, arising out of the fact that there was this reduction in man-power and in the work which we had to do in connection with man-power. There were not such large numbers available to call on for the Forces and nothing like such large numbers available for transfer to war industries. The staff in fact on the 1st April, 1943, was 44,428, and on the 1st April, 1944, 39,879. At the 1st April, 1945, it had gone down to 35,941.

4251. Then as regards the short fall of expenditure on unemployment insurance?—That was due very largely to the difficulty of estimating the Government contribution to the fund. There are a number of factors to be taken into account; the withdrawal of men from industry and, therefore, from insurance into the forces; the substitution of uninsured part-time workers for insured whole-time workers, and the influx of new insured entrants into industry at that time. It was extremely difficult to estimate these different factors and the extent of them, and therefore it made it very difficult to

come to a precise estimate. It was due in fact to the difficulty in estimating those factors.

4252. When a man is called up to the Forces the Government contributions to the Unemployment Insurance Fund come to an end in respect of that man, do they?—Yes, but he has a credit when he comes out. Normally, while he is in the Forces, the Government does not pay the ordinary unemployment insurance contributions. (*Mr. Dalton.*) The State contribution is based on the receipts by the Post Office of contributions from employers and workers.

4253. I should have thought if there was one Department which could estimate what the numbers of the insured population was likely to be in a given year it would be the Ministry of Labour.—(*Sir Godfrey Ince.*) I think in peacetime, yes; but these were additional factors in wartime. It was extremely difficult to estimate, for example, how many part-time uninsured workers were going into industry to take the place of whole-time insured workers that we could either transfer to other work or call up for the Forces. Also it was difficult to estimate the number of new entrants into insurance. We could estimate the numbers of the young people with a fair amount of accuracy. What we could not estimate with any degree of precision was the number of people who were not normally in employment, but who were brought into employment for the first time—the people who are usually called the unoccupied people of the country.

4254. Married women working part-time and that sort of thing?—Yes, that is right—married women not normally working at all, who were brought into industry.

Chairman.

4255. There is one other point I should like to have elucidated, and that is at the top of page 214, amongst the Details of Receipts. The first item is: "Amount in respect of the cost of administration of unemployment insurance borne on this Vote recovered from the Unemployment Fund." It is difficult to understand that there should be an increase there in your estimate, a realised sum bigger than you anticipated, in view of what you have just

49852

I 3

14 May, 1946.]

Sir GODFREY INCE, K.C.B., K.B.E., and
Mr. T. W. F. DALTON.

[Continued.]

been telling us about the reduction in the work connected with the administration of the unemployment insurance.—The work involves not so much the payment of benefit, but the collection of contributions and the recording of contributions. There are also the overhead charges.

4256. This is money which you as a Department receive from the Unemployment Insurance Fund in respect of administration which you carry out on their behalf?—Yes, that is right.

4257. The charges you incurred on behalf of the Unemployment Insurance Fund in

the year under review were larger than you had anticipated they would be?—Yes, slightly.

4258. Although your staff as a whole was being rapidly reduced in the year of account?—Yes, but the reduction was in respect of something quite different, namely, in connection with the mobilisation of the nation.

Chairman.] Are there any questions on the Account? May I take it that the Account is approved? (*Agreed.*)

VOTE 9.

GRANTS IN RESPECT OF EMPLOYMENT SCHEMES.

(On this Account no questions were asked.)

VOTE 10.

COMMISSIONER FOR SPECIAL AREAS (ENGLAND AND WALES).

(STATEMENT OF LOANS, ETC., ENGLAND AND WALES, FOR THE PERIOD ENDED
15TH JUNE, 1945.)

Chairman.

4259. There are three accounts here, but I think the one that is of most interest to the Committee is the one at page 218, the account showing receipts and payments of the Commissioner for the Special Areas. That should be looked at in conjunction with a paper which has been circulated: "Statement of Loans and other Expenditure in respect of which a Return to the Special Areas Fund may be anticipated." The figures shown in the Loans Statement tie up I think with the figures shown on the receipts side of the account here?—(*Sir Godfrey Ince.*) May I, on the Special Areas, leave this to the Accountant-General?

4260. If you please. In respect of each item shown in the Loans Statement there is an entry on the receipts side of the account, is there not?—(*Mr. Dalton.*) Not in respect of each, I think.

4261. Let us take item 1 (c) for example. That is the North Eastern Housing Association, Limited. The statement shows the amount of the loans issued at £1,156,000, and the right hand column shows the amount outstanding?—Yes.

4262. That is £1,019,000, is it not?—Yes.

4263. Then if we look at the receipts side of the other account we see North Eastern Housing Association, Limited, £30,000. That would represent interest on the loan, would it?—Yes, that is part interest and part repayment of capital.

4264. Under item 2 there is the North Eastern Trading Estate, Limited, the amount outstanding being £2,253,000, and there is an interest charge of £44,000?—Yes. That is not a repayable loan.

4265. Could you explain under the third class of loan what is meant by expenditure which provides a return on the rental, etc., which is contingently recoverable in whole or in part? What are the sort of contingencies which lead to a liability for repayment?—The main contingency is the winding-up of the particular association that was assisted. That is really the main contingency. There are other minor ones. If they get rid of capital assets then the proceeds of sale come back in reduction of loan.

4266. One general question upon the position of the Special Areas Fund. I understand it is being terminated, and the various properties and estates are being handed over to individual Ministries?—Yes, the Special Areas Acts were repealed by the Distribution of Industry Act, and provision is made in that Act for winding up of the Special Areas Fund and for the liquidation of the affairs of the Commissioner under the direction of the Treasury. As a result, the various types of activity have actually been now handed over to various Departments. Industrial development, for example, has gone to the Board of Trade; housing and local authority health schemes have gone to the Ministry of Health, and agriculture has gone to the Ministry of Agriculture and Fisheries. There will be one small account for this year, because the Act was not passed until the 15th June, and so there is the Commissioner's expenditure to account for from the 1st April to the 15th June.

4267. Will anything else remain with the Ministry of Labour?—Nothing remains with the Ministry of Labour.

4267A. Are there any questions on the Account or on the White Paper? *Sir Gilbert*, have you anything you want to

14 May, 1946.]

Sir GODFREY INCE, K.C.B., K.B.E., and
Mr. T. W. F. DALTON.

say on this Account?—(Sir Gilbert Upcott.) No, except that one point was not made quite clear. I take it that the assets are distributed subject to certain commitments? (Mr. Dalton.) Yes. If I may say so, it is assets and liabilities actually that have gone. All the legal agreements, for example, have been transferred into the names of the various Ministers, and in fact all assets and liabilities have been handed over.

4268. The respective Ministers will stand in the shoes of the Commissioner for the Special Areas?—Exactly. (Sir Gilbert Upcott.) Some of these schemes are incomplete, and full commitments are not yet known.

Chairman.] Are there any further questions? May I take it that the Account is approved? (Agreed.) That concludes the afternoon's business, Sir Godfrey, thank you very much.

(The Witnesses withdrew.)

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

THURSDAY, 16TH MAY, 1946.

Members present:

Mr. Benson.
Mr. Cuthbert.
Mr. Haworth.
Sir Frank Sanderson.

Mr. Thurtle.
Mr. Wadsworth.
Mr. Williamson.

In the absence of the Chairman Mr. BENSON was called to the Chair.

Sir GILBERT UPCOTT, K.C.B., Sir HERBERT BRITAIN, K.B.E., C.B., and
Mr. C. E. I. JONES, called in and examined.

CIVIL APPROPRIATION ACCOUNTS, 1944.

Class III.

VOTE I.

HOME OFFICE.

Sir ALEXANDER MAXWELL, G.C.B., K.B.E., and Mr. F. C. JOHNSON,
called in and examined.

Mr. Benson.

4269. Will Members turn to the Civil Appropriation Accounts, 1944, Class III, Vote I, Home Office. The Account is at pages 98 to 101. On page 98 A.3 is: "Special Services," and the expenditure is a rather large amount more than the grant. The footnote says: "Mainly due to the increase in numbers of persons arriving from enemy or foreign territory, for whom increased expenditure was incurred on transport and maintenance at additional reception camps. The excess is attributable to the war." Could you give us some indication as to who these people are who have arrived from the continent?—(Sir Alexander Maxwell.) This was the year in which North Africa was liberated and the invasion of France began. As a result very considerable numbers of persons of all types came to this country. It was necessary to examine them and discover exactly who they were, because amongst them there might be, and indeed were, some enemy agents, so that large numbers

of them were detained temporarily for examination. Subsequently, many of them joined the Allied Forces.

4270. Provided they came satisfactorily through your examination they were released?—Yes, certainly.

4271. Were you or any other Government Department responsible for their maintenance?—Yes, we were. The Home Secretary was responsible. They were admitted under the Aliens Act, and temporarily detained until leave to land was given in a formal manner.

4272. On page 99, Subhead F is: "Contribution towards the expenses of probation." I take it that this grant is likely to increase considerably in the future?—Yes, I think so.

4273. Are there any movements going on at the moment?—During the war there has been quite a considerable expansion of the probation service. At the beginning it was curtailed because a number of officers left for war duties of various kinds, but the

May 16, 1946.] Sir ALEXANDER MAXWELL, G.C.B., K.B.E., and [Continued.
Mr. F. C. JOHNSON.

recruiting went on even during the war, and there was some expansion of the service. With the return of peace conditions we are anxious to expand the service considerably, and the recruiting of suitable people is now actively proceeding.

4274. You are developing training, I believe?—We are. The training schemes during the war naturally had to be curtailed, but now there is a resumption of the system by which suitable candidates are given training in social work and general subjects, with a view to their being appointed as probation officers.

4275. On page 100 Subhead L is: "Central Committee for Refugees (Grant in Aid)." What is likely to be the future cost of this Subhead? I assume that it will decline considerably?—I think it will decline progressively.

4276. Your estimate for the current year is something like 50 per cent. above your expenditure in the year of account?—At

the time we prepared that estimate we were not sure whether a considerable number of people who are now in employment might fall out of employment with peace conditions, but as things are developing I am hopeful that that apprehension will not be fulfilled.

4277. Could you tell us approximately how many aliens are involved in this? You are responsible for their maintenance if they are not in employment, are you not?—Yes. I think the possible total might be something like 40,000, but the actual number who are likely to be charges on the public funds is, of course, considerably smaller. This expenditure is mainly on the youngsters who are still at school and on a small group of 100 or so very elderly people or permanent invalids.

Mr. Benson.] Those are all the questions I have to ask on this Account. Has any member of the Committee any questions on the Account? May I take it that the Account is approved? (*Agreed.*)

VOTE 3.

POLICE, ENGLAND AND WALES.

Mr. Benson.

4278. The Account is on pages 104 and 105. On Subhead F: "Grants in respect of Police Expenditure," there is a fairly large excess of expenditure over the grant. Could you give us the details of the excess? The footnote to Subhead F states: "The excess is due to police expenditure identified as attributable to the war?"—(Sir Alexander Maxwell.) There is first of all the war bonus element in the pay of the members of the Force. Then there is the pay of re-engaged pensioners and whole-time special constables. Then there is expenditure on clothing and other items not fully reimbursed for the auxiliaries, and miscellaneous expenditure on war damage contributions and fire guard subsistence allowances. The main element is I think the war bonus and the pay of the re-engaged pensioners and whole-time special constables.

4279. There is another big factor in Police costs, and that is the Police War Reserve, the expenditure in respect of whom is not included in this account?—(Sir Gilbert Upcott.) It is Class X, Vote 7, of the Civil Appropriation Accounts (War Services), 1944.

4280. I ask that question in order that we may get some general picture of the expenditure on Police. Could you give us the amount of the expenditure on the Police War Reserve?—(Sir Alexander Maxwell.) The Metropolitan figure is £1,200,000. (Sir Gilbert Upcott.) If Sir Alexander cannot put his finger on the figure, I can give it to the Committee because I have it in front of me. The figure for the Police War Reserve in the year of account was,

according to my information, £6,217,000, which is included in Subhead L of Class X, Vote 7, in the Civil Appropriation Accounts (War Services), 1944.

4281. There is an expenditure of £57,000,000 on Class X, Vote 7, £6,000,000 of which is under Subhead L?—That is included in Subhead L.

4282. The Government bears the full 100 per cent. cost of the Police War Reserve?—(Sir Alexander Maxwell.) Yes.

4283. The £14,000,000 in Subhead F, Vote 3, of the Civil Appropriation Accounts is the 50 per cent. of the cost borne by the local authorities?—That is so.

4284. What is going to be the effect of the demobilisation of the Police War Reserve on the general expenditure?—It will mean that the 50 per cent. grant system will apply to the whole of the Police expenditure in the future.

4285. Your present estimate is about £18,000,000, is it not?—Yes.

4286. So that if you double that, that is £36,000,000; it is approximately the same figure as is arrived at by doubling the £14,000,000 and adding the £6,000,000; so that the future cost of the Police is going to be approximately what it was costing in the year of account?—Yes. The increase in the pay, of course, accounts for a large amount.

Mr. Benson. I have no further questions on pages 104 and 105. Has any member of the Committee any questions on those pages?

May 16, 1946.] Sir ALEXANDER MAXWELL, G.C.B., K.B.E., and
Mr. F. C. JOHNSON.

[Continued.]

METROPOLITAN POLICE FUND.

Mr. Benson.] Will Members turn to pages 106 to 110, the Metropolitan Police Fund. I have no questions. Has any Member any questions?

Mr. Thurtle.

4287. Is the Metropolitan Police Force tending to increase now?—(Mr. Johnson.) It is very much below strength. The ordinary peacetime strength is in the neighbourhood of about 20,000. The regular strength, owing to no recruitment during the war, has got down to about 12,000. That has been made up by the War Reserve and the auxiliaries, but they, of course, now are going, and efforts are being made to get the ordinary force back somewhere towards its peacetime strength. So far as the regular force goes, from now on it should be increasing, to try to get back to the former position, but of course all the war reserves are disappearing.

4288. When do you anticipate you will be back to pre-war strength?—It might take

(Mr. Johnson withdrew.)

VOTE 5.

APPROVED SCHOOLS, ETC., ENGLAND AND WALES.

Mr. Benson.

4291. Will Members turn to pages 119 and 120? I see your expenditure here is something like 70 per cent. above your grant. The footnote states that "The excess is due to expenditure identified as attributable to the war." Would you like to comment on that? Are you assuming that the increase is due to an increased population?—(Sir Alexander Maxwell.) It has been assumed that the increase in juvenile offenders is very largely a war circumstance, and the extra expenditure is very largely due to the increased population in the approved schools.

4292. I believe the broad situation is that the Home Office is empowered to make grants on current account to local authorities who run an approved school up to 50 per cent. of the total cost, but there are also a number of private institutions which are responsible for approved schools. What is the grant that the Home Office makes in those cases?—The grant is adjusted so as to provide from the Exchequer 50 per cent. of the cost, and the other 50 per cent. of the cost is paid by the local authorities in the form of capitation grants in respect of their children.

4293. So that the approved school itself is supposed to be self-supporting, without charitable aid?—It very largely is now, except that in some of the older schools the original buildings were provided from voluntary funds, and they are still profiting by that.

two or three years, the Commissioner expects.

4289. It is your view that at present the Police Force in London is inadequate?—I would not put it that way. We are releasing War Reserves and replacing them by regulars.

4290. You have a sufficient number of War Reserves to make up for the deficiency in the regular force?—The total at the moment is, I think, the Commissioner would say, a bit lower than it should be, because, owing to the taking off of the freezing order, there was rather an exodus of War Reserves at the end of last year. They were enabled to go. Up to that point they had not been able to go; they were frozen; they were held, but that order was taken off at the beginning of the year, and quite a number of them then took the opportunity to leave.

Mr. Benson.] Are there any further questions? May I take it that the Account is approved? (Agreed.)

4294. I think also in the establishment of a new school initial expenses are included as an item in the Estimates. What exactly do initial expenses involve?—If an entirely new school is started, there is the acquisition of the building, adaptations, furnishing, and so on, and then there are charges on that capital expenditure which have to be met out of the annual revenue.

4295. The Home Office does not provide any of the capital expenditure, does it?—In some cases we have provided the necessary capital to acquire premises for new schools which are to be managed by voluntary bodies. This capital expenditure is equally shared by the Exchequer and Local Authorities.

4296. The interest on capital or the rent, whichever it may be, for the new school, is a continuing expenditure. It is hardly an initial expenditure. If you are responsible only for current expenditure I am not sure how initial expenditure is involved in that in your grant?—Suppose the expense of providing the new school is met out of borrowed money, then the current expenditure includes the interest on that money.

4297. That will not be initial expenditure, because the interest on the money will continue until the loan has been paid off?—Yes, that is true. I am not sure I am following your point. (Sir Gilbert Upcott.) Perhaps I might interrupt to say that on my information, subject to the Accounting Officer's correction, the Home Office grants to initial expenses do include

May 16, 1946.]

SIR ALEXANDER MAXWELL, G.C.B., K.B.E.

[Continued.]

in fact what you would describe as capital expenditure in some cases, in the case of societies.

4298. I was wondering what type of capital expenditure, if it were included in initial expenditure, the Home Office involves itself in, or makes itself responsible for?—(Sir *Alexander Maxwell*.) I could get you full details of that, but I think it depends on exactly what are the arrangements for starting the new school. Sometimes it may be necessary to provide the premises, and in any case a considerable amount of equipment will be wanted. (Sir *Gilbert Upcott*.) It would include adaptation and equipment undoubtedly.

4299. So that in effect you take responsibility for a certain amount of capital expenditure in the establishment of a new school?—(Sir *Alexander Maxwell*.) Yes.

4300. With regard to Subhead D: "Remand Homes," the expenditure has gone up by three times the amount of the original grant. That, I take it, is also due to the pressure on remand homes. Does that additional expense of £100,000 involve any capital expenditure, or is that entirely due to the increased population?—The remand homes are not provided by voluntary organisations. They are almost all provided by local authorities. I think the increased expenditure is entirely due to increased population.

4301. Has there been any increase in the number of remand homes in the year of account?—There has been a considerable increase in the number of remand homes of recent years. I thought I had figures of the number of additional remand homes, but I find I have not got them. The process has been going on during the last three or four years, as the number of children to be provided for has increased.

4302. That, of course is a continuing process. Your estimate for the current year is about £230,000, which is nearly five times the estimate for the year of account?—Yes.

4303. The modernisation of remand homes—which I believe are on the whole very inadequate—would also rank for 50 per cent. grant, I take it, or would that be capital?—I am not sure exactly how it is adjusted. I will find out for you.

Mr. *Benson*.] I have no further questions on this Account. Has any member of the Committee any questions?

Mr. *Wadsworth*.

4304. To what extent, really, does this increased cost, which is considerable, reflect the state of crime amongst young people in the country? These are very disquieting figures. My question is not, perhaps, altogether a financial question; but it is a matter of general interest. I take it these increases do reflect to a great extent the state of crime amongst young people?—They do. In 1939 the number of children

under detention in approved schools was 8,800. In 1944 it had risen to 11,200.

Mr. *Benson*.

4305. On that point, may I ask a similar question with regard to remand homes, where the cost has trebled? I take it pressure on the approved schools involves a greater length of detention in the remand homes, and that you have an even larger increase there? Could you give us the figures?—That is so, unfortunately. There are a very large number of children at the present time detained in remand homes for unduly long periods, because there is no place for them in the approved schools. We are doing our best to increase the approved school accommodation and get over that difficulty.

4306. Could you give us the daily average population of remand homes in the year of account? If you have not the information it does not matter.—I have not the figure for the year of account. I have not the present figure either.

Mr. *Williamson*.

4307. Do I understand that on committal, if there is no place in the approved school, a child is sent to a remand home? Are there any cases where a child is sent to his own home and allowed to remain there?—There may be, but I should think they would be very exceptional indeed, because the Court do not commit a child to an approved school unless they are satisfied the child ought not to be at home any longer.

4308. But there are cases, are there not, where children are at home until a place is found in an approved school, which may take some weeks or months?—Yes, but I do not think the cases are very numerous.

Mr. *Thurtle*.

4309. In view of the fact that you spent £345,000 more than you anticipated on approved schools and in view of the fact that the approved schools are still very inadequate, does not that indicate that there was a lack of pre-vision in seeing the amount of approved school accommodation which would be required?—We certainly did not anticipate such a large increase in the number of children committed as has occurred, but for some years before the war we were pressing for an increase in the accommodation, and a considerable number of new schools were started in the years before the war. The Home Office, of course, is not directly responsible for starting schools. The responsibility rests on the local authorities and it is often difficult to secure early action by the local authorities.

4310. You are in a position to press them to do that, of course?—Yes. The Act says it is their duty to provide accommodation, but it is an obligation which it is difficult to enforce, because very often the number of children committed from one particular area would not be sufficient to require a new school, but the number committed from

May 16, 1946.] Sir ALEXANDER MAXWELL, G.C.B., K.B.E., and
Mr. P. R. HIGGINS.

[Continued.]

three or four areas together does make a new school necessary.

4311. You said in answer to a question of the Chairman that the very considerable increase in remand homes was due to the increase of population?—Yes.

4312. I see in the footnote to Subhead D it says: "The excess has been identified as attributable to the war."—Yes.

4313. There is some little conflict there, is there not?—No. I explained to the Chairman that the increase in juvenile delinquency had been treated as in the main attributable to war circumstances.

4314. I thought you said earlier that it was attributable to the increase of population?—No.

Mr. Benson.] I am afraid I used the word "population" meaning the population of the remand homes.

Mr. Thurtle.

4315. Following up another question which was put to you as to whether boys who should be in remand homes or who should be in approved schools are not sent there because magistrates know of the condition prevailing, it is a fact, is it not, that some of these remand homes leave a great deal to be desired, and therefore on occasion magistrates, rather than commit the offenders to the remand homes, allow them to go back to their own homes? I wondered whether you were looking forward not merely to establishing more remand homes, but homes of a more satisfactory character?—Yes; I think very great improvements have been made in remand homes in the course of the last ten years, say. No doubt there is still room for improvement, but I certainly should not regard the general standard of accommodation in remand homes as below what is proper.

4316. You have heard of some in London, of course, which have been under severe criticism?—We know all about the criticism, yes.

Sir Frank Sanderson.

4317. In the Details of Receipts on page 120 the amount realised in receipts from parents of children maintained in approved schools in England and Wales was £58,393, and the footnote (a) states: "The increase is due to a larger number of parents liable to contribute." Could you say what are the conditions governing the parents' liability to contribute?—As is pointed out in that note, no contributions are expected when the men are serving in the Forces; but as regards other cases it is for the Court that commits the child to the school to decide whether the parent shall be ordered to make a contribution towards his maintenance.

4318. And the amount of the contribution?—Yes.

Mr. Benson.

4319. Are there any further questions?—(Sir Herbert Brittain.) May I say, on Mr. Thurtle's question about pre-vision on this estimate, that the difference between the £596,000 estimate and over £1,000,000 expenditure is not due to any lack of provision on the part of the Home Office. It is simply due to the fact that we deliberately restricted this and some other estimates to the normal pre-war level and left the whole of the excess to come on the Vote of Credit. It was deliberate under-estimating, if I may use that word, because we did not know exactly what the war excess was going to be.

Mr. Benson.] Are there any further questions on the Account? May I take it that the Account is approved? (Agreed.)

VOTE 18.

NORTHERN IRELAND SERVICES.

(On this Account no questions were asked.)

CLASS VI.

VOTE 14.

STATE MANAGEMENT DISTRICTS.

TRADING ACCOUNTS AND BALANCE SHEETS, 1944.

STATEMENT MANAGEMENT DISTRICTS (LICENSING ACT, 1921).

(State Management Districts: Confidential Trading Accounts, 1944-45.)

Mr. P. R. HIGGINS called in and examined.

Mr. Benson.

4320. The Account in the Civil Appropriation Accounts is at pages 293 and 294. We will take at the same time the Trading Accounts and Balance Sheets 1944, pages 30 and 31, and also the Confidential State-

ment. Will you answer on this, Sir Alexander?—(Sir Alexander Maxwell.) Mr. Higgins will answer most of the detailed questions.

4321. Mr. Higgins, I see that your gross takings have fallen by about 1 per cent.,

May 16, 1946.] Sir ALEXANDER MAXWELL, G.C.B., K.B.E., and [Continued.
Mr. P. R. HIGGINS.

your gross profits have fallen by about 8 per cent., and your net profits have fallen by about 10 per cent. There is a gradually accumulating increase in the size of the fall. Is that inter-related? Do you expect to find the fall in gross takings magnified when you come down to your net profit, or are there other factors operating?—(Mr. Higgins.) Are you speaking of the retail or the wholesale?

4322. I am speaking of the figures given on your Confidential Statement. I tried to disentangle the retail from the wholesale, but failed entirely?—It would want a lot of detailed explanation, of course. (Sir Gilbert Upcott.) The figures you quoted are the trading profits carried to the credit of the Profit and Loss Account.

4323. Yes. Then there is the net profit?—Which shows, as you say, a decrease of 8 per cent. on the previous year. Similarly, in the Trading Account, the figure of net profit shows a decrease of 10 per cent. on the figure given for the previous year.

4324. Which compares with a drop of 1 per cent. in your gross takings?—(Mr. Higgins.) In our gross retail takings?

4325. Yes?—Yes.

4326. Perhaps it might be well if you would comment on the accounts for a minute or so. Perhaps you could tell us what has been happening in the various areas. Carlisle and District is one unit. Are Cromarty Firth and Gretna commonly worked as one unit or are they themselves under separate management?—There is one General Manager, but there are separate District Superintendents, and they work as separate districts to that extent and are accounted for separately.

4327. Your major fall in takings was in Cromarty Firth. Why was there an extraordinary decrease there, as compared with an increase of £11,000 in Carlisle?—There was a considerable termination of war activities in the Cromarty Firth district at this particular time, which led to a fall off. (Sir Alexander Maxwell.) Our customers went away.

Mr. Wadsworth.] I think, Mr. Chairman, your original suggestion was rather a good one, if I may say so. That was that we should have a general description given to us. You were suggesting that we had the story told to us. That might save a lot of questions.

Mr. Benson.

4328. Yes. Will you give us a rough description of the financial outline of your three schemes?—(Mr. Higgins.) If you will look at Carlisle and if you will look, first of all, at the wholesale trading account, you will see it is divided into various departments. There is the brewing depart-

ment. In the brewing department the turnover increased. As a matter of fact the barrellage of beer increased very slightly, but the net profit was reduced.

4329. Why was that?—That was owing to the higher cost of duties which was not fully compensated by the reduction in the cost of materials. The increase in duties is not a real increase of duties levied but is due to the fact that the increased duties which were imposed in 1943, the year before (it is on the comparison between the two years that I am speaking) came into force on the 13th April of that year, so that a proportion of the output of that year escaped them. The bottling department is, I think, pretty satisfactory. The decline there is due to a reduction of output. We were some 6,000 dozens down. The wholesale spirit store shows a decline in the net profit from £20,730 to £16,280.

4330. That is a sharp decline. Is there any reason for that? Is it due to the same cause, an increase in the duties?—Partly, and partly, of course, to reduction of turnover. The turnover in goods fell from 19,813 gallons to 18,457 gallons. Then there was this difference of duties. At the time the increased spirit duties were imposed in 1943 we had a considerable stock of duty-paid goods which, of course, escaped the new duty, and yet we sold them at the enhanced prices. So that our rate of gross profit for this year was less to the extent of that windfall. Beyond that, as a further explanation, we sold in this year more proprietary spirits or spirits that we had to buy, like gin, than of our own blends.

4331. You are not distillers?—No.

4332. You merely blend?—We merely blend.

Mr. Wadsworth.

4333. You make more profit on your own blends?—Yes. We buy fillings from the distillers and keep them maturing in bond for some years, and, of course, they have greatly increased in value.

Mr. Benson.

4334. Have you any idea how your increased turnover from the beginning of the war compares with the general increase in the consumption of alcoholic liquors throughout the country? Have you made a comparable study of your commercial progress?—I do not know that there has been very much increase in consumption. We, of course, have our figures of production all through.

4335. There has been a very large increase in the bulk barrellage and a small increase in the standard barrellage?—Our bulk barrellage, for example, at Carlisle for 1939-40 was 42,527. It went up and reached its peak in 1942-43 with 52,000.

May 16, 1946.] Sir ALEXANDER MAXWELL, G.C.B., K.B.E., and
Mr. P. R. HIGGINS.

[Continued.]

4336. An increase of 25 per cent.?—Yes. This last year or two we have been down to between 50,000 and 51,000.

4337. What about your convictions for drunkenness? Have they shown any variation during the war?—They have been very low.

4338. I do not think I have any further questions to ask. Have you anything further to tell us?—The other accounts are the Retail Trading Accounts. With regard to that, at Cromarty Firth, there was a distinct fall in consumption which accounts for the reduced profit in the main. But throughout, in all three districts, the gross profits were well maintained, and any decline of profit over and above the reduction of turnover is due to rising wages and charges.

4339. What about your supply of food? Do you give light meals, except in your big hotels?—We have restaurants.

4340. Has there been a tendency, as in other towns and other districts, to use that as a supplement of home rations?—To a small extent. Not so much as in most places—not so much as in the south, here, I should say.

4341. Your food business is not a very large part of your turnover?—No. I can tell you what it represents at the present time. The percentage on our turnover, taking the exaggerated prices of alcohol due to taxation, is that we get about 5 per cent. in Carlisle, 3½ per cent. in Gretna and about 7 per cent. in Cromarty Firth. But that is very largely accounted for by the food consumption in the hotels.

Mr. Benson.] I have no further questions to ask. Has any member of the Committee any questions?

Mr. Williamson.

4342. How many residential hotels are involved in Carlisle?—In the district, do you mean?

4343. Yes?—About eleven or twelve.

4344. Residential hotels?—Yes.

4345. Are the accounts for those included in this one?—Yes.

4346. Under what heading would they come?—They would come in the Retail Trading Account.

4347. There is nothing to show us here how these hotels are getting on?—Not separately.

4348. There is nothing to show whether they are making a profit or losing money? They are not losing money at the present time. Like all hotels, they are usually very full.

Mr. Williamson.] It might be useful if we could have this broken down.

Mr. Benson.

4349. Do you keep separate accounts for your specifically hotel business, as compared with your public house business?—

No, not for the business itself. We have, of course, separate accounts for every house.

4350. Could you let us have a note on that, showing your *hôte*li^er business as compared with your drink-selling business?—A statement of the takings and profits?

4351. Yes?—That, of course, would be confidential.

Mr. Benson.] Yes, certainly.

Mr. Wadsworth.] I, too, would like to see those figures, to find out how each hotel stands in regard to profit.

Mr. Benson.] Each hotel? You do not mean as a whole?

Mr. Wadsworth.] We have it as a whole now, have we not?

Mr. Benson.] No. This includes the brewery. It includes a very large trade in spirits and the like. There are a dozen hotels quite apart from the public houses. It is of the dozen hotels that Mr. Williamson wants the accounts. That is of the hotels where you can go and stay for the night.

Mr. Wadsworth.] I suppose it would be rather a big job to get them separately? It is only that I want to make certain that there are not one or two which are not making money and require therefore special attention.

Mr. Benson.

4352. Perhaps you might let us have a statement as informative as you can make it, without going to undue length?—Yes. I will show you the takings for the two years, this year and last—that could be quite easily done—and the profits, of course; the trading profits calculated, without taking into account all the overheads and the cost of our administration.*

Sir Frank Sanderson.

4353. May I ask one question on your account in the Trading Accounts and Balance Sheets? The right hand side of the account shows the amount of capital invested in buildings, breweries, and so forth. The figure for Carlisle is £593,000, for Gretna, £54,000, and so on. On the left side of the account it shows depreciation of fixed and loose plant, furnishings, etc., and utensils, the figure in respect of Carlisle being £2,301. The capital assets are £593,000. I will not go through the whole of the figures, but they are set forth here. The question I would like to ask is this: Does this really mean that an amount of £2,300 only has been set aside for depreciation of assets of an aggregate total of £593,000?—No. That is depreciation on fixed and loose plant, furnishings and utensils which you were looking at. The next item is: "Alterations and improvements to properties—proportion of cost written off." In accordance with usual accounting practice, we do not write down

* Circulated to the Committee: not printed.

May 16, 1946.] Sir ALEXANDER MAXWELL, G.C.B., K.B.E., and
Mr. P. R. HIGGINS.

[Continued.]

our fixed assets in the way of land and buildings unless, of course, we sell an asset, but we do write down the additions and improvements; and that is our way of depreciating the buildings.

4354. You would agree, would you not, that this would not be regarded as a sound practice in any industrial concern?—No, I do not think I should.

4355. On the figures shown here you have total assets of £593,000 on land, breweries, maltings, spirit stores, and so on, and fixed plant at cost, less realisations, but the total depreciation shown is £2,300.—No, the total depreciation shown on that particular item, that and the next item, Nos. 1 and 2 on the assets side, is £15,039 in Carlisle, which represents 1.98 per cent. of the value of those assets, which we are advised by our commercial accountants is right and proper. (Sir Gilbert Upcott.) Perhaps I should interrupt and say, Sir Frank, that the State Management Districts are advised by Messrs. Mann, Judd, Gordon and Company on these accounts, including their depreciation arrangements. I think the Committee may rest assured that they have the highest professional advice when they take the course which they do.

4356. You are advised, and their advice in regard to the rate of depreciation upon the separate assets is accepted?—(Mr. Higgins.) Yes. That £15,039 is, as I say, 1.98 per cent. It is very much lower at Gretna and Cromarty Firth, I admit, but that is because we are satisfied that the large writings down that have been made during the war have reduced those assets to what may be called their reasonable capital value at the present time.

4357. I think possibly the point of difference is this, that the item: "Alterations and improvements to properties—proportion of cost written off," a figure of £15,039 represents the proportion written off the improvements for that year?—No.

4358. But the figure expended is not shown here as a separate item. No doubt it is incorporated in the total figure of £593,000?—As a matter of fact we have spent very little on additions and improvements during the war, but we have steadily maintained, so far as Carlisle is concerned, this figure of depreciation of round about 2 per cent. of the total value of these fixed assets.

Sir Frank Sanderson.

4359. I do not think I need pursue the matter, Mr. Chairman, because I am satisfied with the expression given by the Comptroller and Auditor General.

Mr. Thurtle.] I think you told the Chairman that there had been no increase in offences for drunkenness, and so on, during the war period?—Rather a decline.

4360. I take it you would regard that as attributable to the conduct of your customers and no reflection on the potency of your drinks?—Well, I do not know. We certainly do attribute it in part to a decline in the potency of the drink and the non-availability of spirits.

Mr. Cuthbert.

4361. Normally, in a trade such as this you find that the profit on takings is generally round about 33½ per cent. If I am working this out right on your statement here of Carlisle and the other place, I make the profit about 20 per cent. Are you quite satisfied with that percentage of profit on takings? In the normal private trade it would be very much higher.—The gross profit, do you mean?

4362. No. If you take, for instance, the Retail Trading Account of Carlisle and district, you have on the one side your takings of £1,103,758. Down below you have transferred to Profit and Loss Account a certain amount. That is very much smaller. I make that 8 per cent., but there may be other things than the drink in that. But let us take the Gretna district. You have takings of £115,561 and there is transferred to Profit and Loss Account £22,000. That is approximately 20 per cent. In the normal private trade on this sort of thing, even in clubs, one looks for 33½ between the takings and the profit.—The net profit?

4363. Yes. What I am getting at is, are you satisfied with the administrative side or expense side of it, as against the takings and profit?—Take the Gretna State Management District. The gross profit in the retail branches on those takings was 28.59 per cent., which we consider as very reasonable. The net profit, of course, after all wages and charges have been deducted, is considerably less. It is 31.91 in Cromarty Firth, the gross profit, and we are satisfied, and our expert advisers say that that is quite satisfactory.

4364. If the figures are 28 per cent. and 31 per cent. I agree that is not bad, but I did not make it that from the figures before me.—It is seemingly lower in Carlisle, but there we show a good deal more of the profit on our wholesale department and manufacturing department. Our houses being under management, we can adjust the prices at which we charge the goods.

Mr. Benson.

4365. You make a profit of about 22½ per cent. on your capital?—Yes.

4366. A figure of which we highly disapprove when it comes to private firms.—On our capital employed. On our nominal capital, those figures which are shown as the first item on the liabilities side of the Balance Sheet, our profit last year was 30

May 16, 1946.] Sir ALEXANDER MAXWELL, G.C.B., K.B.E., and [Continued.
Mr. OSWALD ALLEN, C.B., C.B.E.

per cent. (Sir Gilbert Upcott.) Capital employed is the criterion by which this Committee judges. (Mr. Higgins.) That was 20.58 per cent.

Mr. Benson.] Are there any further questions on the Confidential Trading

(Mr. Higgins withdrew.)

Account? Are there any further questions on Class VI, Vote 14 of the Civil Appropriation Accounts, 1944, or on the account in the Trading Accounts and Balance Sheets, 1944? May I take it that those latter two Accounts are approved? (Agreed.)

CIVIL APPROPRIATION ACCOUNTS (WAR SERVICES), 1944.

CLASS X.

VOTE 7.

MINISTRY OF HOME SECURITY.

Mr. OSWALD ALLEN, C.B., C.B.E., called in and examined.

Mr. Benson.

4367. I have only one question on this Account. Sir Alexander, are you making progress with your settlement of the claims of local authorities? You were rather behindhand on that?—(Sir Alexander Maxwell.) I will ask Mr. Allen to tell you what is happening on that. (Mr. Allen.) The progress made over the last few months has been satisfactory. Steps were taken at the beginning of the war to remind local authorities to expedite the submission of their claims, and I have some figures which

show that the results already in the three or four months give us every reason to hope that we shall have cleared off the 1945 accounts by the end of the financial year.

4368. Would you send those figures as a memorandum?—Certainly.*

Mr. Benson.] Are there any questions on the Account? May I take it that the Account is approved? (Agreed.)

* Circulated to the Committee; not printed.

VOTE OF CREDIT APPROPRIATION ACCOUNT, 1944.

(On this Account no questions were asked.)

Mr. Benson.] Thank you very much, Sir Alexander.

(The Witnesses withdrew.)

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

TUESDAY, 21ST MAY, 1946.

Members present:

MR. PEAKE in the Chair.

Mr. Cuthbert.
Mr. Hector Hughes.
Sir Frank Sanderson.

Mr. Thurtle.
Mr. Wadsworth.

Sir GILBERT UPCOTT, K.C.B., Sir HERBERT BRITAIN, K.B.E., C.B., Mr. C. E. I. JONES and Mr. G. S. DUNNETT called in and examined.

CIVIL APPROPRIATION ACCOUNTS, 1944.

CLASS VI.

VOTE 2.

MERCANTILE MARINE SERVICES.

Sir CYRIL HURCOMB, G.C.B., K.B.E., called in and examined.

Chairman.

4369. Sir Cyril, you are the Accounting Officer for the Ministry of Transport, as it is now called, I think, is it not?—(Sir Cyril Hurcomb.) Yes.

4370. I think on the last occasion you had to send a deputy here?—I had the indulgence of the Committee to be absent, as I was in the United States on official business.

21 May, 1946.]

Sir CYRIL HURCOMB, G.C.B., K.B.E.

[Continued.]

4371. Will Members turn to the Civil Appropriation Accounts, Class VI, Vote 2, Mercantile Marine Services. The Account is on pages 250 to 253. This is a Vote for which, I imagine, the Board of Trade used to be responsible before the war?—Yes.

4372. And you took over during the war. Broadly speaking, it represents what would be normal peacetime expenditure?—Yes, in some instances increased by war circumstances—particularly the cost of the Coastguard.

4373. That is an item I wanted to ask you about, on page 251, Subhead D.I. We put some questions to Mr. Wilson about this at a meeting last autumn. That is a diminishing amount, is it not?—Yes. There has been a very heavy contraction in the number of men employed, particularly in the Auxiliary Coastguard Service, and we are at the moment down to somewhere near the pre-war figure

4374. Your estimate for 1946-47 is a very much smaller figure than that contained here, is it not?—Yes. That will show a total of only 709 Coastguards, as compared with a peak figure of 5,600. The increase, as the Committee will be aware, was largely due to having to provide a watch all round the coast, and throughout the day and night.

There was a very heavy expansion in the auxiliary Coastguard staff for that purpose.

4375. It is a little surprising to me that some part of this amount was not borne on the Vote of Credit, being, as it was, so largely a wartime service. That is a matter of accountancy on which perhaps Sir Herbert Brittain could tell us something?—(Sir Herbert Brittain.) Where we were certain, at the opening of the financial year, that certain expenditure, even though it was going to be due to the war, would be incurred, and where the amount was fairly precisely known, we put it into the ordinary Vote, which happened in this case.

Chairman.] Are there any questions on this Account?

Sir Frank Sanderson.

4376. On page 250, Subhead GG. is "Losses," an expenditure of £532. Some of that loss is accounted for, as I understand it, by the loss of kit by some seamen in transit. Does the Government insure against such losses, or does the Government take its own risk?—(Sir Cyril Hurcomb.) We do not insure against those small liabilities.

Chairman.] Are there any further questions on the Account? May I take it that the Account is approved? (*Agreed.*)

VOTE 9.

ROADS, ETC.

Chairman.

4377. Will Members turn to the Account, which is at page 280? We will take that together with paragraph 41 in the Report of the Comptroller and Auditor General, which is on page xv. Looking at paragraph 41 of the Report of the Comptroller and Auditor General, Sir Cyril, which deals with the motor tax account, I see the gross receipts for the year 1944-45 were just over £30,000,000, an increase of £1,344,000 on the previous year. Those are the receipts from the ordinary motor vehicle duties?—(Sir Cyril Hurcomb.) That is so.

4378. Do they include the heavy vehicles?—Yes, commercial vehicles as well as the private car.

4379. What would the increase be attributable to in that year? It was a year of very strict petrol rationing, and so on, was it not?—A large number of people did keep their cars under licence, even if they were not able to run them very much.

Chairman.] Are there any questions on paragraph 41 of the Report of the Comptroller and Auditor General?

Sir Frank Sanderson.

4380. I do not know whether this question should be asked now or on the Account, but what I would like to know is whether the accounts are being prepared at the present time in the same way as they were prior to the war?—Yes.

4381. Is the revenue that is collected in respect of motor vehicles still pledged to the Road Fund Account, and, if so, has that Fund been invaded at all during the war years by means of transference from it to the Treasury?—No. There is a Road Fund Account, but it is not on quite the same footing as the Road Fund was in the days before it was decided to take the surpluses into the Exchequer.

Sir Gilbert Upcott.] The change was made in 1936.

Sir Cyril Hurcomb.] The collection of the revenue has gone on during the war through the various licensing authorities, the local authorities whom we use as agents for that purpose.

4382. The amount collected is not transferred to a Road Fund, is it?—(Sir Herbert Brittain.) No.

Chairman.

4383. There is an annual grant borne on the Road Fund?—(Sir Cyril Hurcomb.) An amount is voted for the roads and is brought into the account which the Committee have before them, but the whole of the revenues are really transferred to the Exchequer, and not held any longer as hypothecated to this particular purpose.

Sir Frank Sanderson.] That is the point I wanted to get at.

21 May, 1946.]

Sir CYRIL HURCOMB, G.C.B., K.B.E.

[Continued.]

Mr. *Hector Hughes*.

4384. What kind of test examination do you apply to this account?—We have a staff which makes a check on a certain number of the local authorities, but, of course, they are very carefully examined, and the proportion—

Chairman.] Mr. Hughes, I think you are speaking of the first line of paragraph 41, are you not?

Mr. *Hector Hughes.*] Yes, I am.

Chairman.

4385. It is the Comptroller and Auditor General's test which you are speaking of?—We have our own internal checks apart from what the Comptroller and Auditor General may think necessary.

Mr. *Hector Hughes.*] May I ask Sir Gilbert that question?

Chairman.

4386. Yes?—(Sir *Gilbert Upcott.*) I make a percentage examination. I do not think that I should like to say what percentage examination, because the Department do not know.

Mr. *Hector Hughes.*

4387. What I mean is this: Is it just a kind of *ad hoc* pouncing upon a particular item here and there, or is there a detailed, considered, careful and exhaustive examination?—The examination that is made is in detail, but the Department does not know which detail my officers may choose to examine in any particular year. It is not a 100 per cent. examination. It is a percentage examination, but, when an examination is made, it is a detailed examination.

4388. It is a detailed examination?—Yes, of the particular items which are chosen for examination; but it is not known by the Department what I am going to examine.

4389. Is it the same kind of examination as that which has been conducted in previous years?—Yes.

Chairman.] Now we turn to the Account at page 280. That shows, under Subhead A, the annual grant to the Road Fund of £7,800,000?—(Sir *Cyril Hurcomb.*) Yes.

4390. Then Subhead F is: "Road Expenditure of an abnormal character or outside the scope of the Road Fund." I think the Committee would like to be reminded of what that expenditure consists of?—That expenditure is largely in connection with the traffic of the War Office and other Service Departments and other Departments, necessitated by the war. Our arrangements usually were for the work to be carried out by the local highway authority on a repayment basis, and where it represented in part ordinary traffic of the district the highway authority was asked to contribute, but where it was purely a war need we did not seek to levy any contribution on the highway authority. The nature of the work varied. In some cases alternative routes had to be provided where public highways

were closed for war purposes, where they were cut across by an aerodrome, or something of that kind. A great deal of work had to be done in providing special foundations and surfaces for country roads and lanes which could not take heavy military traffic; their haunches had to be built up to enable tanks and service vehicles generally to pass along them.

4391. This item of £7,588,000 is all payments made in respect of work actually done, is it?—Yes.

4392. There is not any element here of compensation to local authorities for damage?—No. It is expenditure on works. It is not war damage in the ordinary sense. It is necessary war work. (Sir *Gilbert Upcott.*) It includes, as Mr. Wilson said last year, the making good of damage.

Sir *Cyril Hurcomb.*] There was not so very much making good of damage at this period. When we come to later years of course there will be a similar item, but that will very largely consist of restoration of various kinds, the restoring to their old state of roads that have been damaged, or taking away some of the special obstructions, and things of that kind. The item includes a number of much smaller amounts than those arising under the head I have mentioned.

4393. May I ask this: Will you recover any part of this expenditure from local authorities where you have improved roads?—Where the work could be related to ordinary traffic and there was a case for a contribution, then we should get something back from the local authority, or make them bear that part of the cost of the work. But in the main all these works have been a temporary war need.

4394. I think Mr. Wilson told us in October last that he anticipated at that time that there would still be something like another £22,000,000 to be spent under this Subhead in order to make good damage. I think there is still an amount in this year's Estimates of somewhere between £4,000,000 and £5,000,000?—I think we should revise that figure a good deal now. I would not have thought that our expenditure was going to exceed £20,000,000. I think it would probably be more in the neighbourhood of about £12,000,000 to £15,000,000 on present estimates.

4395. There is one item in the notes on page 281 that I should like to have explained. It is the second item, towards the foot of the page, £1,894: "Cost of repairs to plant damaged while on hire"?—That is mainly represented by payments for repairs of plant which was used in connection with road works in the Outer Hebrides, undertaken on behalf of the Service Departments.

4396. Was the plant on hire to you or on hire from you to some other body?—

21 May, 1946.]

Sir CYRIL HURCOMB, G.C.B., K.B.E.

[Continued.]

It was on hire to us. There were no reliable mechanics in the place where most of this work was done. The plant had generally to be taken back to the mainland in order to get it repaired. The shipping facilities were necessarily very inadequate, and, therefore, the plant was often left a long time in charge of third parties.

Chairman.] Are there any questions on the Account?

Mr. Thurtle.

4397. I take it that the expenditure incurred in improving the surface of country roads in order to take military traffic can, in fact, be counted as a permanent improvement of our road system and not merely as a war expenditure?—Some of it—perhaps a substantial amount of it in some cases. Of course, this plant was also often used by inexperienced people. There were steam rollers and things of that kind, and one had not thoroughly trained staff. Even drills and other apparatus were used by men who were not fully experienced, such as a contractor would normally employ, and we had to expect a certain amount of minor damage.

Mr. Hector Hughes.

4398. I see under Subhead A that there was a grant of £7,800,000, and £7,800,000 was spent, according to the expenditure column. Under Subhead F £7,588,000 odd was spent but there is nothing under the column headed "Grant". Where does that money come from?—The £7,800,000 is the grant from the Vote to the Road Fund in lieu of what would have been the retention of the old duties. That is estimated for and voted by Parliament. The second item—(*Sir Gilbert Upcott.*) Perhaps I might interrupt to say that it was not in fact all spent. You will find what happened to it when you get to the White Paper on the Road Fund.

4399. That is not quite my point?—(*Sir Cyril Hurcomb.*) I have the honourable Member's point, I think. On Subhead F it was quite impossible to estimate beforehand what would be required or to ask Parliament for a grant, and it, therefore, was part of the war services. It is not dealt with in the War Services Vote, but it had to be drawn later. (*Sir Gilbert Upcott.*) It was made good out of the Vote of Credit. (*Sir Cyril Hurcomb.*) It was met out of the Vote of Credit.

4400. It was in fact spent without having been estimated for?—It could not be estimated for in advance.

4401. Thank you. I understand that

now. To turn to another matter, on page 281 in the notes there is an item: "Aggregate value of small plant, tools and equipment lost, stolen or damaged in connection with agency service works", a figure of £2,058 16s. How is that vouched?—This is really expenditure which cannot be vouched and has to be written off.

4402. What are these things that are lost, stolen or damaged? Are they plant, tools, and so on?—Yes. We had to hold stocks of these all over the country, and I may say that the aggregate expenditure on these agency services, not in this particular year but during the war, up to the 31st March, 1945, was £20,000,000, and I think, if you view these small losses of £2,000 in relation to that sort of figure, and remember, again, that there was inadequate staff, the work having to be done under emergency conditions in all sorts of outlying places, a number of small jobs scattered all over the country, you will realise it was quite impossible to maintain a strict check on small plant, tools and equipment. A certain amount of it was lost or possibly misappropriated. That we got off with a loss of only £2,000 under that particular head is perhaps surprising.

4403. That may be an explanation or an extenuation of the loss, theft or damage, but it does not quite touch the point I asked, and that is this: When these things are lost, stolen or damaged—lost or stolen particularly—how can you vouch them to one shilling? You have down here £2,058 16s.?—They have all been taken on charge and they cannot be accounted for. One has to add up what it is one cannot account for and seek the necessary white-washing from the Treasury.

Sir Gilbert Upcott.] It is a discrepancy between the stocktaking and the store account. (*Sir Cyril Hurcomb.*) It is what you cannot trace. It has all been valued at one stage and the value known, and, when you cannot account for it, it has to be written off. (*Sir Gilbert Upcott.*) When you take stock you find a discrepancy between the actual stocktaking and the store account, and that discrepancy has to be made good.

4404. "Here is a hammer, or a pair of pincers, which we had but have not got it now. It has been lost or stolen. It cost us 7s. 6d."—and 7s. 6d. goes down in the account. Is that it?—(*Sir Cyril Hurcomb.*) Yes.

Chairman.] Are there any further questions on the Account? May I take it that the Account is approved? (*Agreed.*)

ROAD FUND ACCOUNTS, 1944.

Chairman.

4405. Will Members turn to the Road Fund Accounts, 1944. The Report of the Comptroller and Auditor General, which is on page 6, is I think merely formal, so we will turn to the Account. That shows the receipt of the Grant in Aid on the left hand side, and the way in which the money

was expended on the right hand side. I should like to ask a question about footnote (1) on page 2: "An extra-contractual payment of £56,953 12s. 6d. was made to a contractor engaged on a road improvement as compassionate compensation in respect of excessive cost of carrying out the work owing to war conditions." Could you

21 May, 1946.]

Sir CYRIL HURCOMB, G.C.B., K.B.E.

[Continued.]

tell the Committee the circumstances surrounding that payment?—(Sir Cyril Hurcomb.) Yes. This was a payment made outside the contract in connection with a contract entered into before the war for about £130,000, for improving a section of one of the trunk roads. The work had been begun in November, 1938, and was not finished till January, 1942, war conditions having delayed the work by about 14 months beyond the contract period. We then curtailed the scheme, and the estimate was reduced from about £130,000 to £104,000. The actual cost of the work turned out to be just over £156,000. The contractor under the contract was only entitled to the measured value, which gave the figure of £104,000 I have just mentioned. We paid him his actual costs, plus a profit of something less than 5 per cent. on the measured value of the work, and eventually he claimed and we paid £161,000. That is, you see, £57,000 in excess of the measured value of £104,000. He satisfied us and we satisfied the Treasury that this prolongation of the time of the work and the very poor labour which he was able to secure in order to carry out the work had thrown unreasonable costs on him which could not be left on his shoulders.

4406. Thank you. I think that is a sufficient explanation. On the right hand side of the Account I see that the main expenditure is divided into two classes—grants to highway authorities and trunk roads. The Ministry is responsible, is it not, for the construction and maintenance of the roads designated trunk roads?—Yes. That is wholly a liability of the Minister. The other work is done by the highway authorities on a basis of grant.

4407. Do you carry out this work on the trunk roads yourselves by direct labour, or by contractors, or by using the local authorities as agents?—We do it almost entirely by using the highway authorities as our agents.

4408. You have statutory authority to employ them as such?—Yes. There is statutory authority to do that, and we entered into a model form of agreement ten years ago, when we first had to administer the trunk roads, and that has worked satisfactorily and economically.

4409. Do you do any work by direct labour?—Only in isolated cases, and I think there is or there was one county which would not make an agency arrangement, and we were forced, therefore, into our own arrangements. But we should do that by contract in ordinary circumstances.

4410. There is one other question I want to put to you on this Account, and that arises on page 4. Under the heading of "Dartford-Purfleet Tunnel, tunnel and access roads," there is an item of £85,000 odd for "other recoverable

expenditure." Part of the expenditure appears to be recoverable from the Kent County Council and part from the Essex County Council. What is the "other recoverable expenditure"?—I am afraid my recollection on this is not very fresh, but the arrangement there was that we were to get a certain contribution from both Kent and Essex, and we were expecting eventually to recover part of the cost of this new facility by levying tolls, and that item of £85,000 is kept in suspense against the day when we levy tolls, if we ever do. It is a great many years since I negotiated this, and I do not profess to remember. (Sir Gilbert Upcott.) That is my recollection, too. This represents the cost of, I think, the pilot tunnel and part of the initial work on the tunnel itself. It was hoped in those days—it was some time ago now—that it would eventually be recovered from tolls.

4411. I should think it is rather doubtful.—(Sir Cyril Hurcomb.) Policy may change in that matter.

Chairman.] Are there any questions on the Account?

Mr. Thurtle.

4412. I gather you made this extra-contractual payment because, after the contract had been made, adverse factors due to war developed and involved the company in loss. I wonder if this is entirely a one-way business. Supposing unexpectedly favourable factors came into operation and the contractor made very much larger profits than he anticipated, there would be no question of his paying back to the Department any of those extra profits?—No, nor should we ordinarily make any additional payment because it did not turn out favourably, but in a case where war conditions over which he had no control intervened and where we cut down the amount of work which he was expecting to do, so that he could not spread his costs over the same size job as he was entitled to expect when he entered into his contract, we felt there was a very strong case for paying something over and above the contract.

4413. I was only envisaging a case where he did meet with very favourable circumstances?—Naturally, one does not hear about those, and that is why one is chary of making an extra-contractual payment. (Sir Gilbert Upcott.) The Supply Departments have, during the war, recovered substantial rebates from contractors and sub-contractors who have made what are considered to be extravagant profits. (Sir Cyril Hurcomb.) I hope we never made extravagant arrangements, to begin with.

Sir Frank Sanderson.

4414. On page 2, under "Receipts," there is the item: "Roads, etc., Vote (Class VI, Vote 9, Subhead A)—Grant in Aid," £7,800,000. Then on the other side, under "Payments," one sees "Grants to Highway Authorities, etc.—Maintenance

21 May, 1946.]

Sir CYRIL HURCOMB, G.C.B., K.B.E.

[Continued.]

and minor improvement of classified roads in counties," a figure of £4,058,000. Then lower down it shows an item: "Salaries and establishment charges of surveyors to local authorities," £471,000. Is there any special reason why the salaries and establishment charges of surveyors to local authorities are kept separate and apart from the general grant to the highway authorities?—Yes. There was a special power to make these grants conferred by the Ministry of Transport Act, 1919. It is open to local authorities to avail themselves of that grant, but they are not bound to do so, and one of the conditions of doing so is that the Minister is to approve the appointment, and he has also to approve the dismissal, of any of the surveyors. One of the reasons for keeping it separate was that we wished to raise the general status of these people and their standard of professional competence, and, therefore, we did not just merge it in the ordinary maintenance or improvement grants.

4415. I appreciate that they have the power to approve the appointment of the surveyors, but I wondered why they had not only the power to approve but also to pay. Is there any reason why it is not paid out of the grant to the local authority?—We make them a special grant.

4416. You keep the two items separate for some reason?—The reason is that it is a separate class of expenditure. It has different controls attaching to it, and if we tried to merge it in maintenance or improvements I do not know how we should distribute it over all these works. (Sir Gilbert Upcott.) It is made under a specific statutory provision.

4417. I think I have the point I want. These appointments are made and in fact paid by—?—(Sir Cyril Hurcomb.) By the highway authority, but they require the Minister's approval to the appointment if they accept the grant. They have not all done so. (Sir Gilbert Upcott.) It represents 50 per cent., I think, of their salaries. (Sir Cyril Hurcomb.) Yes.

4418. Did I understand you to say, Sir Gilbert, that they contributed 50 per cent. of the salaries?—That is so. (Sir Gilbert Upcott.) The local authorities pay the salaries, and this is a grant of 50 per cent. of that amount from the Road Fund.

Mr. Hector Hughes.

4419. May I direct your attention to Note (1) on page 2, where you call this payment of £56,953 12s. 6d. an extra-contractual payment? Do you mean it was a payment which was not provided for in the contract?—(Sir Cyril Hurcomb.) Yes; it was something that could not have been enforced on the legal interpretation of the contract, but which it was held to be just and expedient to pay in the circumstances.

4420. Held by whom?—By the Ministry, with the approval of the Treasury.

4421. It was an *ex-gratia* payment, was it?—Yes.

4422. The contractor, I think you have just said, had no legal power to recover that sum?—No. I do not think he could have enforced it against us.

4423. Would you be so kind as to tell us by what authority £56,000 was paid, if it was not under legal authority?—By Treasury authority.

4424. Was Parliament asked for the authority to make it?—(Sir Gilbert Upcott.) Perhaps I might put a word in there, Mr. Hughes. You will find, all through the accounts, a very large number of these payments mentioned in detail on the various Appropriation Accounts. Ever since this Committee came into being it has always been recognised that it is necessary for the Government—that is, for a Department with the approval of the Treasury—from time to time to make payments which are not strictly in accordance with either the contractual or legal liability. This Committee has always accepted the fact that in principle there is that necessity, but has required that such cases should be noted in detail in the Appropriation Accounts for examination by this Committee, if it thinks fit.

4425. Under some general power which the Treasury has to authorise such payments?—I take it the Treasury would say it was one of the general functions of administration. But the rule is that any such payment must be noted individually in some Appropriation Account, so that it may be before this Committee for examination.

4426. I take it that that £56,000 was investigated as to detail in just the same way as the sum to which the contractor was entitled under the contract would have been investigated?—(Sir Cyril Hurcomb.) Exactly. I can give you the items. £21,456 was due to increases in the cost of labour, materials, plant and haulage. £18,941 was assessed as representing the poor quality of the labour employed, and some £12,000 was attributable to unforeseen delays; he had to keep his plant on the works longer, and all that kind of thing, and he had to have some small margin of profit on that. That makes up the total of roughly £57,000.

4427. Of that, a balance of only £11,000 odd is charged in this account, but the whole balance, I take it, had been previously paid to the contractor. Is that so? The note says: "Only a balance of £11,923 14s. 10d. has been charged in this account as a provisional payment had been made in an earlier year pending an agreed settlement."—Yes.

4428. Does that mean that the provisional payment represented the whole difference between the £11,000 and the £56,000?—Yes.

21 May, 1946.]

Sir CYRIL HURCOMB, G.C.B., K.B.E.

[Continued.]

4429. Where does that £11,000 appear in this account?—(Sir Gilbert Upcott.) Under the second item—"Trunk Roads." (Sir Cyril Hurcomb.) You will see a note is made against the middle item of the three items, under "Trunk Roads," £261,398 17s. 8d.

4430. May I now direct your attention to Note (2): "An extracontractual payment of £6,698 was made to contractors engaged on a road improvement in respect of war increases in wages, cost of materials, etc., and loss due to curtailment of contract"? Was that by way of damages?—If the contractor enters into an engagement assuming that he would carry out a large job, and it is then cut down to a much smaller one, it obviously throws upon him additional costs and involves him in some loss. This scheme is somewhat like the other one which the Committee has just discussed. It was started before the war. It was drastically curtailed when war broke out, and it also ran on well into 1942 before it could be completed. They had incurred, in the expectation of carrying this by-pass road right through, heavy expenditure on new plant and the works on which they would naturally have expected to make their margins were largely cut down. Their books were most closely examined, and all their engineering data were closely gone into by the technical and financial officers of the Department, and the result was that we thought that this would be a very fair settlement, and went to the Treasury for authority to make it accordingly.

4431. Was it arbitrated upon in any way?—No, there was no arbitration.

4432. It was just decided out of hand?—Not at all. As I have just said, it was most exhaustively considered by the financial and technical officers of the Department itself, who always have to satisfy

the Treasury, who are very acute critics of anything we put up in this respect, and that is not a process which I should describe as being "out of hand" at all.

4433. They acted on evidence, I take it?—Certainly, a very large mass of very detailed evidence.

Mr. Cuthbert.

4434. The trunk road expenditure is met 100 per cent. by the Exchequer. Under "Grants to Highway Authorities," what is the percentage that is paid by the local authorities and how is it arrived at?—There is a standard scale of grant which is related to the nature of the work and the status of the roads on which it is done. They get a higher rate of grant on Class 1 roads than they do on Class 2 roads, and so on.

4435. It would not be at all relevant, for instance, to suggest that it is perhaps worked on the difference in one year between the £7,800,000 of actual expenditure, which is met by an excess payment over receipts on this particular Balance Sheet of £73,000? The percentage is not worked at all on the result of expenditure?—No. It is a scale of grant which the local authority must know before they embark upon the work and incur their own liabilities.

Chairman.

4436. Perhaps I might put one more question upon that matter. The Vote to the Road Fund of £7,800,000 is not fixed by any statute?—No; that comes into the Estimates year by year.

4437. I think in the current Estimates you have something like double that figure?—Yes. (Sir Gilbert Upcott.) Yes, £14,000,000.

Chairman.] Are there any further questions on the Account? May I take it that the Account is approved? (Agreed.)

CIVIL APPROPRIATION ACCOUNTS, 1944.

CLASS VI.

VOTE 10.

MISCELLANEOUS TRANSPORT SERVICES.

Chairman.

4438. Will Members turn again to the Civil Appropriation Accounts 1944, Class VI, Vote 10, Miscellaneous Transport Services. The Account is on page 282. This Account deals with a number of harbours and canals?—(Sir Cyril Hurcomb.) Yes, apart from some annuities under the Light Railways Acts of 50 years ago, which are running off and will have come to an end this year, it deals with these three undertakings which are vested in the Ministry—Holyhead Harbour and the Caledonian and Crinan Canals.

4439. The detailed accounts of the individual works begin at page 284. I see in respect of Holyhead Harbour there was a loss of £5,600, in the year. Is that right?—Yes.

4440. On the next page, for the Caledonian Canal, the figure of excess of payments over receipts I see was £28,000, and on the following page, for the Crinan Canal, the figure of excess of payments over receipts was £10,000. These seem rather substantial losses for State trading organisations to make?—If I may say so, these are State trading undertakings because they

21 May, 1946.]

Sir CYRIL HURCOMB, G.C.B., K.B.E.

[Continued.]

were bound to lose money. They do not lose money because they are State trading undertakings. No one would have constructed the Crinan Canal as a commercial proposition. Last century they vested in various commissioners and other bodies. The losses are not quite as great as appear there, because services were rendered to the Admiralty and other Departments for the passage of boats on which dues were not levied.

Mr. Hector Hughes.

4441. May I ask, arising out of the Chairman's observation, were they built for use rather than profit?—They were built in the days when, in the case of the Crinan Canal, small fishing vessels could not get round safely in bad weather. It was thought generally in the national interest to construct the canals. The other reason why their finances have deteriorated is that the nature of the shipping has changed. The small fishing boats with no power behind them could not make the bad weather.

Chairman.

4442. But in the case of Holyhead Harbour, for example, there is not any real reason why that should not make both ends meet? It carries a lot of traffic, both passenger and goods?—The inner harbour is leased to the London, Midland and Scottish Railway Company. The outer anchorage does not earn much in dues. That really was a harbour of refuge. It was constructed as a harbour of refuge and not as a commercial harbour.

4443. At any rate, there is no question of increasing dues in order to reduce losses? No, I am afraid that would not increase the revenue.

4444. I want to ask you a question on page 283, in regard to the last item: "Welsh Highland Light Railway Company." The amount invested in 5 per cent. debenture stock is £35,000 and the dividend received was nil. Is that common form?—That is in liquidation. The rails have been taken up and sold for scrap.

4445. Would you expect to recover some part of the investment?—I think none. That was a work done just after the last war, in the hope of improving the quarrying industry and developing some tourist traffic, perhaps, in the Snowdon Range. The quarrying industry did not revive, and the tourist traffic went by road; and it was really not a very promising speculation.

Chairman.] Are there any questions on this Account?

Mr. Thurtle.

4446. Were Holyhead Harbour and the two canals constructed originally by the concerns?—No, they were built by bodies of Commissioners.

4447. They have always been State enterprises?—Yes.

Sir Frank Sanderson.

4448. On that I want to be quite clear. I understood you to say that the losses were sustained not because they were national enterprises, but rather because losses were expected to be sustained?—Yes. I perhaps put the point too forcibly.

44449. No, not at all. The only point I want to make is this: I do sincerely trust, as time goes along, that the same sort of reason will not be given when transport is nationalised on a bigger scale.—That will not be for me.

Chairman.] That is verging, I am afraid, upon a political discussion.

Mr. Wadsworth.

4450. I suppose the revenue from this harbour, and from the canals, it may be, too, is affected by war circumstances? In normal times I should imagine more profit would be made from Holyhead Harbour?—No, not into this account, because, as I said, the dues we should get are those for a harbour of refuge, and it is not in fact used as a harbour of refuge. Very little tonnage comes in. In the old days, when there were sailing ships, under stress of bad weather they all put in to Holyhead Harbour, and there was a substantial revenue. That has entirely gone. During the war the Admiralty did not wish the harbour used. It was a possible place to lay up, but it is not easy to protect the entrances, and in fact it was not used.

4451. So that in actual fact it will not make very much difference even in the more normal years?—No. I should not expect any recovery there. As for the canals, the modern fishing fleet with its more powerful engines will avoid the dues and go round the north of Scotland rather than come through the Caledonian Canal. I believe also the habit of the herring has changed. He does not get on the west coast of Scotland as often as he did. We did occasionally get a good revenue if the fishing fleet moved through the canal. Some of that may revive.

Chairman.] You will have to arrange for the herrings to take up their positions at alternate ends!

Mr. Hector Hughes.

4452. As to herrings, is it not a fact that it is not the same herring that is caught off, say, Holyhead or Fleetwood as is caught off Aberdeen or Grimsby?—I do not know, the fishing fleet used to move from one coast to another and we used to get some money out of it, but we do not get it now.

Mr. Hector Hughes.] Herrings have different characteristics; but that is by the way. There are blondes and brunettes! There are different kinds of herrings.

Chairman.] I will take it from you.

Mr. Hector Hughes.

4453. In fact, was not Holyhead Harbour used as a harbour of refuge for small ships up to the outbreak of the war?—Not to a large extent.

21 May, 1946.]

Sir CYRIL HURCOMB, G.C.B., K.B.E.

[Continued.]

4454. To some extent did not the war make a difference?—There was no substantial revenue from dues. I could give you the figures for some years back if you wish.

4455. No, I will take it from you, if you say it was not substantial. Was it not also used as a harbour of refuge by

ships making for Liverpool and Glasgow? —Yes, but not on a scale which yielded a large revenue. Of course, it is there and in case of need it is used.

Chairman.] Are there any further questions on the Account? May I take it that the Account is approved? (*Agreed.*)

CLASS VIII.

VOTE I.

MERCHANT SEAMEN'S WAR PENSIONS.

Chairman.] I think we went over this with Mr. Wilson in the autumn. I have no further questions to put upon this Account.

Has any member of the Committee any questions upon it? May I take it that the Account is approved? (*Agreed.*)

CIVIL APPROPRIATION ACCOUNTS (WAR SERVICES), 1944.

CLASS X.

VOTE 15.

MINISTRY OF WAR TRANSPORT.

Chairman.

4456. Will Members turn to the Civil Appropriation Accounts (War Services) 1944. We will take first paragraphs 46 to 52 of the Report of the Comptroller and Auditor General, on pages xvii to xix. Paragraph 46 deals with the relations between the Government and the Railway Companies, and speaks of the expenditure of £40,601,340 in respect of fixed annual payments to the controlled undertakings. I thought the amount was £43,500,000, Sir Cyril?—(Sir Cyril Hurcomb.) Yes, including the London Passenger Transport Board, that figure is correct. The settlements in this year were twelve four-weekly settlements only. It is just the disturbance of the incidence of the payments that is reflected in this figure.

4457. As regards the accounts, the arrangement being for the railways to pay over to you, I think, since 1941 the whole of their receipts in excess of £43,500,000—I think that is the arrangement, is it not?—Yes.

4458.—the accounts are seriously in arrear?—The examination of the accounts is in arrear.

4459. It appears from the third subparagraph of paragraph 46 of the Report of the Comptroller and Auditor General that the net revenue accounts of the main railways for the first accounting period—that is, to the end of the year 1939—have now been examined by officers appointed by the Minister, and certain questions have been raised, and Sir Gilbert states: "Pending possible resort to arbitration in regard to some of these questions, the Minister has not yet certified the Pool account." What sort of questions are these the settlement of which is pending on the 1939 accounts?—So far as the first accounting period, from the 1st September to the end of December,

1939 is concerned, the accounts have now all been examined. They have gone through the authorised procedure and been discussed in the Rules Committee to which the Comptroller and Auditor General refers, and all outstanding questions have been agreed except one, that I think is likely to go to arbitration.

4460. What does that concern?—It is in connection with liability for National Health Insurance.

4461. In order to ascertain what is the net revenue, of course you have to decide what items are properly charged and what are properly excluded?—Yes, both on expenditure and on receipts. But apart from that one item we are at any rate through with 1939.

4462. May I take it that when these points of principle have been settled on the 1939 accounts, the process of reaching finality on the other years will proceed more quickly?—Yes. The work that has already been done will ease the examination in future years a great deal. We have made a great deal of progress already in regard to 1940. Under many of the main heads of the accounts the work has been completed in the case of several of the companies, and we have made some progress even in respect of later years in certain cases. But, as you say, the work that has already been done can be regarded as largely spade work. It will not all have to be gone over again, and the liquidation of the accounts for the later years will go much faster.

Chairman.] Are there any questions on paragraph 46?

Mr. Thurtle.

4463. I would like to ask when you hope to be able to bring this examination up to something like date—that is to say, when

21 May, 1946.]

Sir CYRIL HURCOMB, G.C.B., K.B.E.

[Continued.]

you will be only one or two years in arrear? You appear to be five or six years in arrear now?—I should not like to fix any date. An enormous mass of accountancy work has to be done. The amounts are very large. We have only a limited staff of people who could be put on it, and the railways themselves can spare only a limited number of accountants to join with ours in going over these matters. But we are driving it along as best we can. We put perpetual pressure on the railway companies to come more up-to-date, and we have in the last few months made very substantial progress. I realise the Committee have always taken an interest in this matter, and when I go back from my examination here I have generally passed on the point of view which I knew the Committee would express to those concerned. But we cannot do it very rapidly or hurriedly. It is a fairly detailed audit on main issues. Even what we do is only a spot check in a great many directions.

4464. You would not care to say that the onus and responsibility for this delay is more upon the railway companies than upon the Ministry?—No, I think that would be unfair. I think we both suffer or have suffered very much from a shortage of skilled accountants. (Sir Gilbert Upcott.) I think the settlement with the railways in respect of the last war took seven or eight years after the end of the war.

Sir Frank Sanderson.

4465. Can you state whether the general principle governing wear and tear and deferred repairs has been laid down? I appreciate the final figure has not yet been agreed, but has the general principle been agreed upon?—(Sir Cyril Hurcomb.) Yes. A formula was laid down for dealing with arrears of maintenance, and the preparatory work necessary to determine the standard has all been done.

4466. Am I right in thinking that the main bulk figure has been agreed upon? It is only a sort of mere clearing up of the accounts that is standing in abeyance?—The accountancy basis of all these things has now been agreed, and, therefore, it is only a matter of checking up the figures for particular years. The points of principle, as you say, have now been agreed.

4467. The separate railway companies have placed an amount, have they not, to their respective depreciation and deferred repair accounts, which is tentatively agreed with the Ministry?—That is held in a trust fund which accumulates at interest. I think the Comptroller and Auditor General draws attention to that—or he has done so in earlier years. (Sir Gilbert Upcott.) I have done so in earlier years.

4468. It bears interest to the advantage of the railway company, does it?—(Sir Cyril Hurcomb.) No, to the advantage of the trust fund.

4469. Yes, but it is the same thing.—Not quite, because it reduces the amount which otherwise would have to be found to liquidate the final arrears.

Chairman.

4470. Are there any further questions on paragraph 46? We turn to paragraphs 47 and 48, which deal with the road haulage organisation. There is another name for it, is there not, Sir Cyril?—No, not for this.

4471. Is there not a technical name for this road haulage organisation of yours?—No, it is always called the road haulage organisation.

4472. During 1944 expenditure amounted to £32,000,000, compared with £18,000,000 in 1943, and receipts from commercial traffic rose to £8,929,000 as against £4,339,000 in the previous year. Could you shortly explain the organisation to the Committee?—This scheme was set up in 1943, when it was desired to ensure that a sufficient quantity of road haulage would be available under emergency conditions. At the same time the restrictions on petrol and rubber were then very severe, and might well have become much more severe, so that the owners of the vehicles themselves could not have kept their fleets in being. So we decided to control a considerable number of the long haulage firms—nearly 400 in all—and we entered into arrangements for hiring a large number of additional vehicles and had them operated by a number of unit controllers.

4473. There were what you called the controlled undertakings which were the commercial firms before the war?—Yes.

4474. Besides that, there were Government-operated lorries, were there not?—They were very few. There were very few Government-owned lorries. We had the controlled undertakings and a large number of hired vehicles which were operated through our unit controllers, who were members of the controlled undertakings, as the haulage unit for the various areas and districts, and all Government traffic was handled by them.

4475. Where did these hired vehicles come from?—From the general haulage industry, and they carried the Government traffic and all long distance traffic which for that purpose was defined as traffic passing by road for distances of over 60 miles.

4476. Sub-paragraph 2 of paragraph 47 gives the number of undertakings that were controlled by means of the agreements by which the firms were guaranteed their average net profit for any two accounting years between 1st January, 1935, and the 31st March, 1939. Then there is a further statement: "It has since been agreed with Treasury approval that, if the profit so ascertained was so low as to impose hardship, a minimum allowance related to the tonnage capacity of vehicles in service and

21 May, 1946.]

Sir CYRIL HURCOMB, G.C.B., K.B.E.

[Continued.]

the value of other capital assets should be substituted." When Sir Gilbert states that the firms were guaranteed their average net profit—I take it they had a choice of any two years, and those two years were averaged together?—Yes.

4477. They were guaranteed that figure?—Yes. We take the receipts and stand the expenditure.

4478. That is to say, they were not in a position to make more than the average profit of the two years?—No, they were tied. In certain cases the formula did not give a just result, and we had, therefore, to introduce this minimum.

4479. Could you give the Committee any detail as to how you drew the sort of basic line between cases that qualified for what you might call the hardship grant and those that did not?—The minimum remuneration was £10 a ton. That £10 was, I think, on a sliding scale. It is subject to some qualification, but that was the approximate basis.

4480. £10 a ton means the weight of the lorry?—The average tonnage capacity. The agreement was that the annual remuneration should be not less than the equivalent of £10 per ton on the average aggregate tonnage capacity of the vehicles, excluding trailers, with an addition at the rate of 10s. a ton for each ton by which the average capacity is less than 10 tons, plus £4 per ton on the aggregate average tonnage capacity of trailers, and a certain percentage on other capital assets, including horse-drawn vehicles, of which there were a few.

4481. The point I was coming to was this: What incentive was left to the controlled undertakings to operate as economically as possible? They were guaranteed a basic profit. They could not get more than that, as I understand the position, in any event, because you took the receipts, and they could not get much less under the guarantee we have just been referring to?—We had to rely on our controllers and supervision from Headquarters by some very expert people, to see that the operating results were satisfactory. That, of course, was closely checked.

4482. The controlled undertakings were not in receipt of any payments for freight?—We made a certain payment to our controllers in addition to what they drew as their salary under the controlled undertakings, and they, of course, were people directly responsible to us.

4483. And the operating costs were also paid by the Ministry?—Yes, but closely checked by statistical returns; and the mileage run, and all that kind of thing, is very carefully watched.

4484. So that it was really upon the skill and industry of the local controllers at the Ministry that you depended for getting an economical service?—Largely.

4485. In the final sub-paragraph of paragraph 48 the Comptroller and Auditor General states that the maximum period of the agreements was continued until the expiration of twelve months from the cessation of hostilities with Japan. Am I right in saying that this period has been further extended under the Supplies and Services Act?—The Minister exercised his full option, but the agreements themselves expire in August.

4486. Does that mean we shall go back to the pre-war position in August?—That I cannot say. That is a matter of current policy which is now under consideration.

4487. These agreements cannot run beyond August?—The agreements as such expire in August.

Chairman. Are there any questions on paragraphs 47 and 48?

Mr. Thurtle.

4488. Sir Cyril, you told the Chairman that you had to rely upon your local controllers for the efficient and economical working of this controlled transport?—Together with the supervision from Headquarters.

4489. Would you say that under those conditions you get a satisfactory result from the controlled transport?—Yes, I think we get a thoroughly satisfactory result.

Sir Frank Sanderson.

4490. On the same point, I take it you have a careful check on the mileage and tonnage which, in the aggregate, would give you a rate basis for transport which would enable you to examine the sort of cases which were referred to by the Chairman in his questions?—Yes.

4491. So that you would really have a check, would you not, in regard to what would be fair and equitable, as between yourselves and the contractor?—Well, the financial result is settled by the agreements, and we ensure, as far as we can, that operation is economical. As regards the use of the vehicles, that is done by a statistical check, and I should not accept criticisms that have sometimes been made outside, that a great deal of waste mileage has been run. The figures do not support that.

4492. One other point. In the last sub-paragraph of paragraph 48, the Comptroller and Auditor General states: "in order to continue the road haulage organisation for the maximum period of the agreements, formal notices were given in November, 1945, to controlled undertakings, hired operators and the chartered operators dealing with transport of meat extending their agreements until the expiration of twelve months from the cessation of hostilities with Japan." Is there any significance in the word "meat"? Does that apply only to meat contractors and not to general haulage?—No. There is a separate arrange-

21 May, 1946.]

Sir CYRIL HURCOMB, G.C.B., K.B.E.

[Continued.]

ment in regard to meat. There was a pool of vehicles carrying meat (it is generally called the meat pool) set up well in advance of this organisation originally by the Ministry of Food. Though that is worked with the road haulage organisation, it is a separate branch, and the vehicles are very largely specialised, refrigerated vehicles, but the provisions are much the same and the term of the agreements was the same.

4493. Have the general agreements ceased, or do they still continue for an indefinite period?—They go on till August. (Sir Gilbert Upcott.) This sentence relates to all agreements, the controlled undertakings, hired operators, and the chartered operators, dealing with the transport of meat.

Mr. Wadsworth.] I take it, Mr. Chairman, that these figures merely give us some idea as to the size of the undertaking. We have no detailed accounts. We have no idea whether the amount of expenditure equalled the amount which was obtained for carriage.

Chairman.

4494. Sir Cyril will confirm this, but the big difference between expenses on the one side and receipts on the other is mainly accounted for, I think, by carrying Government traffic for which no payment was made?—(Sir Cyril Hurcomb.) That is so.

Mr. Wadsworth.

4495. So that they are not accounts in the true sense of the word?—They are not trading accounts.

Chairman.

4496. Are there any further questions on those two paragraphs? Would you pass to paragraphs 49 and 50, which tell us about the Allied Tonnage Replacement Scheme. This was to give Allies who had lent us shipping tonnage an opportunity of getting it replaced?—Yes.

4497. I see from the last sub-paragraph of paragraph 49 that under the two schemes receipts of approximately £13,700,000 in respect of the 72 vessels sold have been received. In paragraph 50 Sir Gilbert states that "the Ministry early in 1945 offered to make available for purchase by Allied Governments, on lines similar to those of the earlier schemes, further vessels built in this country." Can you tell us the present position? Are the Allies anxious to take more ships?—The position has now changed. We have been able to allow them to place orders in our shipyards on an ordinary commercial basis, and some of them have done that. But under the scheme to which reference is made in this last paragraph we did transfer to various Allied Governments, and chiefly to France, 29 vessels of about 175,000 gross tons, and at a purchase price of something over £6,500,000.

4498. All the vessels described in these two paragraphs were sold at a capital cost,

less depreciation up to the date of delivery. Is not that right?—That is right, yes. In the case of the second-hand United States ships, we charged them, of course, the dollar equivalent of what we had had to pay in dollars.

Chairman.

4499. Are there any questions on paragraph 49 and 50? We pass to paragraph 51, which deals with the British Tonnage Replacement Scheme. We are told by the Comptroller and Auditor General that some 121 vessels of a value of approximately £23,000,000 will be transferred to shipowners, and receipts will be included in the 1945 and subsequent accounts. Does the same thing apply here—that is to say, that shipowners can now place their own contracts direct with the shipyards?—Yes. For the last 15 months licences have been granted freely to owners who wish to place orders for new ships.

Chairman.] Are there any questions on paragraph 51?

Mr. Thurtle.] What is the significance of this last sentence of the final sub-paragraph, Mr. Chairman: "It was announced by the Minister on 18 December 1945 that the terms of Command 6357 were now being revised"?

Chairman.] The White Paper is described shortly in the opening sub-paragraph of paragraph 51.

Mr. Thurtle.] Yes. I wondered in what respect it was being revised.

Chairman.

4500. It may be that the process of revision is not yet complete?—Of course, since then, the Minister has offered the balance of the Government construction for sale by tender. The old arrangement really is superseded by that.

Mr. Thurtle.

4501. That is what this sentence means?—I think so. (Sir Gilbert Upcott.) Yes. This sentence relates to a scheme which was, I think, issued to ship owners but not published to Parliament; it was an offer issued to shipowners last January, the principle of which, if I understand it aright, is that they may tender for ships for which a minimum price is fixed, and they get them according to the amount by which the tender may be above the minimum price. (Sir Cyril Hurcomb.) I think perhaps we ought to have said that it is not so much that the terms of this Paper were being revised as that a new basis has been substituted for it.

Chairman.

4502. This is an example of masterly understatement by the Comptroller and Auditor General?—Probably at the moment it was not meant to reveal too much. But, as I say, we published in fact in January an invitation to tender for the purchase of Government-owned tonnage, with certain restriction on the bidding, namely, only

21 May, 1946.]

Sir CYRIL HURCOMB, G.C.B., K.B.E.

[Continued.]

those who had lost a comparable ship were entitled to bid for the greater part of the tonnage. The results of that tender are now known and dealt with, and a large number of ships have been disposed of. About a fortnight ago a further invitation to tender was issued, including the ships which were not sold under the old scheme, with a removal of some of the restrictions upon who might bid. Those tenders must be in by the 1st June. Then we shall see the results. It really does get away from this old basis of transferring at cost.

Sir *Frank Sanderson*.

4503. There is no guarantee, is there, to a shipowner who has sustained a loss that a ship will be replaced—a ship which has been lost at sea?—No, but he has his opportunity of bidding for any of the ships which are offered, and if he had lost a ship he had a preference—he had first chance.

4504. Primarily, a shipowner claims damages for losses sustained, does he not? He does not necessarily receive a ship in exchange?—He does not receive a ship in exchange. He gets his compensation, but if he has lost a ship he has been given the first chance of getting any ships that are in existence. But he may still, of course, say that his compensation does not enable him to build the kind of ship he wants, and there is no compulsion on him to build, but the object of the Government Tonnage Replacement Scheme which is before the Committee also was to put every inducement on him to replace his loss as soon as he reasonably could. (Sir *Gilbert Upcott*.) Perhaps I might say that my reports are usually said to be dealing with *post mortem* matters. This paragraph is dealing with something which is very much alive. As you will see, it relates to something which is really happening at the moment, and in that case my comment is usually very guarded, and is really intended to give the Committee an opportunity to extract from the Accounting Officer any information which they may desire.

Chairman.

4505. Are there any further questions on paragraph 51? We pass to paragraph 52, which deals with a matter which we examined in some detail in October. The only point I want to put to you is this. The number of uncertified accounts seems to be increasing. If you will look at the top of page xx the Comptroller and Auditor General there states: "During 1944 there was a marked increase in the number of uncertified accounts received, with the result that at 31st December, 1945, approximately 300 accounts relating to the year ended 31st March, 1944, and 1,300 relating to the year ended 31st March, 1945, were still awaiting certification."?—(Sir *Cyril Hurcomb*.) That is not a position which satisfies us, but here, again, we are in the utmost difficulty in getting certified

accounts out of the approved Accountants, who have pleaded that they are really almost denuded of expert staff. Some of the important Audit firms are concerned with a considerable number of these accounts. As they get their staff back they will come in faster. There, again, as I have said in another connection, we are beginning to improve the position and see some daylight.

4506. I rather think, without referring to the evidence in detail given before us in October, that Mr. Wilson expressed the hope that the number of uncertified accounts would fall?—(Sir *Gilbert Upcott*.) It is Question 99 at the foot of page 9 of last year's evidence. Mr. Wilson thought that there might be some progress shortly. I said at that time that while I agreed that this was a well intentioned effort to accelerate the receipt, it is unsatisfactory from my point of view, because it means that unaudited money is included in the accounts—money which has had no audit examination at all. (Sir *Cyril Hurcomb*.) I agree with Sir Gilbert, it is not completely satisfactory, but I think it was useful to get those voyage accounts in in advance of certification, and all we can do is to pull up now the arrears of certification as best we can. It does mainly depend not upon the Ministry here but very largely upon these accounting firms getting their staff back. We put them under constant pressure.

Chairman.] Are there any questions on paragraph 52?

Mr. *Hector Hughes*.

4507. This relates to outside firms and outside accounts?—Yes.

4508. In the second sub-paragraph Sir Gilbert states that "the Ministry subsequently decided that, where delay in examination was expected, the voyage accounts should be rendered in advance of certification." So I may take it, may I, that the firms are bound by the accounts they have rendered, and if later, when certification takes place, any error or anything were found wrong with those accounts, they could be made available?—Yes. They will be adjusted in the light of the full examination.

4509. In the event of any of those firms becoming bankrupt in the meantime, what security has the Crown?—I do not want to imply that shipowners are the most prosperous or an unduly prosperous section of the community, but I should hope that none of these people that we are dealing with are likely to become bankrupt. I think we have a sufficient watch upon that. I do not know of any cases where that is likely to occur.

4510. If that unlikely event did occur may I take it that the Crown has no security?—We have probably moneys owing to them in various ways. It is not all one way.

21 May, 1946.]

Sir CYRIL HURCOMB, G.C.B., K.B.E.

[Continued.]

4511. Is there any kind of insurance against a possible loss of that sort?—No, except by setting it off against other amounts which are due to them. There are a great many liabilities on our part to owners for reconditioning their ships, and we have got to hand the ships back, under the Charter, in proper condition. They have a good many claims against us. I certainly should not expect any of these adjustments that may be necessary on these voyage accounts to be uncovered and expose us to any financial risk.

4512. Is there a set-off in every case?—I should say in the great majority of cases hire is not paid completely up-to-date. As I say it is not one way. They owe us money in one direction and we owe them money in another.

4513. Are there not some cases in which the Crown is taking a risk?—I do not think so.

Chairman.

4514. Are there any further questions on paragraph 52? We pass to the Account at page 49. Looking at the Details of Expenditure at the foot of page 49, the main items of expenditure were hire of tonnage, running expenses of tonnage and cost of ocean freights and passages. Those figures are all substantially higher than they were the previous year, I think?—Yes, I think that is so.

4515. Due, I take it, to increased possibilities of ships crossing the ocean in the year under review?—In the case of the British requisitioned ships, taking hire of tonnage, the payments were rather less for liners than in the previous year, and also about £1,000,000 less for tramps, partly because there were fewer payments in respect of arrears following certain revisions of rates; secondly, because we recovered rather more hire in respect of any periods of inefficiency (the point I mentioned to the honourable Member just now about there being various outstanding items in connection with hire). On the other hand there was an increase in the payments for tankers. That was due mainly to revised rates of hire. In the case of foreign chartered vessels, the payments for hire also increased.

4516. The growth of these items was not due only to hire costs but due to the fact that shipping was more active in the year under review?—No, that would not affect it.

4517. Take Subhead H, for example, "Running Expenses of Tonnage, including Repairs and Reconditioning," a figure of £165,000,000, that would be affected, would it not, by an increased volume of shipping?—Yes, and also, of course, by variations in prices. The big items there are bunkers which, taking coal and oil together, account for about £41,000,000;

cargo charges—that is handling stevedoring crannage, lightering and services of that kind—which accounts for about £31,000,000, and port and canal dues, which account for about £18,000,000. That is about £90,000,000 of the total. Then there are a number of expenses which the Ministry incurs as the Charterer, in the case of bare boat ships, crews, provisions and stores, amounting to about £33,000,000. Then repairs and reconditioning. I think those are the five main items. (Sir Gilbert Upcott.) There is an increase of £50,000,000 on that Subhead, running expenses. In 1943 it was £116,000,000, and in the year of account it was £165,000,000, nearly £50,000,000 difference. (Sir Cyril Hurcomb.) That does not represent the true expenditure in the year. It is simply the cash disbursement in the year. (Sir Gilbert Upcott.) Exactly. (Sir Cyril Hurcomb.) And reflects every kind of delay.

4518. Would you look at Subhead Q: "Payments out of Government Tonnage Replacement Account," a figure of £4,500,000? Would you explain that item to us?—The Committee will remember that we entered into a scheme with shipowners under which, in the event of loss, they were compensated by a payment made in two separate compartments. There was an agreed basic value at the time of loss which represented the pre-war insured value, together with certain adjustments, and that they drew in cash. They also had an element of increased value which they were not allowed to draw in cash, but which was placed to their credit in the Government Tonnage Replacement Account. As they came to replace, they could only draw on that account if they replaced a ship.

4519. What I wanted to ask you, arising out of that was this: This £4,500,000 is the actual payments at basic value—that is, the pre-war value of the ships lost?—No. These were payments out of the fund in the year from the accumulated deferred element in the payment. (Sir Gilbert Upcott.) Subhead J includes compensation for loss of vessels at basic values in cash. Subhead Q contains only payments of increased values.

4520. I am obliged. £4,500,000 being the payments out in respect of the increased value during the year, can you tell me what further liability there is?—(Sir Cyril Hurcomb.) The total credits, excluding fishing vessels, amounted to about £49,500,000. The withdrawals up to 31st March last amounted to £17,000,000. I do not know at what rate the balance will be drawn on. That will depend on the rapidity with which the owners are able either to purchase tonnage or to build by placing new orders.

4521. But there is a liability of somewhere around £32,000,000 outstanding which will have to be met over a period of years. Is that right?—Yes. They were

21 May, 1946.]

Sir CYRIL HURCOMB, G.C.B., K.B.E.

[Continued.]

to replace within seven years of the cessation of hostilities. Of course, an owner must spend his own basic funds or other moneys of his own in replacement, in the same proportion as the basic value bears to the increased value. An owner who has lost several vessels can only draw a proportion of his credit in respect of any particular replacement.

4522. I have one further question on the accounts on the following page. In the Losses Statement, Subhead BB, No. 1 was: "Loss incurred in the experimental production of methane from sludge." I think the Committee would be interested to hear what this experiment was?—It was an experiment to test whether it would be practicable to collect the gases escaping from certain sewage works and convert them into motor fuel. It is technically feasible, but it requires a great deal of steel, I believe, for collecting these gases, and before the experiment had got very far it was decided to discontinue it.

4523. Has any motor car actually traversed a distance propelled by sewage gas?—I cannot say that of a motor car. Sewage gas has been used, of course. This kind of gas has been used, but I cannot say that it has been used for propelling a motor car.

WAR RISKS (MARINE) INSURANCE FUND ACCOUNTS, 1940-44.

Chairman.

4527. Will Members turn to the War Risks (Marine) Insurance Fund Accounts, 1940-44? This White Paper contains accounts which have been withheld, I think, under war conditions covering a period of years from 1940 onwards?—(Sir Cyril Hurcomb.) Yes. (Sir Gilbert Upcott.) They have all been before the Committee.

4528. They have all been before the Committee, but they have never been published. The only account, therefore, of interest to the Committee is the final one on page 15. I should like to put one question on the Report of the Comptroller and Auditor General, which is on page 18. The Fund has proved very profitable and has transferred the sum of £90,000,000 to the Exchequer. Is that likely to be the total extent of the transfer to the Exchequer, or is there some more?—(Sir Cyril Hurcomb.) I think the difference between the cumulative receipts of the Fund up till the end of December last and the payments up to that date are about £121,000,000. Of that we have already paid over £90,000,000 to the Exchequer, as you have just said. There are outstanding liabilities which we estimate roughly at about £14,000,000, and, of course, there are still contingent risks. It will be a long time before the last mine has ceased to be any possibility of danger, and losses may yet occur. But we have under consideration whether some further transfer of part of this balance in excess of the outstanding liabilities that can be estimated should be made at a fairly early

4524. Was the idea that you should gather it up in a container and take it along with you, or would you have to have a pipe connecting you with the sewage works?—You would not have known its origin by the time you got it.

4525. At any rate, there has not been any revenue from it?—It was not considered worth going on with it as the situation improved.

Mr. Wadsworth.] Judging by the smell of some of the petrol we have had I should have thought that was the origin of it!

Chairman.] Are there any questions on the Account?

Mr. Hector Hughes.

4526. Was this experiment a complete loss?—I cannot say it is a complete loss. It will have had some value and interest, perhaps, if this process is ever taken up again, but it was not promising enough to go on with.

Chairman.] Are there any further questions on the Account? May I take it that the Account is approved? (*Agreed.*)

date, and we shall come to a decision on that very shortly. I do not know whether you would allow me to say that, in treating this underwriting profit as a profit, or regarding it as a profit, it is well to bear in mind that the Government itself has paid the great bulk of the premiums, because it has been the Charterer of the great bulk of the ships. It has paid the freight where it was not even itself at the time Charterer. The figures ignore, also, the cost of the indemnity for all those ships taken into direct military and naval service and lost in the process.

4529. Who fixed the rates of premium for war risk insurance?—They were fixed from time to time by agreement between the War Risks Insurance Office, which was under the control of the well known Insurance expert, Sir Walter Hargreaves, and ourselves and the Treasury.

4530. As things have turned out they have proved to be rather higher than was necessary in the circumstances?—They have turned out certainly well on the right side, and once the war is over the risk naturally suddenly ceases, but you have collected premiums, not knowing that that was going to happen. So there was always bound to be that prospect when war did come to an end. On the other hand, things might have gone worse.

4531. Would you explain to me what the second sub-paragraph of paragraph 3 means: "The nine associations dealing with deep sea vessels agreed in 1941 to pool any surplus or deficit on their respective accounts

21 May, 1946.]

Sir CYRIL HURCOMB, G.C.B., K.B.E.

[Continued.]

in respect of policies of insurance the subject of re-insurance by the Ministry"? There were nine separate mutual insurance clubs which we reinsured. They took 20 per cent. of the risks and we re-insured them for the other 80 per cent., but their experience did not all work out evenly, and we said they would have to come together and consolidate their interests for the period of the war, and that is what made the pool.

4532. By the agreement of July 1944, the Ministry has to participate to the extent of 80 per cent. in the final surplus or deficit. Which is it likely to be?—There will be a surplus.

4533. Of a substantial amount?—Yes. This relates only to the re-insurance of British hulls, not to the whole of the account the Committee has been considering. The total surplus of the hull account will be about £21,000,000. The clubs' share of that surplus under this arrangement will work out at somewhere about £750,000.

Chairman.

4534. Are there any questions on this Account?

Sir Frank Sanderson.] Did the War Risks Insurance end with the war?—No. As I said, there are still risks running now. A ship may strike a mine at any moment, so it is not completely over.

4535. Have you any idea how long it is likely to continue?—I do not think the

Admiralty would be willing to say when that risk will completely disappear, but, of course, it is reflected in a constantly diminishing rate of premium.

4536. Have you cause to think it will run another year?—I do not know. I do not know how long a mine can remain a possible source of danger. But the risk is not a large one, and I think the premium we now quote is 1s. per £100 for 91 days, for British hulls.

4537. One would think the risk was now such a minor one that it might have been taken by Lloyds?—We have not overlooked that.

Mr. Hector Hughes.

4538. Is it not such a minor risk that the insurance might be abandoned altogether?—As the honourable Member has just said, if we abandoned it the owner would have to insure somewhere else. He would not run a ship that might be worth £1,000,000 uninsured, and perhaps be the unlucky case which encountered a mine. It is a question between our keeping the arrangement on—and I think at the moment it is probably best for us to continue it at any rate up till the end of this year. After that we shall have to consider it further.

Chairman.] Are there any further questions on the Account? May I take it that the Account is approved? (*Agreed.*)

VOTE OF CREDIT APPROPRIATION ACCOUNTS, 1944.

ELECTRICITY COMMISSION.

(*On this Account no questions were asked.*)

BRITISH SHIPPING (ASSISTANCE) ACT, 1935 ACCOUNT, 1944.

(*On this Account no questions were asked.*)

CUNARD INSURANCE FUND ACCOUNT, 1944.

(*On this Account no questions were asked.*)

(*The Witnesses withdrew.*)

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

THURSDAY, 23RD MAY, 1946.

Members present:

MR. PEAKE in the Chair.

Mr. Benson.
Mr. Cuthbert.
Sir John Mellor.
Sir Frank Sanderson.

Mr. Thurtle.
Mr. Wadsworth.
Mr. Williamson.

Sir GILBERT UPCOTT, K.C.B., Sir HERBERT BRITAIN, K.B.E., C.B., Mr. C. E. I. JONES
and Mr. L. PETCH called in and examined.

CIVIL APPROPRIATION ACCOUNTS, 1944.

CLASS II.

VOTE 11.

INDIA AND BURMA SERVICES.

Sir DAVID MONTEATH, K.C.B., K.C.M.G., C.V.O., O.B.E., called in and examined.

Chairman.

4539. We have to make a somewhat extended tour of the Colonial Empire later on, so that we will not take too long over the India and Burma Office. Will Members turn to the Civil Appropriation Accounts, 1944, Class II. Vote 11, India and Burma Services. We will take first paragraph 26 of the Report of the Comptroller and Auditor General, which is on pages 10 and 11. This paragraph tells us that under the Government of India Act, 1935, and the Government of Burma Act in the same year provision is made annually for contributions payable from India and Burma revenues towards the salaries and expenses of the India and Burma Office. Sir Gilbert states: "As stated in my Report for 1937 these contributions were initially fixed at £102,000 and £8,000 respectively." The Act, I believe, fixed those contributions at those figures for the first two years, did it not?—(Sir David Monteath.) It did not actually fix the figures. The effect of the two Acts of 1935 was to bring the offices of the Secretary of State for India and for Burma wholly on imperial revenues, whereas previously, when Burma was part of India, and Burma's affairs were handled in the India Office, the India Office had been mainly paid for by Indian revenues. The shift of political responsibility entailed that the expense of the Secretary of State should be borne wholly by the British taxpayer. The India Office and the Burma Office, which was then brought into existence for the first time as a separate entity, do perform in England certain services which are not, so to say, the political control of the Secretary of State so much as agency services for the Government of India and the Government of Burma. There was a careful investigation of the work done by each branch in the two Offices, to disentangle, so far as practicable, what was agency and what was administration. It is rather a fine line to draw, but it was agreed with the

Treasury in 1937 that this contribution was, roughly, a fair proportion of the total cost of the Office, as it stood at that time. That was agreed, subject to the right of revision. (Sir Gilbert Upcott.) The agreement was for two years. (Sir David Monteath.) During the period up to 1943 the cost of the two offices grew, and the Treasury, not unnaturally, thought that the contribution from India and Burma revenues should be increased, but in war conditions it was difficult to undertake the very intricate investigation of what everybody had been doing in each of these Offices, how much was agency and how much was administration, and it was agreed to take the same proportion as before, apply it to the new cost, and one arrived at a figure of £189,000. The cost of the two Offices has gone up since, and it has been agreed recently that for next year the contribution shall be bigger still, namely, £250,000.

4540. That is for the two combined?—That is for the two, and the total sum is divided as between India and Burma rather arbitrarily, in the proportions applied by the Arbitration Tribunal when Burma was separated from India.

4541. You would rebut any allegation that there was undue delay in increasing the contributions, in reassessing them?—Yes, I should.

4542. On what grounds?—I think our feeling in the India Office was that if an increase was due, it was due to the other Departments of His Majesty's Government to ask for it, though I suppose it was our responsibility as a Department of His Majesty's Government to keep the matter under review and volunteer it; but in 1943 and 1944 one was rather obsessed with what seemed more pressing matters.

4543. Are the Treasury satisfied with the amount of the contributions which have been received since 1943?—(Sir Herbert

23 May, 1946.]

Sir DAVID MONTEATH, K.C.B., K.C.M.G.,
C.V.O., O.B.E.

[Continued.]

Britain.) We were satisfied that during the war it was impracticable to make any meticulous overhaul of the rates, and the proportions were settled on a pretty broad basis—an estimate of the relation between the imperial and the agency services. The same sort of procedure has been followed again quite recently to fix the 1946 contribution, but I may say the 1946 contribution from India is a higher percentage of the total cost than it has been for some years.

Chairman.] Are there any questions on paragraph 26 of the Report of the Comptroller and Auditor General?

Mr. Cuthbert.

4544. May I ask whether these assessments cover the whole cost, or do we bear part of it? Is the whole cost borne by India and Burma?—(*Sir David Monteath.*) No. This is only a contribution from India in respect of such part of the work as is agency on behalf of the two Governments.

Chairman.] You will see in the Account on page 87 that the Appropriations in Aid are the sum of these two contributions.

Mr. Cuthbert.] Thank you.

Sir Frank Sanderson.] Are we taking the Account now?

Chairman.] Yes. We will take the Account.

Sir Frank Sanderson.

4545. On page 87 the footnote to Sub-head A is: "Saving due to staff serving with the Forces (£12,300)". Does the India and Burma Office make good the difference between service pay of the staff and the pay which they receive in civilian life?—Yes, in common with the other Departments. (*Sir Gilbert Upcott.*) The figure is given in the note a little lower down—£4,000.

4546. Yes. My whole point was: Did that figure relate to such payment or not?—Yes, that is the balance of civilian pay.

Chairman.] Are there any further questions on the Account? May I take it that the Account is approved? (*Agreed.*)

VOTE OF CREDIT APPROPRIATION ACCOUNT, 1944.

INDIA AND BURMA OFFICE.

Chairman.

4547. Will Members turn to the Vote of Credit Appropriation Account 1944, to the Report of the Comptroller and Auditor General, paragraphs 13 to 18, which are on pages vii to ix. Paragraph 13 explains the wartime financial arrangements for meeting the cost of Indian Defence expenditure. For 1943 the total net expenditure was £551,000,000 odd, of which £261,000,000 is certified by the Auditor General as chargeable to the United Kingdom. Perhaps you would explain to the Committee what is the basis of the allocation between what we have to pay and what India pays?—(*Sir David Monteath.*) The war expenditure, of course, to a very great extent is incurred, in the first instance, in India in rupees. Notionally it is booked, again in the first instance, as a debit against His Majesty's Government. Then the total sum is divided up in accordance with the principles which were accepted by Parliament in February, 1940, known as the India Defence Expenditure Plan. Since 1940 the original arrangement has undergone one or two modifications in detail, but in the year we are considering, 1944-45, it worked out roughly on a broad statement like this: On the India side India accepted the cost of all Forces which were required for the actual local defence of India. When I say "the cost of all Forces" I include the capital cost of such things as airfields, and of local defence measures, but not the cost of equipment, which was supplied from the United Kingdom to India to those Forces. That, it was arranged, should be borne by

His Majesty's Government. In addition, India bore the normal cost, that is to say, the pre-war cost plus the accretions of rates of pay of a certain number of troops, roughly, about a division, which it had been agreed or recommended by the Chatfield Committee just before the war should serve outside India at India's expense as, so to say, India's external line of defence. As a modification of the original Defence Plan, in the year we are considering, India also accepted half the capital outlay in India on industrial expansion, either the expansion of Government ordnance factories or new munitions establishments, and so forth. India also accepted as her liability the cost of reverse lend-lease to America, in consideration of the American troops in India. On the other side, His Majesty's Government accepted the full cost of all the Indian Forces employed outside India. That cost includes not only their current pay, but the cost of raising and training them. His Majesty's Government also accepted the other half of the capital outlay on industrial expansion, and the cost of all munitions and stores which were produced in India and used by British Forces overseas, by all Forces other than those which were maintained in India for India's own local defence. Finally, His Majesty's Government accepted as their liability the cost of works for helping the Royal Navy on dockyard extensions, and so forth, and also prisoner of war camps. In the earlier years of the war there were large numbers of Italian and German prisoners who were no particular concern of India's, who were deposited in India. That was the broad outline,

23 May, 1946.]

Sir DAVID MONTEATH, K.C.B., K.C.M.G.,
C.V.O., O.B.E.

[Continued.]

4548. At the top of page viii the Comptroller and Auditor General states: "Certain adjustments relating to 1943 have not been made as India had not the necessary information, mainly to be furnished by United Kingdom Departments, to calculate amounts due to the United Kingdom." Can you tell us if those adjustments have yet been made?—Some of them have. One item where the information was required from the United Kingdom Departments related to certain trawlers, mine-sweeping craft and so on, which were being built in this country under Admiralty supervision on behalf of India. The cost of them would have been a credit to His Majesty's Government and a lessening of the debt. That has now been cleared up. Another item which has largely, but not, I think, wholly, been cleared up was expenditure incurred on behalf of the South East Asia Command, which you will remember was established in India as a base for further operations in the autumn of 1943, and there are certain adjustments in respect of expenditure incurred by the South East Asia Command in India still to be met.

4549. At any rate some progress has been made in the matter?—Yes. The final one is where the line should be drawn for expenditure incurred in the operations following the invasion of India. Forces which, under the Defence Expenditure Plan, started by being His Majesty's liability, because they were across the border, came inside the frontier, and so on. The pay of the troops is not very difficult, but the cost of the stores consumed is a rather more difficult matter to disentangle.

4550. I think you have already mentioned the matter dealt with in paragraph 14, certain proposals by India to acquire ownership of capital assets in connection with industrial expansion. The Comptroller and Auditor General states: "The proposals have now been agreed in principle by the Treasury". Perhaps Sir Herbert can tell us what is meant by "agreed in principle" here?—(Sir Herbert Brittain.) We have accepted the general principle of the division of the cost fifty/fifty, but the application of that in one or two detailed instances has, I think, still to be worked out. (Sir David Monteath.) If it is of interest to the Committee I think the provisionally agreed sum now amounts to something like £9,500,000. It has gone up a little since Sir Gilbert was able to report on it.

4551. Fifty/fifty was thought to be a fair basis, was it? We constructed the works and the Indian Government inherits them. It may be that for peacetime uses they will not be as valuable as they were for wartime uses?—(Sir Herbert Brittain.) That is the root of the matter that these were primarily wanted for war purposes, and presumably a fair proportion of them will be surplus for peacetime needs. Exactly

49852

whether fifty/fifty is wrong and forty/sixty or sixty/forty would be right I think it is very difficult for anyone to say; but this was a reasonable halfway house, so to speak.

4552. Sir Gilbert tells us, in the last sentence of paragraph 15, that he has received the report of the Indian Public Accounts Committee, which reviewed the accounts and report, and he says: "and I have accepted the total charge of £260,896,744 13s. 6d. as the United Kingdom share of the expenditure for 1943." This is the report referred to in the previous sentence, which deals with various shortcomings in accounting and financial control, is it not?—(Sir Gilbert Upcott.) Not quite. The report which refers to those shortcomings in accounting and financial control is the report of the Auditor General of India. Perhaps I should explain that that is considered by the Indian Public Accounts Committee, or rather initially by a sub-committee of that Committee called the Military Accounts Committee. I have explained to this Committee before, I think, that we are dependent on the Indian authorities for the apportionment of the shares, which are based on the principles which the Accounting Officer has explained between this country and India. I have also said that in my opinion the accounts are reviewed very strictly by the authorities in India, and I think this Committee can rest assured that the fullest and most fair consideration is given to the claims of the United Kingdom. The Chairman of the Indian Public Accounts Committee is Sir Archibald Rowlands, who is the Finance Member of the Viceroy's Council, and corresponds to the Chancellor of the Exchequer here. He is known to this Committee. He is also Chairman of the Military Accounts Committee. From examining their reports, my conclusion is that they have adopted very strict, if not very severe, standards. They have stated that the Auditor General's report revealed a very unsatisfactory state of affairs, considerable confusion and waste. They recognised that those troubles were largely due to war conditions, and they are in fact very much the same kind of troubles as we have had with accounts in this country during the war, namely, difficulties in the control of contract expenditure, difficulties in the maintenance of audit of pay accounts, and difficulties in the maintenance of store accounts and stocktaking. I think the Committee may rest assured that while it has been recommended that in India rather more severe disciplinary measures should be enforced, the interests of the United Kingdom have received the fullest and fairest consideration, and for that reason I have accepted in the certified account the total charge.

Chairman.] Are there any questions on paragraphs 13, 14 and 15?

Mr. Williamson.

4553. What is the total amount likely

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23 May, 1946.]

Sir DAVID MONTEATH, K.C.B., K.C.M.G.,
C.V.O., O.B.E.

[Continued.]

to be involved in this arrangement? You mentioned £9,500,000. — (Sir *David Monteath*.) As far as my information goes at present, I think that would probably be the final figure, but it is only a provisional figure at the present time.

Mr. *Wadsworth*.] We have accepted, we are informed, 50 per cent. of the value of these assets in India. It appears to me that that has been done in a very arbitrary way. Now that India is, we are hoping, going to be self-supporting to some extent, we are rather prejudicing our own position if we assess these valuations at too low a rate. I wonder what other evidence there is to cause the Treasury to accept 50 per cent.?—There is no indication as to the true value of these assets actually as far as I can judge.

Chairman.

4554. Sir David, can you give the Committee any more information as to the nature of these assets?—I am afraid I cannot give you any information as to how the present value of each asset, building or what-not, has been arrived at. I think the Ministry of Supply officers in India have been concerned in it. Most of these buildings, insofar as they were for the production of munitions, were put up at the suggestion of the Ministry of Supply for increasing war production. The actual execution, no doubt, was carried out by the Government of India in Indian conditions. But I am afraid I cannot, without further notice, say precisely how the process of valuation has gone.

Mr. *Wadsworth*.] I would have liked a little information.

Chairman.

4555. Perhaps Sir Herbert can help us. Have you any information as to the nature of the assets?—(Sir *Herbert Brittain*.) We have quite a lot of detail as to the nature of the assets. Perhaps Mr. Petch could deal with this. (Mr. *Petch*.) The assets consist, I imagine, largely of ordnance factories and additions to other munitions factories which were expanded by the Government of India. We felt, when considering the offer, that we could not go through each one—there are very many assets covered—in detail, and assess how much it had cost and what it was worth now. Experience in this country had shown that 50 per cent. was the most we could expect for assets which we constructed during the war, so we thought the Indian offer of 50 per cent. was quite reasonable and ought to be accepted.

Mr. *Wadsworth*.] It is not entirely satisfactory, Mr. Chairman, but I do not see what we can do about it now.

Chairman.

4556. Were individual Ministries responsible for the erection of these factories?

—They were almost all Ministry of Supply factories, and the Ministry of Supply had a look through the list and decided that 50 per cent. was a very reasonable offer. (Sir *Gilbert Upcott*.) Perhaps I might add to that that I think, on the experience in this country, where we have made, of course, large grants very often to contractors for plant, 50 per cent. is a good bargain.

4557. We might be able to ask the Ministry of Supply something about that on a later occasion?—(Mr. *Petch*.) They have gone through the list in detail.

Sir *Frank Sanderson*.

4558. In paragraph 15 of his report the Comptroller and Auditor General states that the report of the Auditor General of India "deals with various shortcomings in accounting and financial control arising from war conditions and with measures taken to remedy these shortcomings." Are you satisfied, Sir Gilbert, that these shortcomings are purely clerical errors and accountancy difficulties, and that it is not a case of any misappropriation of moneys?—(Sir *Gilbert Upcott*.) No. Those are the shortcomings I mentioned in what I said just now. They are much more serious than that. They are shortcomings in contract control, in the checking of pay accounts, and unsatisfactory store accounts and stocktakings. They are not mere errors in accounts. They are shortcomings in control. There is no mistake about that. There is not the slightest doubt that there may be some amount of peculation in them, but it is an unascertainable figure. They are not mere book errors. They are much more serious than that. They are the same sort of thing as we have had in this country, although India is a more difficult problem.

4559. What has been done about it?—(Sir *David Monteath*.) Perhaps I might indicate the cause of this sort of misbehaviour. It arose largely in the realm of storekeeping. Just before the war the turnover in India, in ordnance depots, was something like 60,000 to 70,000 tons. By 1942-43 it was 2½ million tons. If you are going to handle that extra amount you require increased supervision. So far from India having the increased supervisory personnel at their disposal, India had already sent a great proportion of her experienced storekeeping staff to Iraq, Sudan, East Africa and Malaya, to look after the depots there. That was one handicap. They had to use untrained staff and put them into positions of responsibility. Furthermore, the increase from 60,000 or 70,000 tons to 2½ million tons for handling meant that a great deal of extra store accommodation had to be built. The competition for building facilities for them operated against all the other essential and urgent operations, and the store accommo-

23 May, 1946.]

Sir DAVID MONTEATH, K.C.B., K.C.M.G.,
C.V.O., O.B.E.

[Continued.]

dation was lacking—at any rate lacking to the extent that it should ideally have been there. On top of all that, which was bad enough, or difficult enough, in 1942 very large volumes of stores which had been destined for Singapore and so forth were diverted. Their cargoes had to be dumped in India without any papers, at whatever port could take them and really an appalling state of chaos followed. The Government of India were aware of the bad situation arising. They established touring staffs under senior military accounting officers and did what they could to restore order, and I think that although the Auditor General in India has some very severe remarks to make, the Indian Public Accounts Committee accepted that, considering the conditions, the amount of misappropriation was not really very high.

Sir *Frank Sanderson*.] It is somewhat unsatisfactory, Mr. Chairman.

Chairman.

4560. Sir *Gilbert* has informed us that the Auditor General of India exercises very strict standards?—(Sir *Gilbert Upcott*.) The Indian Public Accounts Committee said they thought the state of affairs unsatisfactory, but that it was very largely the result of war conditions. What they recommended was that rather severe disciplinary control should be exercised over officers who, whether deliberately or through neglect, disobeyed orders and failed to follow prescribed procedure.

4561. I do not think we can carry it much further.—I think Sir *Frank* may rest assured that very searching inquiry was made into these matters by the Indian Public Accounts Committee which, as I said before, has I think a very high standard of administration.

Mr. Thurtle.

4562. In paragraph 15 of your Report, Sir *Gilbert*, you state that the report of the Auditor General of India “deals with various shortcomings . . . and with measures taken to remedy these shortcomings.” I wonder if you would be prepared to say that you are satisfied that these measures to remedy the shortcomings are adequate?—I think I am too far removed from the place of actual operation to express an opinion on their actual application. I do not know whether the Accounting Officer has any information direct on the subject. I can only tell you what I have said before, namely, the measures recommended to remedy them.

4563. Do they appear to you to be adequate?—If enforced, I think they would go far towards remedying the difficulties.

Sir John Mellor.

4564. To revert to the question of certain capital assets mentioned in paragraph 14, I understood you, Sir

49852

David, and the Treasury, to say that this expenditure was on factory buildings. Reference was made to the expenditure being in connection with measures of industrial expansion. Having regard to the Comptroller and Auditor General's reference to the 50 per cent. being considered satisfactory in this country for the disposal of plant, I wanted to be quite sure whether the capital assets referred to in paragraph 14 were all buildings, or whether there was involved a certain amount of machinery as well?—(Sir *David Monteath*.) I think it involved not merely the buildings but the equipment, too.

4565. May I ask the Comptroller and Auditor General whether, when he referred to 50 per cent. being regarded as satisfactory for the disposal of plant of this type in this country, he had in mind machinery only, or also had in mind factory premises?—(Sir *Gilbert Upcott*.) I had both in mind. I was speaking generally.

4566. So that the figure would be comparable?—Yes, I think so.

Chairman.

4567. Are there any further questions on paragraphs 13, 14 or 15? We pass to paragraph 16: “Imperial Defence and Railway Construction—Repayment to Government of Burma.” In the first sentence Sir *Gilbert* states: “As stated in previous Reports the United Kingdom undertook, from 1st April, 1941, responsibility for the cost of the defence of Burma, subject to such annual contribution from Burma as she could afford, and of the construction of the Burma section of the Burma-China railway.” I take it Burma has been unable to afford any annual contributions from the 1st April, 1941, towards the cost of her defence?—(Sir *David Monteath*.) That is so.

4568. There has been no contribution?—There has been no contribution.

4569. In paragraph 17 Sir *Gilbert* says that the Auditor General of Burma states that “his officers have been unable to obtain all the information and explanations they have required” (that is not very surprising, I should imagine) “but that, subject to the observations made in his reports, he is satisfied that the accounts for 1942 and 1943 disclose a true and correct view of the receipts and outgoings.” Then his reports indicate various shortcomings very similar to the ones we have been discussing in regard to India: “. . . some large items charged in the accounts represent estimates of the amounts expended, and that the correctness of all pay accounts cannot be certified. I have asked for further information on certain matters arising on the accounts.” What are the main items on which you have asked for further information, Sir *Gilbert*?—(Sir *Gilbert Upcott*.) The Committee will appreciate that, as in the case of all evacuations, the result is

K 2

23 May, 1946.]

Sir DAVID MONTEATH, K.C.B., K.C.M.G.,
C.V.O., O.B.E.

[Continued.]

that a good many of the accounts cannot be verified in the usual way. One of the main questions I asked the Accounting Officer was whether the Burma Office and the Treasury were consulted before the full amounts included in the accounts were admitted on the best evidence available, because, of course, there may be doubts as to whether expenditure is properly admissible. Secondly, I asked whether the Burma Office were satisfied that certain charges which appeared to be, *prima facie*, of a civil character were properly admitted to the Defence Accounts. I have received answers to these questions, but possibly the Accounting Officer would prefer to give them in his own way. (Sir David Monteath.) On the first of those questions, it is the case that the Treasury were consulted by the Burma Office before the expenditure was accepted as chargeable to the Defence Accounts. On the second question, the items of expenditure in question that Sir Gilbert had in mind were such things as censorship and A.R.P., Observer Corps, and post and telegraphs, which in this country, even during the war, were civil. The reason I think that they were put to the Defence Accounts in Burma was that the personnel of those services in Burma, unlike this country, were militarised and put under military discipline, and the services came under military control, and, rightly or wrongly, were regarded for the time being as a Defence Service.

4570. In the second paragraph of paragraph 18 the Comptroller and Auditor General states: "The expenditure of the Government of Burma on civil services other than those taken over by the Army continues to be financed by advances made from this Vote on the basis of estimates approved by the Treasury." These are the expenses of the Government of Burma whilst it was outside Burma?—Yes, for the year in question.

4571. It speaks of "advances." Are those advances likely to be repaid?—I would not like to prophesy about that. At the present time Burma has no resources of her own. Revenue is just beginning to be collected, in a small trickle after eight months of return of the civil Government, but there was no option but to make these advances which were made in respect of the years when the Government of Burma was in exile as eventually debitable to the revenues of Burma. What will be their ultimate fate I should not like to prophesy, and it would largely be, no doubt, decided on political considerations. For the time being they must be just advances.

Chairman.] Are there any questions on paragraphs 15, 17 or 18? The Account is very brief and contains practically no item we have not already discussed. I have no questions on the Account. Has any Member any questions on the Account?

(Account approved.)

(Sir David Monteath and Mr. Petch withdrew.)

Mr. A. J. D. WINNIFRITH called in and examined.

CIVIL APPROPRIATION ACCOUNTS, 1944.

CLASS II.

VOTE 7.

COLONIAL OFFICE.

Sir GEORGE GATER, G.C.M.G., K.C.B., D.S.O., called in and examined.

Chairman.

4572. Will Members turn to the Civil Appropriation Accounts, 1944, Class II, Vote 7, the Colonial Office. The Account is at pages 71 and 72. This is the ordinary account for the expenditure of the Colonial Office in this country. There is only one item about which I should like to ask you a question. Amongst the Details of Receipts, at the foot of page 71, the first item is: "Contributions from Colonies towards the cost of the British Colonies Supply Mission," a figure estimated at £80,000, and only £42,874 was realised. The footnote says, with regard to this short haul: "Due to varying war conditions the contributions from Colonies towards the cost of the British Colonies Supply Mission were less than provisionally estimated." It is not a very informative footnote, because that fact is

apparent from the figures. Could you tell us a little more about why the realised receipts were so much less than you estimated?—(Sir George Gater.) Yes. There was a charge of 1½ per cent. for overheads to cover the cost of the Mission, and the difficulty was that of course the collection of those contributions was dependent upon the release of goods and shipments from the United States and distribution in the colonial territories. Then, of course, the actual amounts brought to account are dependent upon the submission of periodical returns from the Colonies, and under war-time conditions these were often delayed. So that really I think the answer is that there was a considerable lag, and, therefore, the amount did not come within the year in question. We made the best estimate we could, but for those reasons our estimate was not realised.

23 May, 1946.]

Sir GEORGE GATER, G.C.M.G., K.C.B., D.S.O.

[Continued.]

4573. Money may come in in later years?
—Yes, one hopes so.

Chairman.] Are there any questions on this Account?

Mr. Benson.

4574. What exactly is the British Colonies Supply Mission?—That was an office started similar to the offices started by a number of other Departments in Washington, to facilitate the purchase of goods for the Colonies at a time of very considerable shortage. Originally, the cost

was met by His Majesty's Government, but it was then felt to be right to meet it by making an overhead charge on the Colonies themselves, and it is this amount which is in question.

4575. Would that ultimate surcharge amount to 100 per cent. of the cost?—It has, I think, more than covered the cost in fact. We fixed $1\frac{1}{2}$ per cent. because that is the ordinary Crown Agents' commission.

Chairman.] Are there any further questions on the Account? May I take it that the Account is approved? (*Agreed.*)

VOTE 8.

COLONIAL AND MIDDLE EASTERN SERVICES.

Chairman.

4576. Will Members turn now to the Report of the Comptroller and Auditor General, paragraphs 15 to 22, which are at pages vii to ix. We will take the first three paragraphs 15, 16 and 17 together. Most of this is I think formal. In the second sentence of paragraph 16 the Comptroller and Auditor General tells us that "the reports of the Auditor of Malta dated the 17th March, 1945, and the 23rd July, 1945, on the accounts of Malta for 1942 and 1943 respectively, were not received by me in time to enable me to examine them before completing this Report." Sir Gilbert, when did you receive these reports?—(*Sir Gilbert Upcott.*) I received the accounts for Malta for 1942 and 1943 on the 9th January, and the Auditor's report on the 2nd February. As that was only ten days before I finally completed this Report, I was unable to consider it before writing this paragraph.

4577. How did it come about that these reports were not transmitted earlier to the Comptroller and Auditor General?—(*Sir George Gater.*) I am afraid it all comes back to the very difficult war years in Malta, when, of course, Malta was under siege. That is really the years in question mentioned here, 1942-43 and 1943-45, and owing to the very abnormal conditions there with bombing and pressure upon staffs, the audit staff ran down very low indeed, and I am afraid one must admit that the audit work was not done up to a proper peacetime standard. Since then we have been trying to pull up as rapidly as we could. The reports in question to which you referred were delayed because of the efforts made to go over these rather complicated accounts. I may say that the Audit Office itself was bombed on one occasion, and that, of course, led to a loss of documents, we are really making up these arrears and I hope the accounts for the succeeding years will show an improvement.

4578. The point of my question really is this. Sir Gilbert Upcott in his Report states that these reports were dated the 17th March and the 23rd July, 1945?—Yes.

4579. You surely must have received them yourselves a few days after that. How is the delay accounted for in transmitting them to the Comptroller and Auditor General?—They were probably delayed slightly in Malta, and then they had to be examined in the Colonial Office and also in the Treasury. I am very sorry. I agree that they ought not to be so delayed, but this is really the aftermath of the troubles which arose in Malta which we are trying to overcome.

4580. Sir Gilbert, in the normal way you would receive these reports very much sooner after they were signed by the local Auditor, would you not?—(*Sir Gilbert Upcott.*) I expect to do so. I am not complaining about the delay in the compilation and audit of the Malta accounts, which I can very easily understand. What I was complaining about was being asked to consider, in February, 1946, on the eve of writing the Report, accounts which have been in the Colonial Office for, in one case, nearly a year, and in the other case, more than six months. I am afraid that has been a constant trouble that my predecessors and I have had to suffer from, that the Colonial Office is rather apt to throw accounts up at the last moment. I am glad to say I have arrived at what I hope is a more successful *modus vivendi* with the present Accounting Officer, by which he will undertake to render accounts which I ought to consider at the proper date for the statutory rendering of his own Appropriation Accounts, so I hope this kind of trouble may not occur in future years.

4581. Sir George, do you want to say any more?—(*Sir George Gater.*) I only want to say that it was not due to malice that we put these accounts in just before the important date for the Comptroller and Auditor General. It is our great desire to get them in. (*Sir Gilbert Upcott.*) What usually happens is that I have sent the Accounting Officer a draft paragraph of my Report which says that certain accounts have not been received. Before I get his answer accepting that fact, great bustle no doubt occurs in the Colonial Office, and the

23 May, 1946.]

Sir GEORGE GATER, G.C.M.G., K.C.B., D.S.O.

[Continued.]

accounts reach my Department. That is not much help, but, as I say, I do not want to rake up old troubles. We have agreed that I should be given accounts on which I am expected to report at what is the statutory date for the rendering of the Accounting Officer's accounts.

4582. I hope you will be able to see that these accounts do get to the Comptroller and Auditor General a little sooner. Sir George?—(Sir *George Gater*.) He very kindly, in the new arrangement, is really giving us rather more latitude, and I hope we shall be able to keep up to the mark. (Sir *Gilbert Upcott*.) I do not expect to receive the accounts of a grant aided colony until a year later than the accounts of the Colonial Office itself, because they have to be audited out in the colony, rendered to the Colonial Office and considered, so I expect to receive, when I am dealing with the 1944 accounts of the Colonial Office, the grant-aided accounts for 1943, and that has occurred in these cases, with the exception of Malta, which is in arrear.

Chairman.] Are there any questions?

Mr. Wadsworth.

4583. These accounts were held up, actually, in the Colonial Office for twelve months. Where actually were they held up? I am not quite clear?—(Sir *George Gater*.) Partly in the Colonial Office and partly in the Treasury.

4584. It took twelve months for them to filter through?—They did require a tremendous amount of examination and I should say the staff doing this have a great deal of other work to do as well, and we have in these years suffered from the same shortage of staff which I think is common to all Departments in Whitehall. I am not for a moment attempting to minimise the seriousness of delay. I am sorry, but it has been due to the complication of the accounts and pressure on staff. (Sir *Herbert Brittain*.) May I say that the Malta accounts for 1943-44 were in the Treasury for exactly four days.

4585. I hope they were properly scrutinised?—I laid myself open to that. (Sir *George Gater*.) I think there was probably some consultation with the Treasury before they actually came there.

Mr. Benson.

4586. Are we to take Sir Herbert's remarks as a reflection on the Colonial Office or on the Comptroller and Auditor General, who had them 12 days?—I am afraid the Colonial Office are in the dock on this. (Sir *Gilbert Upcott*.) I did not have them 12 days. When I received them 12 days before my signing of the Report I refused to consider them. (Sir *Herbert Brittain*.) May I add that the result of the four days' examination was three pages of queries on them.

4587. Only three-quarters of a page a day?—(Sir *George Gater*.) That does not accelerate the process. (Sir *Gilbert Upcott*.) There were one or two fairly important items which required consideration in these accounts, and no doubt they will be considered.

Chairman.

4588. Now, could we pass to paragraph 18: "St. Helena." The Comptroller and Auditor General states that he understands that the current audit of these accounts is carried out by an official of the Colonial Government. Who is that?—(Sir *George Gater*.) It was really the Government Secretary, but unfortunately during part of the time, owing to difficulties of staff and transport, there was a vacancy in the office of Government Secretary, and then it was done by one of the Chief Clerks there, a local inhabitant. It is not a satisfactory arrangement at any time. It was dependent upon a visit every three years of a member of the staff of the Director of Colonial Audit.

4589. But that has not taken place for something like eight or nine years now?—It has not taken place for a long time, partly owing to difficulty of staff, and partly because St. Helena is the most difficult place to get at at all. There is no air service. It is dependent upon ships actually touching there, and, of course, their journeys are infrequent. But I have discussed this with the Director of Colonial Audit, and we have made arrangements now that a suitably experienced member of his staff should go there and spend a year in the Island, and should start not later than the end of this year.

4590. A member of the Colonial Office staff?—The Colonial Office Audit staff. That is, I think, the only way to get matters into satisfactory order.

4591. It may have some rather disturbing effects in St. Helena?—I hope not, but I cannot, I am afraid, give any guarantee.

4592. What is this matter in the last sentence but one: "The Director of Colonial Audit reports that this partial audit continued throughout the year 1943, and that he has advised the Secretary of State of the inadequacy of the audit which has been applied to the departmental accounts of the Food Stocks Revolving Fund." Could you tell us anything about the Food Stocks Revolving Fund?—That was a fund for the purchase of foodstuffs during the war, to be imported into the Colony in bulk and purchased on Government account, the proceeds of sale accruing to the Fund.

4593. That is one of the matters which will be investigated?—That is one of the matters to be investigated.

4594. Are there any questions on paragraph 18? We will pass over this paragraph about Jamaica, because there are other paragraphs later on about Jamaica.

23 May, 1946.] Sir GEORGE GATER, G.C.M.G., K.C.B., D.S.O.

[Солнннеа.]

We will pass to paragraph 20: "Claims by the Chiefs of Opobo, Nigeria." This is a very interesting paragraph. It appears that the Vice-Consul in Opobo in 1892 entered into some agreement with some local chieftians?—Yes. The position then was that these were rather disturbed days, and the palm oil, which was one of the main exports, was bought from the local chieftains, and there was a good deal of disorder and trouble, and it became necessary to confiscate quantities of war canoes and weapons which belonged to the local Chiefs of Tribes, and this undertaking was given by the Vice-Consul.

4595. Who was the Vice-Consul?—It was then under the Foreign Office. The Vice-Consul was Mr. Cairns-Armstrong, Vice-Consul at Opobo at that time.

4596. Would he be a local business man or a whole-time employee of the Foreign Office?—(Sir *Gilbert Upcott*.) He was the Vice-Consul *de carrière*.

4597. I suppose Mr. Cairns-Armstrong is now dead, otherwise he would have been brought into this matter?—(Sir *George Gater*.) I do not think he has been brought in personally. Of course, we have not any records about it in the Colonial Office, because we were not then responsible. (Sir *Gilbert Upcott*.) I think he must be dead, because he has not been asked to verify his signature, or his alleged signature.

4598. To what tests have you been able to subject these documents in order to establish the authenticity of them, or has the responsibility been accepted by the Treasury?—(Sir *George Gater*.) I think the Treasury were satisfied. The matter was gone into pretty fully with the local Colonial Government, and here in Whitehall. I cannot say that I personally inspected the documents. Possibly I ought to have done.

4599. The Comptroller and Auditor General states: "The Treasury finally agreed on grounds of policy, . . . to payment from Imperial funds as an act of grace." Does that mean that the Treasury were not satisfied that there was any valid claim?—(Sir *Herbert Brittain*.) No. That Treasury agreement simply related to the question whether, given that there was a valid claim against someone, it should be borne by Nigeria or by the Imperial Government.

Chairman.] Are there any questions on paragraph 20?

Mr. Benson.

4600. I am rather curious to know how the Chieftains of Opobo managed to keep secure four paper documents for 50 years?—(Sir *George Gater*.) It is a very remarkable thing. I cannot answer that. It is remarkable.

Chairman.] And what is more remarkable, Mr. Benson, is why they delayed making their claim, which apparently arose after 30 years, for a period of 50 years.

49852

Mr. Benson.

4601. Or how anybody got them to agree in the first place to take a payment with 30 years' delay anyhow?—The real problem was to devise a method of distribution, and that led to a great deal of conference locally. Eventually it was decided that it should be distributed to what are called Houses—that is the local tribal unit—and not to the Chiefs. The Chiefs would merely get their share in the local Houses.

Chairman.

4602. The payments were made in cash and not in the form of a credit in the British Post Office Savings Bank?—That is so.

4603. I should like to ask if the Comptroller and Auditor General is satisfied that payment has been made to the persons properly entitled?—(Sir *Gilbert Upcott*.) Certificates have been rendered by the officials of the Nigerian Government that the money has been paid to what the Accounting Officer describes as the Houses.

4604. They have all signed for it?—Their representatives have, and I think that is sufficient evidence of due payment. I should add that the persons who received the money gave indemnity bonds in case there were any other claims.

4605. We can pass now to paragraph 21, which deals with Trans-Jordan. There has recently been a Treaty with Trans-Jordan, has there not?—(Sir *George Gater*.) Yes, it has been signed but not yet ratified. It will be ratified I hope in the course of the next month.

4606. If the Treaty is ratified, what will be the position of the Arab Legion, and shall we continue to pay for it?—The effect of it will be that, of course, Trans-Jordan will no longer be the responsibility of the Colonial Office, and it is anticipated that it will be able to cover its local expenditure by revenue. The question of the cost of the Arab Legion will really be a matter for the Foreign Office and War Office to determine. The size of that Legion depends upon broad strategical considerations in the Middle East. It was necessary for it to be regarded as a local force under the Emir of Trans-Jordan, and that is why it came on the Colonial Office instead of the War Office, but if its size is beyond that required for purely Trans-Jordan purposes, presumably it will fall to the Foreign Office and War Office to be responsible for sponsoring any expenditure.

4607. But the Colonial Office will no longer exercise any functions in Trans-Jordan?—No functions whatever once the ratification takes place.

Chairman.

4608. Are there any questions on paragraph 21? We pass to paragraph 22, which deals with Palestine. This describes a

K 4

23 May, 1946.]

Sir GEORGE GATER, G.C.M.G., K.C.B., D.S.O.

[Continued.]

very complicated arrangement for some payment to be made by the British Exchequer towards the additional expenditure on security services in Palestine. Could you explain it to us briefly?—The Grant in Aid was payable subject to an overriding limitation to ensure that it did not operate to raise the general revenue balance of the Palestine Government at the 31st March, 1944, to an amount in excess of £2,250,000, and there was a further proviso that if the full grant payable resulted in raising the balance to an amount between £1,500,000 and £3,000,000 the grant was subject to reduction by an amount equal to 50 per cent. of the excess of the balance over £1,500,000. I might say the object of this was that there were very considerable sterling balances in Palestine, and it was most desirable to keep down the amount of extra money being put into the country as far as possible.

4609. Were these rather complicated arrangements devised in order to give the Palestine Government some incentive to economy?—It was desired that they should be as economical as possible. It was also desired, and great trouble was taken to ensure it, that they should raise taxation as far as it was possible to raise it. But, of course, taxation in a country like Palestine is subject to certain limitations, because you have not any representative Assembly there. Income tax is dependent for prompt payment upon co-operation, and the local Government felt that it was not possible to put it beyond a certain figure.

4610. As regards 1944, this form of assistance was limited to a grant of £750,000, it is stated?—Yes. That £750,000 was for the special purposes of the cost of the Mobile Police Force which was started for security purposes at that time. It was left over until the end of the financial year to determine what further grant would be necessary.

Chairman.] Are there any questions on paragraph 22?

Mr. Benson.

4611. In view of the present disturbed state of Palestine and non-co-operation of a considerable number of the Jews and Arabs, how far is Palestine charged with the cost of maintaining law and order within its own boundaries?—It is responsible for its own Police, and ordinary civil security services, with this assistance from the Imperial Exchequer. But it is not responsible, of course, for the Armed Forces of the Crown that are located there.

4612. How much does Palestine contribute to the ordinary Police for maintaining law and order, as compared with the cost of this service?—I am afraid I have not that in front of me. I can send it to the Committee if they wish to have it.

Mr. Benson.] I do not think so.

Mr. Wadsworth.] I think it would be rather interesting to have it.

Mr. Benson.

4613. Do the Treasury know the amount?—(*Mr. Winnifrith.*) In 1945 Palestine paid the lot. They managed to get through without any grant from the United Kingdom. (*Sir George Gater.*) That was in 1945? (*Mr. Winnifrith.*) Yes.

Chairman.

4614. Are there any further questions on paragraph 22? We pass now to the accounts on pages 73 to 79. This shows the grants to the various Colonial Territories in detail. I have only one or two questions. On page 75, Subhead C. 13 is "Relief of British West Indians in Cuba and the Dominican Republic," an expenditure of £18,700. I do not think that item has ever appeared in your accounts before, and I should very much like to know what it is for?—(*Sir George Gater.*) It really arose in this way. In the prosperous days of the sugar industry a good deal of plantation labour was attracted from the West Indian Islands and settled down in Cuba and in the Dominican Republic, but as business in those territories declined, there became a serious redundancy of labour, and the British West Indians there resident fell on very evil days. On the reports that we had about the distress which they were suffering the Comptroller of Development and Welfare in the West Indies, Sir Frank Stockdale, was instructed by the Secretary of State in 1944 to investigate personally these problems. His report revealed such a very serious state of affairs amongst these West Indians that it was decided that relief measures must be instituted. The relief took the form of sick grants and poor relief payments, and some provision of social amenities. The amounts in question were administered by Consular Officers, who were appointed specially for the purpose. The sums estimated to be necessary at the outset were £20,000 for Cuba and £5,000 for San Domingo. The amounts were to be borne by the West Indian Governments roughly in relation to the countries of origin of the persons dealt with, and, to reimburse those Colonies, Parliament voted the sum of £25,000 in the year 1944/45. That was the first year that this amount was brought into account.

4615. It does seem to me a little strange to be paying poor relief in a foreign country. That is what we are doing here?—It was the only way in which these unfortunate people could be helped. They were squeezed out. They naturally had no consideration as compared with the local labour.

4616. When had they gone there?—I do not know how long ago, but it must certainly have been some time ago. (*Sir*

23 May, 1946.]

Sir GEORGE GATER, G.C.M.G., K.C.B., D.S.O.

[Continued.]

Gilbert Upcott.) After the last war, I think—the 1914-18 war. (*Sir George Gater.*) Yes. It was really at the time of the sugar boom after the last war, when sugar prices were very high, before they broke.

4617. When were these relief payments first made?—In the year 1944-45, as the result of the investigation made by Sir Frank Stockdale.

4618. Who is administering the payments on the spot?—The Consular representatives.

4619. Which of our Colonies did they go from?—They went from Barbados, Jamaica, the Leeward Islands and the Windward Islands. I perhaps should add that it has been arranged from the 1st April that this charge should be borne on the Foreign Office Vote for Diplomatic and Consular Establishments. I presume that is because we are really dependent for the administration upon the Consular officials.

Chairman.] Are there any questions on the Account?

Mr. Benson.

4620. Were these European or African born people?—They were West Indians and British subjects. It is a little difficult to trace their origin back.

4621. Were they the native population?—They were native population.

4622. They went there as labourers?—They were there as labourers.

4623. Has there been any question of repatriation?—It was regarded as impracticable. Of course, I may say that unemployment frequently occurs in the West Indian Islands, and transferring them back, from the point of view of those Islands, would be a doubtful proposition.

4624. What is likely to happen to them? Are they likely to remain on permanent out-door relief?—One hopes that will not be so, but it is a little difficult to forecast the future. Of course, one hopes that these grants will enable them to build up so that they will become more satisfactory economic units. They were, at the time of Sir Frank Stockdale's investigation, in very low water indeed.

4625. Were they living in colonies themselves, or were they just individual unemployed labourers in Cuba?—I think they were living in little packets by themselves.

4626. What is the standard of relief?—I am afraid I have not the details, because they are actually administered by the Foreign Office. I could get them.*

4627. One knows the extremely low standard of living that is customary among the natives there, and it does not take very much to satisfy them, or to make them think they have a permanent pension?—I agree.

* Paper circulated to Members: not printed

Chairman.

4628. There is one further question I want to put to you on the accounts. Subhead E.1 on page 76 is an expenditure of £475,000 in the Aden Protectorate. Could you give us a few details of that figure?

—Yes. In addition to the Colony of Aden itself, there is a hinterland which is known as the Eastern and Western Aden Protectorates. Those Protectorates are under British protection, and political officers are employed there, and certain sums of money, namely, the amounts here, are made available for grants for schools, training of medical students, agricultural services, and the provision of roads. That is the normal part of the expenditure. In addition to that, unfortunately, a very considerable amount of the sum in question had to be expended in 1944-45 on the provision of relief. That was caused by a number of operating reasons. Owing to the war there was a cessation of food imports from India and the Far East, and there was shortage of shipping and famine in India itself. Most serious of all, there was a very terrible drought in Southern Arabia, and the people there, particularly in the part known as the Hadraumat, were dying of hunger, and it was necessary to institute emergency schemes forthwith and buy large quantities of millet, which is the grain normally consumed in those areas. That accounted for £286,000 in the year 1944-45. Relief measures in the following year were subject to considerable reduction, and amounted to £237,000. In the year 1946-47 £150,000 has been provided.

Mr. Benson.

4629. What exactly is millet? It is ground, I take it, into flour. Is it a substitute for wheat?—Yes, it is the cereal substitute for wheat.

4630. It is inferior to wheat?—I cannot tell you much about it.

Chairman.

4631. We turn back now to paragraph 19. This deals with Jamaica. We are told that the charge of £692,000 under Subhead A.10 "represents the first instalment of a grant in aid to Jamaica in connection with hurricane damage sustained in 1944. The total amount of assistance necessary is estimated at £2,230,000." It appears from this paragraph that you have changed your mind once or twice as to how this expenditure should be borne. Perhaps the Committee might be told the reasons for the change of view on that?—You mean on the question of how it should be borne between the Colonial and Middle Eastern Services Vote and the Colonial Development and Welfare Vote?

4632. Yes.—The reason is this, that when we first had the proposal from the Governor, particularly on the rebuilding of houses, it was thought here that he had in mind

23 May, 1946.]

Sir GEORGE GATER, G.C.M.G., K.C.B., D.S.O.

[Continued.]

mainly betterment, that is, the rebuilding of houses which could be regarded as work coming under the Development and Welfare Act. However, when we later got his actual detailed proposals, it appeared that it would not be right to regard the great part of the expenditure as really coming under that heading. It was felt that only £100,000 ought to be regarded as coming under the Colonial Development and Welfare Act. That was the reason for the change of attitude.

4633. Out of the £692,000 on Subhead A.10 we are told £196,000 represents a free grant for distribution to banana growers. That is also in connection with the hurricane damage, is it?—That is in connection with the hurricane damage, and I should, perhaps, say that this was the most severe hurricane that they had had for 40 years. Although the loss of life was not very large, there was immense damage. It was estimated that 80 per cent. of the banana plantations were destroyed, and over 1,500,000 cocoanut trees were blown down or broken, and there was serious damage to other crops. 17,000 buildings were totally destroyed and 20,000 very badly damaged. It was a rather major disaster.

4634. Now we turn to the loan, that is to say, the balance of the amount of £496,000 is the first part of a loan to the Government of Jamaica. That loan is interest free so far as we are concerned, is it not?—Yes. No interest is to be paid by the Government of Jamaica, but 2½ per cent. is to be paid by the persons to whom the money was lent by the Government of Jamaica. The idea was that 2 per cent. would be for the actual administrative charges by the banks and ½ per cent. to cover bad debts.

4635. That being the first instalment, what is the balance still remaining to be lent, or the additional liability? You estimated a total amount of assistance necessary at about £2,250,000.—The total estimated as necessary was £2,230,000. That was the total amount.

4636. You take £692,000 off that—that being what is borne here in this year's accounts?—That is right.

4637. That will give you somewhere about another £1,600,000?—Yes, except for such portion—that is £130,000—which is to be borne by the Development and Welfare Act.

4638. So far as this is a loan on our part, what is the period of it? There is to be no interest?—Twenty years.

4639. It all becomes repayable in one lump sum in twenty years' time?—(Sir Herbert Brittain.) No.

4640. It is by instalments, is it?—Yes. (Sir George Gater.) It is repayable by instalments from the date of issue. (Sir Herbert Brittain.) From the beginning of the fourth year.

4641. Suppose the Jamaican Government makes losses through lending unwisely, do we suffer the loss or do they?—(Sir George Gater.) I mentioned that they were charging 2½ per cent. to those receiving the loans, and that ½ per cent. of that is set aside for bad debts.

Chairman.] Are there any questions on paragraph 19?

Mr. Benson.

4642. I am afraid these figures are rather difficult to follow. The total damage by the hurricane was £2,230,000?—Yes.

4643. £692,000, or roughly £700,000, was represented by the damage to banana crops?—Yes.

4644. Was that all crops or just bananas?—Bananas.

4645. That leaves approximately £1,500,000—of which, how much was represented by housing?—The total amount represented by housing was £905,000.

4646. That leaves another £400,000. Where did that go?—That is for loans for growers of other crops for replanting and new planting and rehabilitation purposes, because, of course, this hurricane was destructive to other crops than bananas, but the Governor deliberately started on bananas, because you get the quickest results from them.

4647. Bananas represented £700,000 and other crops £400,000 and housing £900,000. Is that roughly the proportion? In addition to that there was a loan of £496,000, which was quite apart from the free grant—or is that part of the £600,000?—Yes, that is part of the £692,000.

4648. Does that apply to all crops, bananas and other crops?—Yes.

4649. Is not the position at the moment that there is a surplus of bananas? They cannot sell what they have?—This relates to the year 1944-45. We are now in 1946.

4650. The 1945 crop is only just coming in now, is it not?—Yes. I think they are at the moment shipping pretty well all they can get.

4651. In the war years and in this period you were having to buy bananas, were you not?—In the war years His Majesty's Government agreed to guarantee the crop—that is, to buy the crop.

4652. What happened to the crop?—There were various means of dealing with it. Anything that could be exported either to Canada or to the United States was exported, but that was a small proportion. (Sir Gilbert Upcott.) You will see that when you come to the Vote of Credit Appropriation Account. There is a paragraph upon it in my Report on that account. (Sir George Gater.) The rest was to be consumed locally and was sold at the best price obtainable. (Sir Gilbert Upcott.) Or was given away. (Sir George Gater.) Yes.

23 May, 1946.]

Sir GEORGE GATER, G.C.M.G., K.C.B., D.S.O.

[Continued.]

4653. Given away to the local people?—It was a very valuable article of food when food was short.

4654. Bananas are the main product of Jamaica, are they not?—Three-fifths of the export.

4655. And what about all this Jamaican production? It bulks very largely in total production, does it not?—Yes.

4656. How much of that £496,000 has been already utilised by the agriculturists?—The whole of that has been loaned now.

4657. The £496,000?—Yes.

4658. Have you any idea how that has been expended? Has that been expended on bananas or other crops mainly?—Really, the distribution is for bananas, £650,000 altogether, and for other crops, for replanting and so on, £675,000. It is about half and half. That is out of the total. The distribution of the other crops is: cocoanuts, £550,000, orchard crops, £15,000, food crops, £70,000 and general rehabilitation, £40,000.

4659. We have now a much larger sum than—?—Not larger than £2,230,000, roughly.

4660. Housing takes £900,000?—Yes.

4661. That is £1,200,000—I follow.—(Sir Gilbert Upcott.) I think you overestimated the money for bananas.

4662. On the question of the Development Loan of £496,000, here, again, to what extent has that been directed to the extension of banana production as compared with other crops?—(Sir George Gater.) In a sense, that was, I suppose, development, but it was mainly for new planting and replanting, following the hurricane.

4663. The £196,000 was grant?—The £196,000 was grant, and the £496,000 was loan. (Sir Gilbert Upcott.) As far as this Vote is concerned, this is supposed to be, at any rate, for the making good of damage. When you come to the next account over the page, then you get the question of agricultural development, which comes on the Development and Welfare Vote.

4664. The £196,000 did not cover the banana damage?—(Sir George Gater.) No. There was an amount of loan in addition to grant. It was really all worked out on a scale dependent on the amount of damage. Those who had 90 per cent. of damage had so much in grant or could have so much in grant and so much in loan. It was all scaled down. The Governor appointed a committee which went into the whole thing, and produced a careful scheme.

Sir Frank Sanderson.

4665. The Report deals with the grants made in respect of damage sustained by the banana crops and other crops, but no reference at all is made to sugar cane. Since sugar cane is their chief product, can you state whether the grant included something in respect of damage sustained

to the sugar cane crops?—Sugar is one of those crops that really does stand up to hurricane for the most part, and so the damage there was not really serious.

4666. In regard to the loan free of interest which was made to the Government of Jamaica, that appears to me to be treating the Jamaican Government very liberally. It seems a little difficult to understand why the natives should be treated more harshly, and whereas the Jamaicans receive a loan from the British Government free of interest, they should pass that money on to those who really have suffered at a charge of 2½ per cent. interest?—That was really done to meet overheads to the extent of 2 per cent., and ½ per cent. for bad debts. I gather that the 2 per cent. is not an unreasonable charge for overheads for the administration of this money which, of course, has to be broken up into very small amounts, and does require a good deal of work.

4667. One appreciates that. I would have thought, if the British Government felt it was their duty to make a free of interest loan, the Jamaican Government in their turn might have felt equally liberal to pass the same money on without charge. However, I suppose that was a point really for the Jamaican Government?—It was really a question of their financial ability.

4668. It is a case for the Jamaican Government rather than for the Colonial Office?—It was all worked out and agreed jointly with the Jamaican Government as being the best thing to do.

4669. I make the point deliberately, because I know the Island well, and I know that the natives always feel that they get rather a raw deal, that the Government of Jamaica gets a good deal from the Colonial Office, but that generosity is not passed on to the natives, and this would appear, on the face of it, to be just a little harsh towards the natives?—It is a general question of budget. I have no doubt, if this 2½ per cent. had not been paid, the Jamaican Government would have had to raise more revenue by taxation to balance its budget.

Mr. Benson.

4670. On that point, banana plantations are rather large concerns, are they not? I do not know whether Sir Frank was using the word "natives" in the sense of the African native. The banana plantations are rather big concerns, are they not?—I think they are both small and large. They vary.

4671. The United Fruit Company, which is an American concern, is very large?—Those are the purchasers, the merchants.

Mr. Benson.] They also grow.

Sir Frank Sanderson.] The plantations are principally small. The United Fruit Company buy from the natives who grow.

Mr. Benson.] And they also grow, I believe.

23 May, 1946.]

Sir GEORGE GATER, G.C.M.G., K.C.B., D.S.O.

[Continued.]

Sir *Frank Sanderson.*] Yes, to a smaller extent.

Chairman.] Are there any further questions on paragraph 19?

VOTE 9.

DEVELOPMENT AND WELFARE (COLONIES, ETC.).

VOTE 8.

COLONIAL AND MIDDLE EASTERN SERVICES (*continued*).

Chairman.

4672. We pass to paragraph 23, which deals also with an experiment in Jamaica, does it not?—Yes, this happens to be in Jamaica.

4673. Subhead C. includes £95,000 "issued to Colonial Food Yeast, Limited, a private limited company formed in 1943, with a nominal capital of £100 held by persons nominated or approved by the Secretary of State for the Colonies to control the manufacture of a product designed to improve the nutritive value of food. The scheme approved by the Treasury provided for an interest-free loan to the company of £150,000." Can you tell us, Sir George, who are the Directors of Colonial Food Yeast, Limited?—Yes. The Chairman is Mr. Kenneth A. E. Moore, who is also Chairman of Food Yeast, Limited, a company set up by the Ministry of Food to control the production and distribution of food yeast in this country. Then there is a representative of the Colonial Office, Mr. Carstairs; there is Dr. Platt, who is on the staff of the Medical Research Council and the Secretary of State's Nutritional Adviser; there are three members of the West Indies Sugar Company—that is Mr. Philip Lyle, Mr. Blanchard and Mr. Walker—and there is Mr. Carpmail, representative of the Jamaica Government.

4674. The Comptroller and Auditor General states: "Erection and equipment of a factory in Jamaica was entrusted to a sugar company"?—That is the West Indies Sugar Company, who are a subsidiary of Tate and Lyle.

4675. They are employed as agents of Colonial Food Yeast, Limited, and they operate the factory in conjunction with their own adjacent factory?—Yes. The factory is just erected. It is not yet in production. It will be shortly, I hope.

4676. Has the formal agreement for the agent's remuneration referred to in this paragraph yet been signed?—Yes, it was signed on the 2nd May this year.

4677. Could you give us the main terms of the agreement?—The main terms of the agreement are that it provides for the period up to the 31st December, 1944, that is, during the planning of the factory, for a fee of £10,000 to be paid to the West Indies Sugar Company. As from the 1st January, 1945, the fee is £5,000 per annum plus a bonus of £2 per ton of dry food yeast

produced during the year. I should perhaps say that the estimated price of a ton of food yeast is about £84.

4678. The agents had the operating arrangements for these fees which you have been mentioning?—Yes.

4679. So that their position is assured, it is not? They cannot make a loss on it?—They get the fees for the cost of their overheads, staff and so on. Their bonus per ton depends upon the sales. (Sir *Gilbert Upcott.*) If they are agents they cannot make a loss.

4680. That is the point I was putting. What puzzles me, Sir George, is why it was thought desirable or necessary to form an intermediary company, Colonial Food Yeast, Limited, which seems to be merely an extra link in the chain between the Colonial Office and the producers, the people who do the work—the operating company?—(Sir *George Gater.*) It was thought to be best, when this project was started, to have a company in this country covering people with expert knowledge to do the initial planning, but the whole arrangement is experimental and has been sanctioned as experimental by the Treasury, and it is the intention, after the factory has been in production for a period, to review all the arrangements.

4681. Here you have an intermediary for the Colonial Food Yeast, Limited; then there is a separate company, I understand, doing the same job in this country. Did you not speak of a Food Yeast Company of which Mr. Kenneth Moore was Chairman, operating under the Ministry of Food?—That is quite distinct. That has nothing to do with the Colonial Office. Mr. Moore happens to hold the office of Chairman of these two companies. (Mr. *Jones.*) I do not think the Ministry of Food company is in production. I believe that was a company which was set up to explore the possibility of production of this sort of material in this country, but the idea was subsequently dropped.

4682. Is that also a company formed under the aegis of the Government, and with Government money?—There was this company set up by the Ministry of Food in the early days of the war, but it never got into production. I do not know whether it has been liquidated or not. At any rate I think it is dormant at the present time.

23 May, 1946.]

Sir GEORGE GATER, G.C.M.G., K.C.B., D.S.O.

[Continued.]

4683. Sir Gilbert, you say that you have not yet been furnished with audited accounts of expenditure under this scheme. Does that still hold good?—(Sir Gilbert Upcott.) Yes. As the Accounting Officer said, the factory is not yet in operation. I presume there will be constructional expenditure which will be brought to account. (Sir George Gater.) We have received a set of accounts which have just come to the Colonial Office.

4684. How is the control of the Colonial Office over this venture made effective? You have two Government nominated directors on the company. Is that right?—Yes. We have Mr. Carstairs of the Colonial Office. The other representative is mainly a Nutritional Expert, Dr. Platt. Then there is the representative of the Jamaica Government, but there is freedom of access to the books and other records of the West Indies Sugar Company. There is every facility for checking up on the ground.

4685. On the Board of the company formed by the Ministry there is one Colonial Office representative and one Jamaican Government representative?—Yes.

4686. The remainder are commercial men for the most part?—Except for the Nutritional Expert and the Chairman, who is a man of business experience, but who is independent, of course, of the West Indies Sugar Company.

Chairman.] Are there any questions on this paragraph?

Mr. Cuthbert.

4687. May I follow up your point. I am not quite clear about this yet. Have I got it clear that all that it really costs the Government is the £5,000 a year plus the 2½ per cent. per ton? No other remuneration goes to any of those particular companies but that amount?—As far as the agent is concerned, the Government has been responsible for the building of the factory, and there is a further advance of £75,000 for working capital to start the thing going. When it is going, of course, we hope that it will support itself.

4688. That is all that the Government would pay away?—As far as the agent is concerned it will be £5,000 a year plus £2 per ton.

Mr. Benson.

4689. Why do you form a company which employs an agent and then gives the agent 50 per cent. representation on the Board of the company?—That, I agree, is a point that can be criticised. It was felt that everything depended upon getting the co-operation of the company, and getting the value of their experience on the ground, and that was the reason for putting in three representatives, but it was always felt that when the factory

was in production the basis of the Board might have to be reconsidered.

4690. How do you propose to market this stuff?—I take it the Government will be responsible for the output. In fact the output is made on behalf of the Government, and the Government will have itself to do the marketing?—The agent company will be responsible for the marketing. As far as one can hear, in the present state of world food, I do not think there would be very much difficulty in marketing. Indeed, there are many inquiries for this substance now. I actually put a small bottle of it in my pocket, because I thought possibly Members of the Committee might like to see it. (*The same was handed to the honourable Member.*)

4691. It is not solely to raise the nutritional standard of the Jamaicans?—No, by no means, although I think Jamaica will certainly want to keep some of it. But it is hoped that it may go to Malaya, Hong Kong and other places where they are suffering very much from food shortage, because it has a very great nutrition value, not only proteins but Vitamin B.

4692. Is it proposed to market it in this country?—I do not know whether the Ministry of Food are proposing to use it or not.

Chairman.] You are sampling it now, Mr. Benson?

Mr. Benson.

4693. Yes. I feel no benefit yet! In fact this is really a semi-experimental venture in food production by the Colonial Office?—It really has two purposes. One is nutrition. It is hoped that we can produce a substance which will very much enrich colonial dietary, which is very short at the moment in Vitamin B. That is one side of it. The other side of it is that you get a good deal of by-product from sugar in the form of molasses, which is used in the manufacture of food yeast, so we hope there it will be possible to use a by-product which otherwise might not be used.

4694. So it has a dual purpose. One, to help the Jamaican sugar industry, and, secondly, as a contribution—?—As a contribution to dietary.

4695. Does that mean to tropical diet?—Yes, it is in the tropical countries that you get this most serious shortage of Vitamin B.

4696. The estimate is £80 a ton. Is that the net cost or is that what you propose to sell it at?—I inquired about that. I was given that figure as the cost. I am not quite sure how it is made up.*

Sir Frank Sanderson.

4697. What is the name of this material?—Food yeast.

* Paper circulated to Members: not printed.

23 May, 1946.]

Sir GEORGE GATER, G.C.M.G., K.C.B., D.S.O.

[Continued.]

Chairman.

4698. Sir Herbert, I should like to ask whether the Treasury have any observations to make on this rather unusual form of finance?—(Mr. Winnifrith.) I think we attach considerable importance to this review which is to take place after a few years, to see whether we can dispense with this extra link in the chain. The main reason which moved us to agree with the Colonial Office that it was the right thing to do initially was that this was a way of getting practical experience on the Board of Directors. As soon as they got past the experimental stage we would like a return to the normal arrangements of direct dealings between the Colonial Office and the operating company, without an intermediary link.

4699. I still do not understand why it was necessary to have an intermediary link in the first instance. I take it that the operating company had got all the knowledge and all the plant available to produce this stuff—or did you want to work in the scientist, Dr. Platt?—(Sir George Gater.) We were approaching it from the dietary point of view, the nutritional point of view, as well.

Mr. Cuthbert.

4700. Now that we have this powder, may we ask what is the substance of it? Is it made from sugar?—It can be made either from molasses or from sugar cane juice.

Chairman.

4701. I am still puzzled as to the necessity for this intervening link at the outset, which we are told in a short time will no longer be required or is not likely to be?—(Mr. Winnifrith.) We hope not. The Colonial Office represented to us that they could not get this wisdom from the West Indian directors available on the controlling Board except in this way. There was also the idea (I do not know whether it is being pursued now) that it might be possible to extend the development of food yeast to other sugar producing colonies. For example you might open a factory in Mauritius, which also wanted to use its by-products, in which case it would be convenient to have this one unit, which could control not only operations in Jamaica but other places.

4702. Are any of these directors whole-time?—(Sir George Gater.) No.

4703. I suppose they are not, as it is not an operating company?—No. The Board meets about once a month.

4704. Are they all remunerated?—They are honorary.

4705. All of them?—Yes.

Mr. Benson.

4706. What is the maximum output of the factory and what is the estimated output?—This is purely an estimate because

it is not yet in production. We hope for an output of 12 tons every 24 hours, and when running fully, an annual output of about 2,500 tons.

4707. How much molasses or sugar equivalent will that use?—I think it takes about 4 tons of molasses to produce 1 ton of food yeast. I am giving that out of my head. I am not quite sure about it.

4708. So it is not really a very big contribution to sugar production?—It may, as I say, use up a by-product, molasses, that otherwise might not be used up.

4709. But not on a very large scale?—No, not in this one factory, but of course it is a beginning.

Chairman.

4710. In paragraph 24 the Comptroller and Auditor General tells us that there is also included in Subhead C "a payment of £218,000 to Jamaica under a scheme for assistance towards the cost of establishing ten agricultural centres and working them for a period of five years." The total cost of the five years' scheme is expected to be £980,000. The scheme appears to have been started primarily as a measure of relief in the latter half of 1942. Is that so?—That is so.

4711. What are these agricultural centres? Are they really experimental farms?—As you say, they were started, first of all, to deal with unemployment, which was largely then caused by work on the American bases having ceased in 1942, and of course all the troubles that arose out of shipping difficulties and submarine campaigns, and so on, in the Caribbean at that time. Their object was to train men in two capacities—one as settlers—that is, on the land, which would be leased to them—and, secondly, as skilled workers to work on other people's land. It started as an unemployment scheme, and then it was seen that it could be made an instrument of very great value for training and development purposes, and after a great deal of discussion and a good deal of technical examination on the spot by the Comptroller, Sir Frank Stockdale, and his Agricultural Adviser, Mr. Wakefield, the final scheme was evolved as described here, providing that part of the amount should be provided by the Jamaica Government and the remainder should be issued as a grant from the Development and Welfare Vote.

4712. Would you regard it as coming within the normal ambit of the Development and Welfare Vote grants of money for schemes which are primarily measures of relief for unemployment?—Certainly not those which are primarily for unemployment, and it was for that reason that the cost has been divided in this way. The items were very carefully examined, and such part as could properly be attributed to development was so attributed. I must admit it does look rather untidy, owing to

23 May, 1946.]

Sir GEORGE GATER, G.C.M.G., K.C.B., D.S.O.

[Continued.]

its genesis as an unemployment scheme, but I think once the training idea and the development idea took hold, it subsequently was tidied up, and I think is justified.

4713. Out of the total cost spread over five years rather more than half is coming from the Development and Welfare Vote and rather less than half from the Colonial Vote?—Yes, £500,000 from the Development and Welfare Vote and £468,368 from the Colony.

4714. Sir Herbert, have you any observations on the way in which this expenditure is to be borne?—(Mr. Winnifrith.) I have no doubt whatever that these schemes on which Colonial Development and Welfare money is being spent are perfectly proper schemes for the use of that money. Where I think we were wrong was to use Colonial Development and Welfare money to finance a scheme which had already been in hand for some time. It is not quite as bad, I think, as it looks. In fact, our attention was drawn to this scheme as far back as 1943. The Governor of Jamaica came over, had consultations with the Colonial Office, and those consultations also included the Treasury, so we knew about the scheme at that time. I think however we should have formalised the position rather sooner. I think the Colonial Office share the blame with us over that. But for the future we should want to make it a definite rule that before you start spending Colonial and Development Welfare money you should see the scheme at the start, get it at the proposal stage, and at that stage satisfy yourself not only that it comes within the ambit of the Act but that it is in itself a good scheme. (Sir Gilbert Upcott.) Perhaps I might say that the Treasury said in 1939, as they say now (they said it then on the old Development Fund) that Development Schemes should not be used to make good, as a general rule, past expenditure.

4715. A similar question arose in 1939?—Yes, a similar question arose on the old Development Fund. (Mr. Winnifrith.) The only difference on this occasion is, I think, that it had not got quite so far into the past as would appear from this Report. (Sir George Gater.) I do not know whether it is permissible for me to say that I do not in any way dissent from the doctrine laid down. I think it is very much better that these schemes should be properly approved in advance.

Chairman.

4716. Are there any further questions on paragraph 24? We pass to paragraph 25: "Agricultural Development Scheme." The Comptroller and Auditor General states that this is a scheme: "to carry out a plan of extensive agricultural development throughout the Colony over a period of five years from 1943." The scheme contemplates grants amounting in all to £525,000. Could you explain what this is? We have

already grants for the rehabilitation of banana growers, and we have agricultural training centres. How will this money be spent? Will this be loaned to producers?—It is really an expansion of the normal Government agricultural services in Jamaica for the long-term development of agriculture. This is, I think, one of the first schemes that we have had which is not a distinct scheme, but which provides for a grant which will add to the expenditure on a service which is already in operation. The object of this is to expand as is shown here the amount of money available for agricultural development over a period of five years. The particular extension which was in mind was the provision of four agricultural stations which would deal with all forms of crop and animal husbandry and pasture management in relation to the area served, and it was hoped that these centres would be centres of research and planning in agriculture which would help to raise the general level of agriculture in the Colonies.

Chairman.] Are there any questions on this paragraph?

Mr. Benson.

4717. Are there any other development schemes (I do not know whether this question is in order) than agricultural development?—In Jamaica?

4718. Yes.—Yes, there are schemes for education, medical services, and so on.

4719. I was meaning economic development.—Yes. Agriculture, which is the main industry of Jamaica, is economic. The other schemes are for social services.

4720. You have no industrialisation schemes?—There is very little scope for it in Jamaica. (Sir Gilbert Upcott.) There are some big water schemes. (Sir George Gater.) Yes; they come under agricultural development. (Sir Gilbert Upcott.) One of them is the improvement of Kingston's water supply.

4721. That is not for water power, I take it? That is for the ordinary irrigation and domestic supply?—(Sir George Gater.) Yes. I am looking down the list. I see there is a scheme for malaria control, a scheme for forestry over nine years, and a scheme for a farm prison.

4722. Was there not some attempt at the making of banana flour in the last few years? Has not that been before us, or am I imagining that?—I do not think so in Jamaica. (Sir Herbert Brittain.) The Committee asked the Foreign Office about the possibility of dehydration. (Sir Gilbert Upcott.) That was in West Africa. (Sir Herbert Brittain.) Yes.

4723. It does not apply to Jamaica?—No, it does not apply to Jamaica.

Chairman.] Are there any further questions on paragraph 25? Are there any questions on Class II, Vote 8, Colonial and Middle Eastern Services? May I take it

23 May, 1946.]

Sir GEORGE GATER, G.C.M.G., K.C.B., D.S.O.

[Continued.]

that the Account is approved? (*Agreed.*) Then we turn to the Development and Welfare (Colonies, etc.) Account, Class II, Vote 9. I do not think we need trouble our-

selves about the details of that now. Are there any questions on that account? May I take it that the Account is approved? (*Agreed.*)

VOTE OF CREDIT APPROPRIATION ACCOUNT, 1944.

COLONIAL OFFICE.

Chairman.

4724. Will Members turn to the Report of the Comptroller and Auditor General first, which is at pages vi to viii, paragraphs 10 to 12. We will take paragraph 10 first. Sir George, may I take it that the subsidy scheme mentioned in paragraph 10 (b) has come to a conclusion? That is the banana subsidy scheme?—(*Sir George Gater.*) There is a new arrangement namely a guarantee scheme for purchase of the whole crop, and now that export is possible and shipping is easier, it is certainly hoped that with the increased price which has been sanctioned that scheme will run at a profit.

4725. Is the British Government the only buyer of the banana crop?—It is not the only buyer. About 25 per cent. of the crop goes to Canada, but that, unfortunately, will probably go at a loss. It goes to Canada because of the important trade between Jamaica and Canada.

4726. The British Government buys the remainder, does it?—Yes.

4727. It ought to be able to sell these bananas at a profit under present world conditions?—One certainly hopes so.

4728. The Comptroller and Auditor General states that a substantial increase in the price to be paid to the growers for bananas was sanctioned by the Treasury in September, 1944. That is the matter to which you referred just now?—Yes, and there is a further increase of price, I think, from the 1st April, 1946, bringing their 4s. 6d. up to I think 6s.

4729. Sir Herbert, bananas do not carry a subsidy under the cost of living subsidy, do they?—(*Sir Herbert Brittain.*) Not in this country.

Chairman.] Are there any questions on paragraph 10?

Mr. Benson.

4730. With regard to the general banana position in Jamaica, are they likely to suffer from competition from Venezuela or from Central America? What is the general economic position in future there?—(*Sir George Gater.*) I am not aware at the moment of any serious danger. After all, the crop can be disposed of in the main either in Canada or here.

4731. How much goes to America?—Very little at the moment.

4732. Pre-war—in its normal flow?—I could not say.

Chairman.

4733. We pass to paragraph 11. The

Comptroller and Auditor General, in paragraph 11 (a) tells us: "This service includes further advances of £549,900 to Jamaica for the price stabilisation scheme"—that was a scheme to keep the cost of living stable?—Yes. Perhaps I should say that Jamaica may seem a rather extraordinary place, because it is subjected to all these amounts of financial assistance, but, of course, it was a Colony whose economy was very badly hit by the war. It was cut off from its normal sources of supply. It had to buy its supplies from America at much higher figures, and, of course, its principal export crop—bananas—could not be exported, and there was the whole difficulty of growing subsistence crops, because food could not be imported from elsewhere. One of the main causes of the need for subsidy was that the cost of living was running away very badly, and that was largely due to the high prices which had to be paid for food which was imported. I am glad to say that there is a healthy trend downwards now, and it is hoped that for the period of 12 months ending in September, 1946, the amount of subsidy will not exceed £150,000, so that one hopes that as the economy of the Island becomes more normal, these artificial stimulants can be removed.

4734. Have the Treasury any observations on this scheme?—(*Sir Herbert Brittain.*) No, I think this is a scheme which is common, as this paragraph shows, to more Colonies than Jamaica. The principle is pretty widely accepted all round the world at the moment, I think.

4735. I wondered if the experience of this particular scheme had given rise to any particular thoughts?—I am advised not.

4736. In paragraph 11 (b) there seems to have been an unfortunate error in the transmission of a telegram between here and British Guiana. The Comptroller and Auditor General states: "The Treasury originally agreed to bear half the amount by which the cost exceeded the estimate of 600,000 dollars for which the Colony had already budgeted, but owing to an error in transmission of a telegram it was understood locally that the whole of the cost above this figure would be accepted." Can you tell us something about that?—(*Sir George Gater.*) It was a most extraordinary happening, because there is no doubt that the telegram as it should have gone expressed the decision of the Government, of the Colonial Office. As it arrived in British Guiana it supports the Governor's view. In transmitting, either by a mistake in the

telegraph section in the Colonial Office or a mistake by the Cable and Wireless Company, there was an alteration of wording which justified the Governor in the claim which he has made. We could not, when this came to light, check up, because the encoding telegrams, the encoding copies, are kept only for three months, and as the encoding copy had been destroyed, it was impossible to trace where the mistake took place. It was decided finally that as the word of His Majesty's Government appeared to be pledged, the whole amount should be paid, but the local Governor did, as you see from the paragraph, increase the amount they were to find from 600,000 dollars up to 1,000,000 dollars.

4737. What was the net cost of this telegram to the Treasury?—I am afraid I have not worked that out.

Sir Frank Sanderson.] £100,000.

Chairman.

4738. No—not as much as £100,000?—(Sir Herbert Brittain.) Our final contribution was just over £200,000; so if we took it as half that, it would be about £100,000. (Sir George Gater.) I hope now that no subsidy will be required in the current year.

4739. That is in British Guiana?—Yes.

4740. As regards Cyprus, which is mentioned in paragraph 11 (c), it is still necessary to subsidise there on the cost of living?—We rather hope that in 1946 increased revenue and reduction in the cost of subsidisation will make it possible to balance the budget without any grant in aid. That is the present hope.

4741. This paragraph is a little confusing, because there was a grant of £500,000 in 1944. There appears to have been some indirect assistance in the form of a subsidy on barley. Is that right?—(Sir Gilbert Upcott.) I think it was rather the other way round, because the subsidy is quite plainly shown in the case of barley, as a charge to the Vote of Credit, but there is a good deal of concealed subsidy in the general grant in aid for administration. (Sir George Gater.) Yes, that is so—£500,000. (Sir Gilbert Upcott.) Therefore part of the cost of the subsidy, as far as this country is concerned, is hidden.

4742. The £676,000 is in connection with the barley, is it?—(Sir George Gater.) Yes. The reason for that, if I may explain it, was that the barley had to be bought from the Middle East at £45 a ton. Barley is actually grown in Cyprus and indeed was requisitioned there at something like £20 a ton. It was felt to be almost impossible for Cyprus to be called upon to pay this amount. I suppose it was regarded as likely to create political trouble there if they had to pay £46 a ton, and the local growers only received

£20. In order to get over that difficulty the barley was purchased by the United Kingdom Commercial Corporation, and then from there was supplied to Cyprus, His Majesty's Government in this subsidy meeting the difference in price between the actual price paid for the purchase and the local price in Cyprus.

Chairman.] Are there any questions on paragraph 11?

Mr. Wadsworth.

4743. With regard to this telegram, apparently this very serious mistake has occurred which involved this country in £100,000 in the transmission of a message. What steps have been taken to prevent any recurrence? The Governor, when he received the telegram, could send another telegram confirming that he had received the message. In other words, what steps are being taken to prevent a recurrence?—I agree, one cannot assume it will never happen again, but it is a wholly exceptional occurrence. I do not recollect anything like it at all. I think it probably happened in this way without a check-up, owing to the difficulty of war communications. We were not at that time in very close touch with the local Governor. In normal times there probably would have been confirmation in the form of a dispatch or something of that kind.

4744. That is the normal procedure?—It may not have rested simply on a telegram, as very many things had to during the war.

4745. You say it may not. May we take it that in future there would be confirmation of that sort of message?—I am afraid I cannot say that any special measures have been introduced. I am perfectly willing to look into that. I am afraid I had regarded it as a wholly exceptional happening. Of course, it was an act of grace on the part of His Majesty's Government to cover it. It was really done for political reasons.

4746. There may be a mistake some time in the future which may cost another £100,000. Therefore, it is worth while introducing a system which will obviate that happening?—I am afraid I cannot answer precisely what has been done, but I will certainly undertake to look into it. (Sir Gilbert Upcott.) Is not the real answer that such an important communication in normal peacetime would be sent by dispatch? (Sir George Gater.) That is what I was saying, that there would probably have been a dispatch as well as a telegram. There might have been a telegram as the first notification and then a dispatch, but in war all these things were sent by telegram. I agree that may not be quite foolproof.

Mr. Benson.

4747. With regard to the Cyprian barley, I am not sure that I followed the transaction. Barley is grown in Cyprus?—Yes.

23 May, 1946.]

Sir GEORGE GATER, G.C.M.G., K.C.B., D.S.O.

[Continued.]

4748. That was requisitioned at £20 a ton?—As a matter of fact I see it is rather less. It was £13 6s. od. per ton. It was the wheat which was £20 a ton. (Sir *Gilbert Upcott*.) It was £13 in one year and £17 15s. od. in the other. (Sir *George Gater*.) Yes.

4749. Cyprus also imports barley?—Yes.

4750. In large quantities?—It had to import then for food, because the loaf in Cyprus was made up of two-thirds flour and one-third barley.

4751. Were you requisitioning Cyprus barley at the same time as you were importing Near Eastern barley?—Yes.

4752. Did you requisition for the purpose of feeding the Cypriots, or for export?—No, we requisitioned for feeding the Cypriots.

4753. In fact, the requisitioning itself was an attempt at price stabilisation?—Yes.

4754. What percentage of barley did you require to import at a cost of £20 or whatever the figure was?—There were two purchases of barley. Eleven thousand metric tons were obtained from Beyrout at a cost of £42 per metric ton, and 2,232 tons from the British Military Administration at Cyrenaica at £25 2s. od. per metric ton.

4755. You bought 13,000 metric tons and sold them at a loss. How much did you requisition?—I am afraid I have not the amount. (Sir *Gilbert Upcott*.) The United Kingdom Commercial Corporation purchases and the amounts obtained from the sources Sir *George Gater* mentioned add up to 34,000 tons. (Sir *George Gater*.) The honourable Member was asking me the amount requisitioned.

4756. Yes, I was trying to get some idea as to the relative size of the two transactions?—I am afraid I cannot tell you without research.

Sir *Frank Sanderson*.

4757. I want to ask a question in regard to the transmission of the telegram which unfortunately resulted in a serious loss. Is there no check in the sending of telegrams of importance? In other words, do you not send a check telegram, a repeat telegram, on all such matters as this, as any commercial house invariably does?—We should on very important ones do so.

4758. This would appear to be important?—In this case we should have been able to trace it if we had had the encoding copy. Unfortunately, the discrepancy between our view and the British Guiana view did not come to light immediately.

4759. Surely the difficulty would not have arisen if a duplicate telegram or cable had been sent, which I should have thought was quite customary, when dealing with any large figures?—Of course, with the large number of telegrams issued during the war, when so much work was done by telegram. . . .

4760. Is it normally the custom to send repeat telegrams for important matters?—I think, as was said, in peacetime normally anything of this importance would go by dispatch. If it had gone first by telegram it would be confirmed by dispatch.

4761. One other question, on paragraph 11 (a). It is stated that the net cost of stabilisation during the period amounted to £373,000. Could you state what form the stabilisation took? What I have in mind is this: can you advise the Committee whether the advantage from the cost of stabilisation went to the grower and not to the merchant or the distributor?—It really went to the population generally by way of reducing the cost of commodities sold, and in that way the cost of living. It operated as our subsidies do in this country.

4762. It was not a direct payment for the bananas delivered?—(Sir *Gilbert Upcott*.) Most of the subsidy was on imported food-stuffs.

Mr. *Thurtle*.

4763. One question on this famous telegram. Did the Colonial Office discontinue altogether any attempt to confirm cables, either by dispatch or in any other way during the war?—(Sir *George Gater*.) I am afraid I would rather like to have notice of that question. If the Committee are interested, may I put in a note on it?

4764. It does seem an extraordinary thing, does it not, if you were to abandon all attempts to confirm an important document of that sort, even in wartime?—There are processes in operation, but I really would not like to speak about them without refreshing my mind. If the Committee are interested I would prefer to put in a note of the procedure which is adopted.

Chairman.] Would you like a note?

Mr. *Thurtle*.] Yes.

Sir *Frank Sanderson*.

4765. During the war, was there not an air transport mail between this country and Jamaica, and would it not have been possible to have sent a copy of the telegram by air mail?—It was a very long delay, as a matter of fact, to the West Indies. This was British Guiana. It was then a very out of the way place to get to, and there were very often very long delays indeed in the air mail.

Chairman.

4766. I think we should like a note, Sir *George*, on the practice of the Colonial Office in classifying your telegrams as of varying importance, and of the practice in regard to each variety. Now we pass to paragraph 12. This deals with the advances made in order to maintain imports of essential commodities into Malta. Are you in a position to give us the total cost to

the British Treasury of these schemes?—Yes, I can give the total cost up to the 31st March, 1944. I will give it in the form of expenditure and receipts: Expenditure, £16,036,075. Against that, on the Receipts side, the receipts up to the same date were £11,333,149.*

4767. These schemes continued to operate after the date you have given us?—Yes.

4768. You gave us to March, 1944, did you not?—Yes, I have given you to March, 1944, because that is the latest date up to which we have accounts.

4769. We have the subsequent year here, have we not?—(Sir Gilbert Upcott.) I rather think the Accounting Officer has given the cash figures. The point of my paragraph is that freight was provided by the Ministry of War Transport without charge, and as from April, 1943, no cash settlement has been required for services rendered by and goods supplied by or sold to other Departments of the Imperial Government, and in these circumstances I said the accounts do not disclose the total cost of the scheme. (Sir George Gater.) If I may say so, I was giving all the figures I have.

4770. You gave us figures to the 31st March, 1944. Is that right?—That is right.

4771. We are told that at the 31st March, 1945, the total advances amounted to £8,640,000. This is something different, is it—the Cosup Fund?—No. (Sir Gilbert Upcott.) This is the Cosup Fund.

4772. I do not understand how your figures relating to the end of the year to March, 1944, are larger than the figures given at the end of March, 1945?—He has given the total turnover, whereas what I have given is the total advances from the Vote of Credit to the Fund. Subject to anything the Treasury may say, I do not think that it would ever be possible to give the real cost of the scheme from these figures unless the Treasury have them available. (Mr. Jones.) There are some figures available for the value of services and stores supplied by other Departments up to March, 1943, but from that date the accounts of the Cosup Fund were in such a state that we had to agree that they should waive interdepartmental transactions. From the 1st April, 1943, onwards I think it will be

impossible to reconstruct the value of the supplies and services furnished by Departments to the Fund.

4773. Accountancy, generally in Malta has been very unsatisfactory?—(Sir George Gater.) Rather at a discount, I am afraid, but, of course, they were siege conditions, and of course you have to cover here losses by submarine and so on—I mean, loss of goods transported to the Island.

Mr. Thurtle.

4774. That would be a very heavy percentage, of course?—Yes.

Chairman.

4775. Have you any comments, Sir Gilbert, on the last paragraph of your Report?—(Sir Gilbert Upcott.) I ought to tell the Committee that the Auditor's report is, as the Committee would expect from what has been said, unfavourable. He raises a number of points which the Committee will not wish to pursue, and which are very understandable difficulties, owing to the circumstances in which this Fund was administered. He also reports that the most serious weakness was that there was no possibility of linking the invoices of goods supplied with the quantity of goods landed and taken into store, and he expresses the view that in the absence of such a check the possibility of undetected fraud and pilfering must be very great. These difficulties are now past praying for, I am afraid, but I think the Committee will perhaps wish to have some assurance that as far as may be, the Fund will maintain an adequate record of the stocks it now has, with a view to their satisfactory disposal. (Sir George Gater.) We have been in communication with the Governor on this matter, pressing these points upon him.

4776. What is required is a fresh start with all this accountancy, is it not?—The staff is being built up again, now, but the shortage of staff was, I am afraid, a very serious factor.

Chairman.] Are there any questions on paragraph 12? The Account is at page 10. I think, as the hour is so late, we had better not ask any questions upon it. I have nothing to ask on it. Has any Member of the Committee any questions to ask on the Account? (Account agreed.)

* See Appendix No. 6.

(The Witnesses withdrew.)

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

TUESDAY, 28TH MAY, 1946.

Members present:

MR. PEAKE in the Chair.

Mr. Benson
Mr. Cuthbert
Mr. Haworth

Sir John Mellor
Mr. Thurtle
Mr. Wadsworth

Sir GILBERT UPCOTT, K.C.B., Sir HERBERT BRITAIN, K.B.E., C.B., and Mr. C. E. I. JONES called in and examined.

CIVIL APPROPRIATION ACCOUNTS, 1944.

CLASS V.

VOTE 14A.

MINISTRY OF NATIONAL INSURANCE.

Sir THOMAS PHILLIPS, K.C.B., K.B.E., and Mr. O. M. SMITH called in and examined.

Chairman.

4777. Will Members turn to the Civil Appropriation Accounts, 1944, Class V, Vote 14A, the Ministry of National Insurance. The Account is at page 228. Sir Thomas, this is just a formal account is it not, for part of the first year's expenditure?—(Sir Thomas Phillips.) From November to the end of March.

4778. When did you take over the various Funds which we are going to look at in a moment?—At the 1st April, 1945, and therefore we were not actually responsible for the Funds during the year to which these accounts relate.

Chairman.] Are there any questions on the Account? May I take it that the Account is approved?—(Agreed.)

NATIONAL HEALTH INSURANCE FUND ACCOUNTS, 1944.

NATIONAL HEALTH INSURANCE FUND (ENGLAND).

WELSH NATIONAL HEALTH INSURANCE FUND.

SCOTTISH NATIONAL HEALTH INSURANCE FUND.

NATIONAL HEALTH INSURANCE JOINT COMMITTEE CENTRAL FUND
AND UNEMPLOYMENT ARREARS FUND.

APPROVED SOCIETIES (OFFICERS) GUARANTEE FUND.

(National Health Insurance Fund (England): Approximate Receipts and Payments for the year ended 31st December, 1944.)

(National Health Insurance Fund: National Debt Office Investment Statement for the year ended 31st December, 1944.)

Chairman.

4779. We take now the National Health Insurance Fund Accounts, 1944. Together with those accounts we have a duplicated paper: National Health Insurance Fund (England): Approximate Receipts and Payments for the year ended 31st December, 1944. This duplicated paper is intended to give us a little more information than the published accounts do. Is that right?—(Sir Thomas Phillips.) It gives various particulars which are not included in the published accounts.

4780. We will take the accounts and the duplicated paper together. Sir Thomas, would you look at the second page of the duplicated paper? That gives a summary of the receipts and payments of the National Health Insurance Fund. It would appear from that summary that the investments and cash at the beginning of 1944 were a little over £146,000,000. On the right

hand side the investments and cash at the end of 1944 were a little over £149,000,000?—Yes.

4781. It would appear that about £3,000,000 was added to the investments and cash balances during the year. Is that right?—Yes.

4782. I cannot find any figures in the printed Account which enable that accretion of £3,000,000 to be ascertained. If you will look at pages 6 and 7 of the printed accounts, the Abstract of Cash Receipts and Payments, there is nothing on that account, is there, which shows that there is a balance of about £3,000,000 on the year's working?—I am afraid that amount cannot be identified from the printed account, but I understand that the addition of £3,000,000 is mainly made up of interest on investments belonging to the Approved Societies or invested on their behalf, which is invested by the National

28 May, 1946.]

Sir THOMAS PHILLIPS, K.C.B., K.B.E., and
Mr. O. M. SMITH.

[Continued.]

Debt Commissioners without passing through the accounts which you have before you.

4783. The point I am on is really this, that nobody could guess, from the printed accounts, that there was a surplus of a little over £3,000,000 on the year's operations—whereas that is in fact the case?—Yes, that would be so.

4784. Of course, the system of working through Approved Societies is coming to an end, is it not—at least, it is anticipated that it will come to an end? There has been some discussion about the subject recently?—That is the proposal now before Parliament.

4785. All these balances will become part of the general fund, will they not?—The whole of the various balances will form a new fund for the new scheme.

4786. I was going to express the hope that when the first accounts appear of the new Insurance Funds they will show the true results?—We will duly note that.

Chairman.] Are there any questions on these accounts or on the duplicated paper?

Mr. Benson.

4787. On the duplicated paper, the first item is: "Invested with National Debt Commissioners," and the second item is: "Invested by or on behalf of the Approved Societies." What exactly is the difference there?—The money belonging to the Approved Societies may be invested in one of three ways (I think it is three ways) but half of it is invested direct by the National Debt Commissioners. The other half is, at the option of the Societies, either invested direct by the Societies or invested on their behalf by the Commissioners. The Accountant General reminds me that that system has been suspended in wartime, and the whole amount is now invested direct by the Commissioners.

4788. I take it they invest it in Government securities only, in trustee securities?

—Yes, in certain specified securities. (Sir Gilbert Upcott.) The Committee has before it a list of the securities.

4789. I was referring to the amount invested by or on behalf of the Approved Societies. Further, I notice that whereas there has been an additional £3,000,000 which has gone to accumulated funds in England, Scotland just balances and Wales shows a slight deficit. Is there any particular reason for that?—That is due really to the fact that during wartime we have not been carrying out the apportionment of the funds as between the three countries. Probably, if the accounts were fully worked out, a sum of money would be owing to Wales which would put them in funds.

Mr. Cuthbert.

4790. At the bottom of page 10 in the Statement of Balances there is a note which says: "In addition to the sums paid over to the National Debt Commissioners for investments, sums amounting to £14,481,368 at 31st December, 1944, being undistributed interest and net profits on realisations, have been invested by the Commissioners and held as a reserve against depreciation." Is that shown in the assets?—It is not included in the assets at the top of page 11. (Sir Herbert Britain.) It is included in the list of securities held by the National Debt Commissioners at the 31st December, 1944. The total for England is £109,000,000 approximately. That includes that £14,000,000.

4791. Why should it not appear on the assets side here? I may be quite wrong, but I wonder what the reason for that was?—I think it is rather comparable to a hidden reserve of a company.

4792. It might be properly written off to nothing, I suppose, in some balance sheet?—We promise not to do that.

Chairman.] We will take all these accounts together. Are there any further questions?—May I take it that the accounts are approved?—(Agreed.)

WIDOWS', ORPHANS' AND OLD AGE CONTRIBUTORY PENSIONS ACTS ACCOUNTS, 1944.

(On these Accounts no questions were asked.)

UNEMPLOYMENT FUND ACCOUNTS, 1944.

Chairman.

4793. Will Members turn to the Unemployment Fund Accounts, 1944. We will turn first to the Report of the Comptroller and Auditor General which is on page 8. In paragraph 2 Sir Gilbert tells us that the contribution income in 1944 was just under £70,000,000, as compared with £73,600,000 in the previous year. The drop is due to an increase in the call-up to the Forces, I suppose?—(Sir Thomas Phillips.) It is largely due to that fact; but also, I

understand, to the curious fact that there were 53 weeks in the previous year and only 52 in this year, and therefore the amount of the receipts from the Post Office was to that extent larger.

4794. The expenditure on benefit rose to £3,500,000?—The rate of benefit was increased during the year.

4795. There was some increase in the cost of administration. What would that be due to?—Partly due to the fact that the number of unemployed was a little higher,

28 May, 1946.] Sir THOMAS PHILLIPS, K.C.B., K.B.E., and
Mr. O. M. SMITH.

[Continued.]

but also to the fact that the ratio between the cases on unemployment benefit and those on assistance was higher during the year, and therefore the Unemployment Fund had to bear a higher proportion of the overheads.

4796. The cost of administration seems heavy in relation to the amount expended on benefits, but I suppose you would say that that is not the proper criterion?—It is about 4 per cent. of contributions.

4797. Could you tell us what the balance in the Fund is at the present time?—At the 25th May, 1946?

4798. Yes.—In the General Account, £392,000,000, and in the Agricultural Account, £10,600,000—a total of just under £403,000,000.

4799. I want to put just one question on the accounts, on page 2. I think possibly it is more a question for the Treasury than for you, Sir Thomas. There was a loss of £350,000 on redemption of just under £10,000,000 worth of 5 per cent. Conversion Stock. These funds have to be invested as the Treasury direct, I take it, do they not?—They are invested by the National Debt Commissioners, not by us.

4800. This is a question for Sir Herbert to answer. How did this loss come to be made on the redemption?—(Sir Herbert Brittain.) This is only nominally a loss. Over the last few years, of course, lots of Government securities have been standing at a premium, and in order to achieve a rate of 3 per cent., or 2½ per cent., it may be now, on your investment you have to buy a stock which stands at a premium, but brings you in more than 3 per cent. gross, so your true net return is the gross

interest you receive less some allowance for the fact that at the end of the period when the thing is repaid or sold you may lose the premium. It is well in mind, right from the very beginning. It is a paper loss you always suffer. But even after taking account of that you have in fact got a reasonable rate of interest over the period of your investment. It is really only a nominal loss. There is no misinvestment.

Chairman.] Are there any questions on the Report of the Comptroller and Auditor General, or on the Account?

Mr. Benson.

4801. When was that 5 per cent. stock bought?—I am sorry—I shall have to ask that.

4802. It was standing at one time as high as 12 or 15 per cent. premium, was it not?—Yes, and then it would come down just about par by the redemption date.—(Sir Gilbert Upcott.) It was bought in June, 1943.

Mr. Haworth.

4803. Will the whole of this large balance be transferred to the National Insurance Fund? I take it it will?—(Sir Thomas Phillip.) Yes. (Sir Gilbert Upcott.) To the Reserve Fund. (Sir Thomas Phillips.) There are to be two funds. One is what you may call a working balance fund of £100,000,000, and the rest will be a reserve fund.

Chairman.] Are there any further questions on the Account? May I take it that the Account is approved?—(Agreed.)

That finishes your evidence, Sir Thomas, thank you.

(*Sir Thomas Phillips and Mr. Smith withdrew.*)

CIVIL APPROPRIATION ACCOUNTS (WAR SERVICES), 1944.

CLASS X.

VOTE 14.

WAR DAMAGE COMMISSION.

(Statement under Part I of the War Damage Act, 1943, for Year ended 31st March, 1945.)

Sir ROBERT FRASER, K.B.E., C.B., called in and examined.

Chairman.

4804. Will Members turn to the Civil Appropriation Accounts (War Services) 1944, to the Report of the Comptroller and Auditor General, paragraph 44, on page xvi. The Comptroller and Auditor General tells us about the simplified procedure adopted for the classification of dwelling-houses in 1943, and he goes on to tell us that a similar procedure has since been introduced by the Commission for other groups of property. The adoption of the earlier procedure in respect of dwelling-houses was as a result of the direction of the Treasury?—(Sir Robert Fraser.) Yes.

4805. In the case of the other types of property mentioned in this paragraph, it appears to have been done on the initiative of the Commission?—Yes.

4806. Are you satisfied that you had power to adopt this simplified procedure?—Yes. In the case of the dwelling-houses we required a Treasury direction because we knew that although the procedure proposed would get the same result as the result under Section 7 of the Act in the vast majority of instances, there would be some odd cases where it would give a contrary result, and therefore we needed Treasury authority. In these other cases of

28 May, 1946.]

Sir ROBERT FRASER, K.B.E., C.B.

[Continued.]

what we might call short cuts, we were quite satisfied that the procedure adopted would get the same result as if we went through the detailed process of making all the valuations and costs estimates which are referred to in Section 7 of the Act.

4807. How did you assure yourself that the simplified procedure would arrive in every case at precisely the same result as the more complicated procedure?—Of course, I would remind the Committee that this is not an exact science. The Commission's duty is to decide what is a likely result. Therefore they have always taken the view that if, on the best possible advice they can get, they are advised that a certain result is likely they are not required to go in for precise valuations and estimates of costing. Of course, in these cases we had the very best possible advice—the advice of our own technical staff and of the Inland Revenue Valuation Department, and we were assured that the position is as I have stated.

4808. Are you satisfied that the owner of some property in whose case this simplified procedure is adopted cannot complain that he would have got a better payment under the more complicated procedure?—There is no possibility of anybody who has a good claim to have a cost of works payment not getting a cost of works payment, but getting a value payment. There is a faint possibility of it being the other way round, that if you made a very detailed and elaborate estimate of costs and values under Section 7 you might find that some of the cases that we have classified as not total loss would work out the other way; but it can never work against the claimant.

4809. The simplified procedure is simply for the purpose of ascertaining whether a value payment or a cost of works payment shall be made?—Yes.

4810. The two groups of property you applied it to are public buildings, like schools and municipal buildings, on the one side, and public houses on the other?—They are two entirely different systems. I am sorry—I thought perhaps I was a little misleading in my answer on the first point. On the first point, what we call the proviso properties, the whole set-up is started by a Treasury Regulation under the appropriate provision of the Act. What we call proviso properties are those that are dealt with by provisos to Sections 7 and 10 of the Act, which provide a special means of estimating these likely costs and values in the case of certain properties belonging to types not normally the subject of sale in the open market, and they are, of course, of a large number of types. I do not know whether the Committee would like me to specify them. The Comptroller and Auditor General, I think, mentions two or three types—clubs, schools and municipal buildings; but there are a great many more. There are purpose-built schools,

convents, orphanages, research stations, hospitals, clubs, municipal buildings, sports grounds, public parks, art galleries, museums, cemeteries, sea walls, wireless stations. Those quoted are just a few of them.

4811. I suppose you consulted the Treasury about this, or informed them of what you proposed to do?—The Treasury made the Regulation under which we act. I do not think we consulted the Treasury as to the way we were going to exercise our duties under the Regulation.

4812. I wondered if you had had Treasury approval. As far as you know, you have not?—No, but I think they know about it. (Sir Herbert Brittain.) The Commission did not come to us before applying it in those particular cases. We had no reason to raise any question on it after the event, of course. (Sir Gilbert Upcott.) What Sir Robert was saying just now applies only to the first group, namely, what he calls proviso properties: it does not apply, I understand, to public houses. (Sir Robert Fraser.) No, I was trying to distinguish between the proviso properties and the public houses.

Chairman. Are there any questions on paragraph 44?

Mr. Benson.

4813. With regard to the public houses, those rebuilt or modernised since March, 1914, qualify for cost of works payments and those built before March, 1870, qualify for value payment. There seems to be a hiatus there. There is quite a possible number of combinations and permutations?—There are three cases. There is a public house built or modernised since 1914. That is one class—which in 999 cases out of 1,000 is not a total loss, however much damaged or even totally destroyed. Then there is the pre-1870 house, in which the bias is in favour of it being a total loss. Then there is the whole group between 1870 and 1914, in which there is no bias whatever.

4814. The gap in between is decided on the individual merits of the case?—Yes, but in fact in nearly every case it is extraordinarily difficult for a public house to be a total loss.

Chairman

4815. They are well built, do you mean?—No, they are well drunk. It is almost impossible to find a case where it is not worth while to put back the bricks and mortar which were there.

Mr. Haworth.

4816. Because of the licence—Yes? because of the licence. It is a very valuable trade. We were advised that we should be extremely unlikely to find any public houses that were a total loss, because of that feature.

28 May, 1946.]

Sir ROBERT FRASER, K.B.E., C.B.

[Continued.]

Mr. Benson.

4817. But the building has been completely destroyed?—There is a distinction between a total physical loss and a total loss under the War Damage Act. The building may be completely physically destroyed and yet may qualify for a cost of works payment under the War Damage Act, even if completely destroyed. It does not follow that it is a value payment by any means. There are a very large number of totally destroyed buildings which are being rebuilt with cost of works payments, including 40,000 houses.

4818. I should have thought almost every house in these days would be a valuable proposition, like a public house?—That is why so many of them are worth rebuilding and do not qualify for value payments. A value payment is a much lower payment than a cost of works payment.

Mr. Wadsworth.

4819. You do make value payments in the case of a total loss?—We have two kinds of payments under our Act, broadly speaking. There is a value payment which is paid when the property is, for the purposes of the War Damage Act, a total loss, which might include properties which are completely destroyed. If they were worth their March, 1939, cost they were worth rebuilding. A value payment, is the cash depreciation in the money value of the property as at March, 1939, prices; but if it has been decided that it is a cost of works case, then, as and when it is rebuilt, we pay the actual cost at the present day prices of rebuilding it. So you will see at once that it is at present very much more favourable to have a cost of works payment than to have a value payment. There is, of course, provision under Section 11 of the Act for some escalation of value payments when the time comes for them to be paid. We have no authority to pay value payments at the moment. We have not been authorised to do so by the Treasury.

4820. I think that is probably what I have been in difficulty about. I have been in certain cases attempting to gain value payments for very old people who have lost their properties . . .—That is not within our power. The Treasury and ourselves get about three letters a day from Members of Parliament on this subject, and we have always to reply, if they come to us, that we have not been authorised to pay. I think Sir Herbert Brittain is more competent to deal with the question than I am. (Sir Herbert Brittain.) Under the Act the date at which value payments generally shall begin to be made is left with the Treasury, and the present Chancellor of the Exchequer and his predecessor have taken the line that the time is not suitable to begin making these large payments. There it rests for the moment.

Mr. Wadsworth.

4821. It is, of course, a considerable hardship in certain cases.

Chairman.] This is rather a live political issue. It has not much to do with the accounts for 1944-45?—(Sir Robert Fraser.) There are no payments of that sort in these accounts. There are very minor exceptions. We have power to make an advance against a value payment if a person was in occupation of the property at the time of the bombing and requires the money to provide equivalent accommodation. But that goes only a very small way.

Mr. Wadsworth.] I am grateful for that reply.

Mr. Thurtle.

4822. One question arising out of an answer Sir Robert gave. You said, Sir Robert, that there might be a total physical loss of a building and yet it is not an actual total loss in accordance with the War Damage Act?—Yes.

4823. What is the factor which prevents a totally destroyed building from becoming a total loss under the Act?—All this comparison is done at March, 1939, prices, because there is no other way of doing it. You could not do it at present prices. You have, first of all, to decide what would be the cost of reinstating the building as it was. I will call that figure A. Then you have to estimate what would be the value, again at March, 1939, of the property as reinstated. I will call that B. Thirdly, you have to calculate the value of the property after the bomb as a site with the damage not made good, and if A is likely to be more than B minus C it is a total loss, but if A is likely to be equal to or less than B minus C it is not a total loss. That is to say, if it were economically sound to put back the property as it was in March, 1939, it is not a total loss even though it is totally destroyed.

4824. In your experience, most of the buildings have worked out in that way?—Yes, the number of total losses is very small in comparison with the total amount of the damage, of course.

Mr. Benson.

4825. On that point, the decision as to whether you make a value payment or a cost of works payment does not depend on which is the cheaper of the two?—No. It bears some relation to it in a case where it is very badly a total loss, because it is hopelessly uneconomic to put it back. Then the value payment is likely to be very small as compared with what the cost of works payment would be if we paid it. A very derelict, badly planned property would obviously cost a very great deal to put back if you gave a cost of works payment, but the value payment might be quite small.

28 May, 1946.]

Sir ROBERT FRASER, K.B.E., C.B.

[Continued.]

4826. This seems to work against the owner of cottage property and in favour of the owner of, say, a profitable public house which may be equally as old and dilapidated as the property surrounding it?—Not quite, because public houses, under the licensing laws, have to be very well maintained. They might be badly designed, but they have to be extremely well maintained.

4827. So that in effect the owner of a public house gets a new public house in place of an old one, whereas the owner of a cottage, unless he is the occupant, does not?—If he comes under the Treasury direction he will get a new cottage for an old one, if it was a good cottage.

4828. Only a very few do. It is a question of occupancy?—It has nothing to do with whether they are the occupants or not the occupants. It entirely depends upon whether it was a good house. The Treasury have allowed us to regard as good houses, whether they are cottages or palaces, all houses built since 1914, and any houses built before 1914 which, in the opinion of the Commission, were as good as the average run of houses built since 1914.

Mr. Benson.] I follow the point.

Chairman.

4829. Are there any further questions on paragraph 44? We pass to paragraph 45: "Incorrect Classification of Dwelling Houses". This paragraph deals with what appears on the face of it to be an unfortunate error?—An error, yes.

4830. An error which, if the facts stated in the last sentence are accurate, would appear to have cost the Commission about £375,000?—Yes, that figure is correct, as far as it goes, but it must be remembered that that is comparing the present day cost of building, that is to say the cost of works, with the 1939 value payment, and if the value payment is escalated, then to the extent to which the value payment is escalated by a percentage increase the loss is reduced.

4831. You mean if the Treasury exercise the powers given them under the War Damage Act of adding some percentage to the 1939 value?—Yes. If for the sake of argument 30 per cent. were added to the value payment, then you would increase the value payment by 30 per cent., and there is 2½ per cent. interest also on the whole of the value payment, which should also be taken into account, so that to that extent the £375,000 should be at least notionally abated.

4832. Even taking into account all the mitigating or possibly mitigating circumstances, it is a serious miscalculation?—Yes, I should agree, looking at it by itself. Compared with the whole range of the Commission's operations and the amount of

their expenditure, and having regard to the vast task of classification which was an extremely difficult task, I do not think it is so very great.

4833. Was it an error of judgment on somebody's part, or was it an error in transcribing a document or in typing, or something of that sort?—Perhaps I should tell the Committee how it happened.

4834. Yes, please?—It is stated that it was in Birmingham. In Birmingham there were more houses totally destroyed than in any other local authority area. I think Birmingham had 12,000 houses completely destroyed or so badly damaged that they had to be pulled down. I think the next to Birmingham was Stepney, which had about 10,000. Birmingham had the most; there were 12,000 altogether. In Birmingham altogether we have classified the total loss as 11,000, and only 1,200, including these 450, have got through as not total losses.

4835. That is to say 11,000 rank for value payments?—For value payments only, yes.

4836. Out of the 12,000?—Yes, out of the 12,000. The problem that we are here discussing arose in regard to about 1,600 out of the 12,000 which the Birmingham Corporation were most specially anxious should be rebuilt. They were mainly built between 1890 and 1905, and I want to emphasise that although they were not the best of houses they were certainly not the worst; they were not bad houses. They were terrace, three-bedroom types, with two sitting rooms and a combined kitchen and scullery, but they had no indoor sanitation and they had no bathroom. On the other hand they had several very good features. They were very well maintained. They were set back a little from the road, in contrast with a great many other houses in Birmingham. The passers-by could not poke their noses in through the front window.

4837. Were they Corporation-owned?—No.

4838. They were privately owned?—Yes, mostly owner-occupiers. There was a very severe housing shortage in Birmingham, even before the war, and the houses had been in very good structural condition. The Corporation were very anxious to reinstate the houses, and they urged that they should have the benefit of the Treasury direction. We considered that very carefully indeed. We decided with some reluctance that we could not bring them within the direction. I think we might possibly have brought them within the direction, but we decided we could not. We told the Regional Office to submit them to the full test under Section 7 of the Act. The test was completed in 1944, and purported to show that nearly 550 of the cases could be classified as not total losses

28 May, 1946.]

Sir ROBERT FRASER, K.B.E., C.B.

[Continued.]

on the ground that the notional cost of reinstatement at 1939 did not exceed the difference in the values. In all the rest the total loss classification was maintained. One hundred out of the 550 turned out not to be totally destroyed. There were valuable structures remaining, so they were in fact not total losses, so the number concerned is 450. In 1945 estimates for the rebuilding came in, and they indicated reinstatement costs of about £1,100 each, from which you deduce that the notional reinstatement cost at 1939 would have been about £600. Inquiry brought to light that the Regional Office had really adopted too low a cost figure. On the assumption that these were mass produced houses in the first place, and also under what turned out to be a mistaken assumption that the Birmingham Corporation, though not owning the houses would do them as a mass production job, they took mass production rates as cost, and of course there is a vast difference between building 500 houses as a mass production job and estimating the cost of doing each one separately. Also I think the Regional Office failed to take into account some special features of these houses which made them rather expensive; and that was the result. We put the matter to the Treasury for their approval on the ground that public faith had been pledged, estimates and tenders had been got out, and everybody was ready to get going, and the Treasury agreed that as a matter of public faith pledged we had to carry on. That is all I have to say, except that in any case to guess in 1944 at the cost in 1939 of building something which is not there and was in fact built many years ago is not an easy job, and we are bound to make some mistakes in doing it anyhow, although I do not think we should have made a mistake on such a big scale as this.

4839. The upshot of it is that a number of private owners will get houses as good, or better, possibly, than their houses were before they were destroyed, instead of getting quite a small value payment. Is that it?—Not necessarily a very small value payment. The value payment would have been about £300 for each house, and there is a possibility of a percentage increase on that, and also of 2½ per cent. interest for a certain number of years.

4840. Have the Treasury any observations to make on this paragraph?—(Sir Herbert Britain.) No, I do not think we want to add anything to what Sir Robert has said. We confirm that we did take the view that public faith had been pledged here, and we had no option but to agree that the payment should be made.

Chairman.

4841. Are there any questions on paragraph 45? We pass to the Account which is on page 47. In the Details of Expenditure Subhead C is "War Damage Payments," a figure of £77,000,000 odd. I

think you were before us last autumn, when we went into this question of the settlement of local authorities' claims rather fully?—Yes.

4842. I imagine this item of £77,000,000 includes a considerable number of payments to local authorities, does it not?—Yes. About £56,000,000 of it is actually payments to local authorities.

4843. Can you give us any indication, following upon the evidence you gave us last time, as to the progress made in the settlement of the local authorities' claims?—Absolutely, I suppose, not a great deal of progress has been made, because there has been such a very vast increase in the amount paid out to local authorities recently; but, generally speaking there has been an improvement, of course, but to a very large extent, as I think was brought out last year, and as the Comptroller and Auditor General was kind enough to say, this matter does not lie in our hands. In so far as it does lie in our hands we have done all we can to improve it, and by agreement with the Ministry of Health we have arranged to make a certain short-circuiting to the extent that what I may call financial and accounting questions arising are now dealt with direct by the Commission with the local authority and the auditor and not through the Ministry of Health; and I think that is making a certain amount of saving.

4844. Can you give us the total amount of the local authorities' claims outstanding?—Up to the 31st March, 1945, we had advanced £122,000,000 of which claims unsettled up to the end of March, 1946 account for £68,000,000. So just about half are unsettled. (Sir Gilbert Upcott.) Of course, all those claims have not been received. (Sir Robert Fraser.) No. 27 per cent. of claims have not yet been received.

4845. Are you satisfied with your measures of financial control over the local authorities in this matter—as to how the money is spent and so on?—Yes, broadly speaking, I think so. I am not satisfied with the amount of money spent on war damage repairs, but that is a very much bigger question. It is not so much an accounting matter as the difficulty of getting the proper supervision and the proper amount of work out of everybody, particularly in London; but even that is getting better. We have given the auditors considerable guidance as to the kind of points to watch for in examining the accounts. Both we and the Ministry of Health send them guidance.

4846. There is a tendency, is there not, to attribute what is in fact wartime neglect to war damage?—A very considerable tendency, and of course while the efforts to repair the fly-bomb damage and rocket damage in London were at their height I am afraid a good deal of money was spent on dilapidations as war damage, which

28 May, 1946.]

Sir ROBERT FRASER, K.B.E., C.B.

[Continued.]

really ought not to have been spent. But that has all been tightened up now, and, as far as we know, local authorities are playing the game and distinguishing between dilapidations and repair of war damage.

4847. You have your own staff of surveyors and qualified persons for checking up these things?—If the local authority is in any doubt as to what the extent of the war damage is they can refer to our people, but, of course, we must and can and do trust the local authorities to a very large extent.

4848. You do exercise some check over them, do you, on the practical issue whether it is or is not war damage?—Yes.

Chairman.] Are there any questions on the Account?

Mr. Benson.

4849. On this question of the rebuilding of dwelling-houses, surely it is far more economical, in the case of any house that costs more to repair than its original value, to wipe it off as a total loss and rely on large-scale building to supply the housing accommodation of the country? If you are going to use labour and materials for the repair of very badly damaged houses, are you not, in effect, wasting money? Is it not a waste of labour and materials?—I do not think that is for me to say. The intention of the Act has always been that if a property were a good property it should get a cost of works payment. Obviously, it is more expensive to the Government (I am not sure I ought to be saying this, because it seems to me to be semi-political) to put back one tooth in a terrace ten times over than to build ten subsidy houses.

4850. Obviously?—But one is not doing justice to the individual who has paid his war damage contributions and has been promised that if he is not a total loss under the Act he will get his property restored to him. It must be more expensive.

4851. The interpretation of total loss has been now very considerably modified by administrative action or Treasury decision, as compared with what was understood when the Act was passed?—I do not think so. I think from the earliest days of the Act Ministers (here, again, I may be going beyond my province) have made it clear that the intention of the Act was that a good property should get a cost of works payment.

(*Sir Robert Fraser withdrew.*)

TREASURY MINUTE ON PARAGRAPHS 18 AND 19 OF THE REPORT OF THE COMMITTEE OF PUBLIC ACCOUNTS, 1945.

Sir ERIC BAMFORD, K.B.E., C.B., C.M.G., called in and examined.

Chairman.

4856. Will Members turn to the Treasury Minute dated 16th October on the Report of the Public Accounts Committee, 1945,

Chairman.

4852. Has any Member any questions on the White Paper, which is very uninformative. Perhaps, Sir Herbert, you or Mr. Jones might answer this question. The main item on the White Paper is the figure shown in the War Services Appropriation Account which we have just been discussing—£77,000,000 odd for war damage payments. What is the £39,000,000 shown as contributions received by the Commissioners of Inland Revenue?—(*Sir Herbert Brittain.*) Under the War Damage Act an owner of property had to pay a contribution towards the expenses of this scheme in five annual instalments, beginning in July, 1941, and finishing in July, 1945, and that was collected by the Inland Revenue and was paid into the Exchequer direct. In so far as these contributions were needed to balance expenditure out of the Budget on the making good of war damage it was brought in as Budget revenue, but otherwise any surplus was left to meet our general requirements and reduce the amount we had to borrow.

4853. This £39,000,000 is simply the amount of war damage contributions received by the Exchequer in the year?—Yes.

Chairman.] Are there any questions on the White Paper?

Mr. Benson.

4854. In the White Paper there is a figure of £77,173,000. In the War Services Appropriation Accounts it is £77,183,000. That is obviously the same figure with slight modifications. Wherein lies the difference?—(*Sir Robert Fraser.*) The difference is due to the inclusion, in the Section 81 statement, of gross receipts, of which only £10 has been appropriated.

4855. These are payments, not receipts. It is Subhead C on page 47 of the War Services Civil Appropriation Account: "War Damage Payments"?—(*Sir Herbert Brittain.*) I think the White Paper figure is a net payment setting off the receipts shown on page 47.

Mr. Benson.] Yes, I follow—"Receipts payable to Exchequer." That £9,000 is the balancing item. Thank you very much.

Chairman.] Are there any further questions on the White Paper or on the Account? May I take it that the Account is approved?—(*Agreed.*)

28 May, 1946.]

Sir ERIC BAMFORD, K.B.E., C.B., C.M.G.

[Continued.]

principle that receipts arising from the use of public property should be accounted for as public funds . . . Their Lordships have received a report from the Ministry regarding the exhibition of the film 'Desert Victory' in the Middle East, which shows that certain of the receipts were handled by officers of the Ministry and paid over to charities without being recorded in the Ministry's accounts, and that there was failure to observe the limitations attached to Their Lordships' sanction for the loan of this film for charitable purposes." May I be told what the limitations attached to their Lordships' sanction were? Perhaps one of the Treasury representatives could answer that question?—(Sir *Herbert Brittain*.) I think the limitations related first to the towns in the Middle East in which these should be shown, and, secondly, the types of charities, mainly Service charities, for the benefit of which they should be shown.

4857. I forget where the film "Desert Victory" had been shown?—(Sir *Eric Bamford*.) It was being shown in the Middle East at that time. The main charity showing was a showing in Cairo, and there were other Middle Eastern towns in which the same procedure took place.

4858. The Treasury Minute goes on to say: "My Lords understand that instructions have now been issued by the Ministry to prevent a recurrence of those irregularities." You sent out some instructions?—We have sent out instructions to all our overseas posts to make sure that the procedure laid down by the Treasury will be followed. That, broadly, means that posts are at liberty to have shows of this kind if they do not involve any loss of profit or charge to the Exchequer without prior sanction, but if there is any loss of profit or cost to the Exchequer, then they have to seek authority, and the Ministry itself has to go to the Treasury and

there may, under peacetime conditions, have to be provision in the Vote for the purpose.

4859. It follows, does it not, that any and every exhibition for charitable purposes must involve a loss of profit?—Not necessarily. I think there might be an occasion on which we had a film which we were not showing at the moment in a particular area, and someone might come along and say to us: "[Look here, can you let us have this film to show? We intend to give any proceeds to charitable purposes," and that would be a case, I think, where we should not be losing money to the Exchequer. We only acquire money on these occasions as a by-product of publicity. Our object is to get films shown, but if there were an occasion like this one, where "Desert Victory" was going into regular showing, and where the first night of the showing was the subject of the special arrangement by which the proceeds were allocated to Service charities, then, of course, there is a loss, as we should have earned something from the proceeds on the first night of an ordinary showing. The proceeds from a charity showing are very much larger than they would be from an ordinary showing.

Chairman.] Are there any questions on the Treasury Minute?

Mr. Thurtle.

4860. What was the nature of the charities to which these funds were paid?—These were all Service charities. The film, of course, was mainly made by the Army Film Unit in conjunction with the Crown Film Unit, and it was regarded by the Service Commanders on the spot as an appropriate gesture, and we regarded it as a means of obtaining very good starting publicity.

Chairman.] Are there any further questions on the Treasury Minute?

CIVIL APPROPRIATION ACCOUNTS (WAR SERVICES), 1944.

CLASS X.

VOTE 8.

MINISTRY OF INFORMATION.

Chairman.

4861. Will Members turn to the Civil Appropriation Accounts (War Services), 1944, to paragraphs 29 and 30 of the Report of the Comptroller and Auditor General, on page xi. Paragraph 29 deals with the delay in the rendering of accounts from overseas. The Comptroller and Auditor General says that the estimated total of overseas accounts still outstanding when the books of the year were closed on the 30th September, 1945, was £751,000, the comparable figure for the previous year being £984,000. That shows, on the face

of it, a welcome decrease. (Sir *Eric Bamford*.) It does.

4862. But the Comptroller and Auditor General goes on to state: "These figures exclude working balances." Could you give us any idea of the amount of the working balances?—I take it the working balances refer to the cash in hand at the posts at the end of the period covered by the last accounts. At a very rough estimate I should say, taking between 50 and 60 posts, that the amount would be about £50,000 or £60,000, but I can only make a shot at that.

28 May, 1946.]

Sir ERIC BAMFORD, K.B.E., C.B., C.M.G.

[Continued.]

4863. Sir Gilbert goes on to say: "In addition a considerable sum remained in suspense, representing both expenditure and receipts awaiting further information before final clearance." Could you give us any idea at all of the amount remaining in suspense?—That, again, is rather a difficult figure to arrive at. We have maintained an accurate ledger account of the items of expenditure and receipts, which, as a result of the examination of these overseas accounts, were placed in suspense pending answers to further inquiries or the receipt of vouchers or the collections of sums due. The difficulty we are in is that a lot of these relate, of course, to very early days of the Ministry, and some of them to posts which were overrun—Singapore, and so on—and accounts necessarily could not be cleared up. One of the difficulties we are in this is that as a result of our staff shortages during the war we had to give up some parts of the work. We were unable to keep up a complete matching of the items in the Suspense Account with the vouchers and so on, and we are not, I am afraid, at the present time, able to say which have been cleared and which have not within very wide limits. We have gone through these accounts as far as we can, just for the purpose of this particular point, and I can only make a shot at this sum. As near as we can see, the figure outstanding on the expenditure side would be about £600,000 odd, and the figure on the receipts side £560,000 odd. That is for overseas accounts. There are certain suspense items relating to personal imprests which are comparatively small. There are advances of £17,000 and recoveries of £5,000 outstanding.

4864. We will not bother with the small items.—There are some at home, of course; they are quite small. It is in respect of the overseas accounts that we have had to leave a lot of things we could not clear up, and while we have been engaged in trying to cope with the clearing up of the old, outstanding overseas accounts generally, we have, I am afraid, not been able to apply additional staff to clearing these suspense accounts, but obviously we must get down to them, and we have set about it, and I hope we shall be able to clear up this picture within a few months.

4865. In the last sentence of paragraph 29 the Comptroller and Auditor General states: "The Guatemala accounts for the quarters ended June and September, 1941, referred to in paragraph 40 of my Report last year, have not been cleared." Can you tell us what has happened to them?—They have been cleared now. They are one of those very small items of accounts which people tend to put on one side. They were a case where the vouchers were sunk in transit to this country early in the war, so nothing could be done with them for a long time. We could not deal with them

till we had gone back over the whole ground with the local Press Attaché and made any further inquiries, but they should have been cleared before. We were in a position to do so some months ago. They have now actually been cleared.

4866. On paragraph 30, could you tell us a little about the reorganisation of the stock records and stores control?—We were in a white sheet last year, I am afraid, over our store and stock records. We had from our earliest days, I fear, rather neglected to set up any central unit to give guidance to the different divisions and outside units of the Ministry about the proper method of stockkeeping, and although the records at Headquarters were in reasonable shape, there was a great deal lacking in certain of the storekeeping arrangements at the outside depots of the Ministry. Last year we made the first step really, to get this right, which was, of course, to obtain someone experienced in store accounting to tackle the whole job. We had never been able to put anybody on to it, and we did not have anybody of the right experience. It shows how long it takes to do these things that it took us, I think, about three or four months till August, 1945, till the Treasury were able to provide for us a suitable candidate, a Mr. Isherwood, who came to us with long experience of the Royal Air Force storekeeping. He has been on this job all during this year, and we have, I think, now got the thing into a reasonable shape. We are working on the views expressed at this Committee last year, that the first thing to do is not to go back trying to reconcile store accounts which were in a hopelessly bad state with the facts as you can find them out now, but to get the new system working, to make sure that there is a good system, and then to test it out and make sure it is in working order. When that has been done we shall try to overtake the past and see what deficiencies are thrown up in the earlier years. There, again, we are having, owing to staff shortage, to attack the problem piecemeal. We have the signed inventories from all the posts where stores were in use—

4867. I was going to ask you about that. Sir Gilbert states that the inventories are being checked against Headquarters records. Have you any results from that checking yet?—The first thing we are doing, to take, for example, the inventories from the overseas posts which we have now got in from all, I think, except five posts, is to go through those, looking into the fate of the rather more attractive equipment like wireless sets, cameras, and so forth—things which are most likely to go astray, the major items; but it will take some time before we can present a clear picture of what deficiencies there are, though I do not see any reason to anticipate that there has been any serious or widespread irregularity. But there will be

28 May, 1946.]

Sir ERIC BAMFORD, K.B.E., C.B., C.M.G.

[Continued.]

a lot of things which it is difficult to match up. At home we have the arrangements for the checking of stocks of materials consumed at the Ministry's stores—I think we have a good system working there, and for each of the stores receipts issued and stocks of material are properly recorded, and the initial balances have been set down from the quantities found at physical checks which were carried out in 1944 and 1945, and we have had subsequent test checks by the Accounts Branch. The exhibition stores is one which is rather a difficult one, because the material is so extraordinarily mixed, and the store where we work is under the control of the D.O.T., but we are now working on every exhibition as it is finished, and it is being broken up and properly recorded. We have, of course, considerable stores of a broadcasting nature, and stores in the hands of the Crown Film Unit, and the other film sides of the Ministry, but I think the system is now in order. The past has still to be cleared up. Then with regard to material which is in more or less permanent use, we have inventories from all our regional posts at home which are signed, and inventories from the divisions at home, and, as I have said, from the overseas posts—all of them except five. Some of them are particularly deaf to our appeals. Moscow has been hastened by five telegrams, but we still have not got it; but I imagine that will be coming in very shortly.

4868. Are the Treasury satisfied with the progress made in this matter?—(Mr. Jones.) We were instrumental in getting this experienced officer to put the system in. We have not had any detailed report on the progress made, but we have no reason to believe that the system he has recommended to the Ministry will not be satisfactory. The test of the working of the system has still to be seen. We have had no report on that. (Sir Eric Bamford.) We have reported to the Comptroller and Auditor General on the queries he put to us.

4869. Sir Gilbert, have you anything to add?—(Sir Gilbert Upcott.) Not very much. I can confirm what the Accounting Officer has said, that the system has been put in much better order, but, of course, as he says, there remain the past discrepancies to be cleared up, and I am afraid it is too early yet for my officers to examine the actual working in detail sufficiently to say whether the future is likely to be satisfactory.

Chairman.] Are there any questions on paragraph 29 and 30?

Sir John Mellor.

4870. Is your more valuable equipment marked with some mark, showing that it is the property of the Ministry?—I do not think it is. It is of all kinds in all sorts of places. It might be anything from a

transmitter in Aden or Palestine to a wireless set in somebody's room somewhere.

4871. The War Office manage to mark their equipment?—With a broad arrow?

4872. Yes—quite conspicuously. Is there any reason why your equipment should not be similarly marked?—I must admit that I have never thought of it. Is it the practice of other Departments? I know that it is, of course, of the War Department.

4873. Whether it is the practice or not, it would be, perhaps, some slight deterrent to this pilfering?—I do not know that there is any evidence that there is a great amount of pilfering over the period of years with material which has been given, of course, for operational uses.

4874. Are the deficiencies merely a question of errors in records or are they partly attributable to pilfering?—We cannot finally say what deficiencies there are yet until we have gone into the past. We shall be in a better position to explain this later.

4875. Does such information as you have lead you to believe that there has been very little pilfering, but it is a question that when your records are in order you will find there is not much deficiency?—I have no reason to believe that there has been any excessive loss by pilfering. We have, of course, the usual items which appear in the Appropriation Accounts; we have the ordinary things which happen, a public address equipment on the top of a car which is stationed somewhere near troops going to Normandy, suddenly disappears. It is thought that it has gone to Normandy with R.E.M.E. I do not know that there is anything very serious of that kind. The main trouble is that we just did not get our detailed accounts sufficiently in order in the earlier days. (Sir Gilbert Upcott.) Originally, there was in fact no general system in the early days of the Ministry. I should say that it was the general practice of Departments to see that their property is marked.

4876. It would not involve any serious expense to mark the equipment and to mark each part of the equipment, would it?—(Sir Eric Bamford.) At this stage it would not be a very easy matter. This thing is dwindling away. A lot of our equipment now is in the hands of overseas posts which have gone over to the Foreign Office. Broadcasting equipment of all kinds has gone out from us and has been handed over to other Departments where it will eventually belong. It does not stay with us. There are things, I agree, in the Crown Film Unit—cameras and so on—which it might well be worth looking into the possibility of marking.

4877. You could arrange for any new equipment to be marked?—We will look into that.

28 May, 1946.]

Sir ERIC BAMFORD, K.B.E., C.B., C.M.G.

[Continued.]

Mr. Benson.

4878. How comes it that you had property all over the world and had no system of stocktaking?—Because we grew rather gradually. We grew with an inexperienced staff abroad and with an inadequate staff at home. We are not, of course, a Department dealing with stores on a gigantic basis, like the Ministry of Supply or anything of that sort. (Sir Gilbert Upcott.) Perhaps I might interrupt to say that Sir Cyril said frankly last year that the Ministry had “let the proper accounting system in regard to the stocks of stores rather slide during the course of the war—I think primarily, to do justice to ourselves as far as I can, because of the great difficulty of getting skilled manpower for this sort of thing. But it has to be put right now. It has drawn attention to something which we have not done as we should, and our first step really has been to apply to the Treasury for the allocation to us of an officer who is skilled in the methods of stores accounting. What we have done is this: We have not controlled this property by system from headquarters; we have left it to the various depots to make their own arrangements,” and that he was putting right at that time.

Mr. Thurtle.

4879. Did you say you grew gradually, Sir Eric?—(Sir Eric Bamford.) We grew on the stores side. The big items came in when we began to provide broadcasting equipment for political warfare. That is really when we held big stores.

Chairman.

4880. Are there any further questions on paragraphs 29 and 30? We pass to the Account which is at page 29. Would you give me, Sir Eric, quite briefly, the breakdown of Subhead D “Publicity,” a figure of just on £4,000,000?—The main item in that Subhead is Press advertising for other Departments—in round figures, £700,000. Other Press publicity, which includes the distribution of newspapers and periodicals overseas, the provision of feature articles and so forth, £350,000; posters, £175,000; films, £700,000; broadcasting, £160,000; exhibitions of the type of the Victory over Japan Exhibition or the Control over Germany Exhibition just coming on, £137,000; photographs, £158,000 and local expenditure abroad £1,400,000. Those are in very round figures the main items.

CIVIL APPROPRIATION ACCOUNTS, 1944.

CLASS IV.

VOTE 12.

BROADCASTING.

(British Broadcasting Corporation Accounts for the year ended 31st March, 1945.)

Chairman.

4885. Will Members turn to the Civil Appropriation Accounts, 1945, Class IV,

4881. I see you received no less than £267,000 from the distribution of films, which seems to indicate that you must have produced some good ones. On the other hand, that suggestion is to some extent challenged by the footnote on the next page: “Film Abandoned.—The sum of £4,000 was paid during the year on account of the production of a film which proved to be unsuitable for exhibition.” Was it only the name of the film which made it unsuitable for exhibition, or was it an unsuitable film of itself?—I think the name alone would have been enough. It was: “Is Your Ernie Really Necessary?”

4882. Was it an appeal to the young women of England?—It was a film which was intended to be a play on the words “Is Your Journey Really Necessary?” and to dissuade people from wartime travelling.

Mr. Haworth.] It has no relation to the Foreign Office!

Chairman.

4883. At any rate you abandoned the whole project, did you?—Yes. We are making anything up to 200 films ourselves a year and others by contractors, and this is a creative activity, where things do go wrong, and you do not always catch them at the appropriate stage. This was a bad example. It was one where the Ministry of War Transport had to vet the script, where the budget was not very satisfactory, and our finance people were looking at the budget, and where the Film Division, anxious to please and to get into production quickly, told the film company to go ahead, because they were in a position to book a studio at that moment. They went ahead with these disastrous results.

Chairman.] Are there any questions on the Account?

Sir John Mellor

4884. On page 30, near the foot of the page, amongst “Losses of Stores” items, there is: “A model haystack constructed in connection with an exhibition at a cost of £746 destroyed by fire.” Would it not have been cheaper to get a real haystack?—I think it would. It was in Trafalgar Square, to encourage you to enlist as a volunteer for harvesting. It was a building, of course.

Chairman.] Are there any further questions on the Account?—May I take it that the Account is approved?—(Agreed.)

28 May, 1946.]

Sir ERIC BAMFORD, K.B.E., C.B., C.M.G.

[Continued.]

signed the Account?—(Sir *Eric Bamford*.) The Ministry, of course, accounts for the issues from the Grant in Aid. I think it is the general understanding that the Accounting Officer, when he presents himself here, is required to give the Committee any information about the B.B.C. which he has gleaned in the course of his duties. We are not, of course, responsible for the form of the B.B.C. Account; in any way; they are drawn up by Auditors approved by the Postmaster General and in a form settled by the B.B.C. themselves—in accordance, I must say, with recommendations by the Ullswater Committee. We have no power over the form of the accounts. We receive them and we receive an annual report, of course, on the B.B.C.'s activities, and during the year, in the course of our examination of the framing of the estimates and checking the bigger items of expenditure, we have, of course, a general knowledge of what is going on, but not a detailed knowledge.

4886. There was a grant of £9,000,000 and an expenditure of £700,000 less than the grant. There is an explanation of the surplus which is not very lucid, but I think the expenditure on the B.B.C. has been over-estimated for several years past, has it not?—Yes. The process is always one by which the B.B.C. put in an application for a Grant in Aid of a certain amount. We and the Treasury examine it and it is usually cut down by anything from £500,000 to £1,000,000, on the ground that the B.B.C. has always proved rather optimistic, and in the event we find that the approved expenditure has been substantially less than the total original grant. One has to realise that the ordinary Department has been running on the Vote of Credit and has not had to align its expenditure with ordinary annual Estimates. The B.B.C. has tried to do so, and has not got very close always, but circumstances change, of course, a good deal during the year. There is a long period after they make their forecasts till the end of the year, when they have to tie the thing together.

4887. Can you tell me what was the revenue from licences in this accounting year?—£4,834,000.

4888. We have the B.B.C. Vote for the year ended March, 1945, and for the five years previous of wartime. If you cannot answer my questions on these accounts you will have to see if you can furnish any information later to the Committee. I did want to ask a question about the balance sheet for the 31st March, 1945. On the assets side there is the item "Stores on hand: At cost or under," a figure of £828,000, whereas the stores for the first year shown in these accounts 1938, if you look at page 3 of the more bulky accounts over the five-year period, you will see that the stores on hand at the end of 1938 were £22,000. There is an enormous growth in

the stores—about 40 times what they used to be before the war. Can you explain that to us?—Before the war, under peacetime conditions, with smaller operations, and with ability to obtain stores as you wanted them, the B.B.C. did not require to carry big stores, and the amount was, therefore, very small. They bought things as they went along, as one would expect.

4889. You mean that under war conditions they had to carry a lot of surplus plant in case of bomb damage or accident?—Yes. It has been a growing amount all during the war, as the operations increased, no doubt partly as an insurance against damage. The B.B.C., of course, had a bomb on Broadcasting House during the war, and that, no doubt, led them to say: "We must make considerable provision by way of insurance against being knocked out by enemy action." We have a note of the increases in this year of account over the previous year. Those increases are quite substantial. For central engineering stores the figure was £296,906 at the 31st March, 1945, which was an increase of £69,000 over the previous year. The figure for valves for transmitters was £238,000, an increase of £38,000; paper was £74,959, an increase of £3,000.

4890. I do not think we will go into all the details. I just wanted to inquire if there were any question of disposing of a good deal of surplus plant and equipment?—Yes. We have, of course, ourselves been concerned with this very great increase in stores in hand, and have discussed it on a number of occasions with the B.B.C. It arises, of course, in part at this moment from stores which were used for wartime emergency purposes coming back into store, as operations are reduced: typewriters, things called Group H Transmitters, which were emergency transmitters: those fall out of use and come back into store, thereby increasing this figure much beyond what it was before. There were also goods ordered during earlier years, when the B.B.C. were insuring, as I say, against wartime damage by ordering transmitters ahead. Those come in and are no longer wanted. The B.B.C., at our suggestion, put themselves in touch with the Ministry of Supply Disposals Department, and are arranging to liquidate the usable stores which are no longer wanted. I think the Ministry of Supply are taking over the excess typewriters. A number of items are not suitable for the Ministry of Supply to handle, and the B.B.C. have been asked to auction them themselves.

Chairman.] Are there any questions on the Account or on the B.B.C. Accounts for the year ended 31st March, 1945?

Mr. Thurtle.

4891. I was wondering about this very large increase in freehold and leasehold properties and the increases in regard to plant—whether there is any likelihood, now

28 May, 1946.]

Sir ERIC BAMFORD, K.B.E., C.B., C.M.G.

[Continued.]

that peace has come, of any considerable reductions in these war period increases?—During the war there has, as you say, been a very great increase in the capital assets of the B.B.C., amounting, I think, to about £4,500,000 mainly, of course, for the overseas programmes. That big increase has been mainly due to the putting up of these big transmitters all round the country for short wave and medium services to overseas. There is no very great reduction at present in the volume of overseas broadcasting. I think the B.B.C. made a slight reduction at the end of the war in Germany, and there may well be a forced reduction, owing to difficulties in regard to frequencies and less short waves available for broadcasting, but I do not know that there is very much likely to go out of commission, of transmitters immediately in use, over the next year. The stocks in hand no doubt can and should be got rid of to a substantial extent.

4892. The Corporation is likely to hold on to these increased properties?—It will depend on what the Government requirements are in regard to overseas broadcasting. I think it is agreed that the B.B.C. overseas broadcasting shall be done, in effect, as an agency of the Government; that is to say, the Government will fix the general character and scope of the services, while not interfering in the day to day programmes.

(The Witnesses withdrew.)

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

THURSDAY, 30TH MAY, 1946.

Members present:

MR. PEAKE in the Chair.

Mr. Benson.
Mr. Haworth.
Mr. Hector Hughes.

Sir John Mellor.
Sir Frank Sanderson.
Mr. Thurtle.

Sir GILBERT UPCOTT, K.C.B., Sir HERBERT BRITAIN, K.B.E., C.B., and Mr. C. E. I. JONES called in and examined.

TREASURY MINUTE ON PARAGRAPHS 20 TO 22 OF THE REPORT OF THE COMMITTEE OF PUBLIC ACCOUNTS, 1945.

Sir FRANK TRIBE, K.C.B., K.B.E., and Mr. R. LEACH, C.B.E., called in and examined.

Chairman.

4896. Sir Frank, this is your first appearance before the Public Accounts Committee as representing the Ministry of Food?—(Sir Frank Tribe): Yes.

4897. Although it is not your first appearance as representing other Ministries?—That is true.

49852

Mr. Benson.

4893. Reverting to this figure of £828,000 in respect of stores on hand at cost or under, I think you stated last year that the assets partly belonged to the B.B.C. and partly to the Government. I take it you will have to render an account of what is Government property and return it?—The ownership of the wartime assets is a matter which remains to be settled between the B.B.C. and the Government, and discussions on that matter are now in progress.

4894. They are actually in progress?—Yes.

Mr. Haworth.

4895. I take it the Government is giving a Grant in Aid. The new fees should just about save any cost to the Government, should they not?—the doubling of the £4,000,000 odd in licence fees?—The intention is that the increased licence fees shall be available up to 100 per cent. for home broadcasting and other purposes, but that the Government would provide a Grant in Aid over and above that to meet the cost of overseas broadcasting.

Chairman.] Are there any questions on the Account? May I take it that the Account is approved? (Agreed.)

4898. You have signed the accounts, although you were not Accounting Officer during the year 1944-45?—That is so. I was appointed Accounting Officer about a fortnight before the Accounts were due to be signed.

4899. Will Members turn first to the Treasury Minute on paragraphs 20 to 22

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30 May, 1946.] Sir FRANK TRIBE, K.C.B., K.B.E., and Mr. R. LEACH, C.B.E. [Continued.]

of the Report of the Committee of Public Accounts, 1945? This is dealing with the National Milk Scheme. In the second paragraph of their Minute the Treasury state: "My Lords have been furnished with copies of the instructions issued by the Ministry with a view to ensuring observance by retailers of their obligations under the Milk Order to maintain records relating to beneficiaries under the National Milk Scheme." Could you tell the Committee shortly what those instructions are?—Yes. We have issued instructions to the retailers to keep records of the quantities and the values of the milk delivered, and to make them available to us. That is only one of the many measures we have taken to try to tighten up this administration.

4900. I should have thought the retailers would always have been under that obligation?—No, only since a Statutory Rule and Order was made in 1945.

4901. Previously was there no check?—There had been different methods of attempted check and we had done our best, I gather, in previous years to try to check this up. It is an extremely difficult measure to control, because there are about a hundred thousand different suppliers, many of them very small men with no clerical staff at all, and we found, by experience, that you could not alter the social habits of the recipients by Statutory Rule and Order. We therefore had to resort, as the result of practical experience in 1943 to this present system, and we are now, as I said, endeavouring to tighten that up in various ways.

4902. This scheme is continuing, is it?—This scheme is continuing, subject to a step we are taking in July of this year, when, for the first time for three years, we are insisting that everyone who draws new ration books shall register with the supplier with whom he or she is now registered; that is to say a registration without choice by the consumer. It is going to be an unpopular measure, but our Parliamentary Secretary is going to broadcast on it and we are going to try to make it as near 100 per cent. efficient as we can. At present the difficulty is that our records are so much out-of-date; they are three years out-of-date, and during those three years it was always felt to be very difficult, while the rationalisation scheme was maintained, to force the consumers to register when you did not give them a choice of retailer. But we are going to try to do that this time. At the same time we are appointing additional staff to examine this scheme. We are hoping to recruit another 50 staff in addition to our existing enforcement staff. These additional 50 staff will work under our Director of Internal Audit, and spend their whole time trying to tighten it up. I am bound to say, I think, that there must be some limit to which one can go in policing this scheme. It is

already involving about 1,000 staff in our local offices, besides staff in divisional offices and at Headquarters, and there will always, I am afraid, be a certain amount of laxity; there is bound to be, I think, with such very large numbers involved, and largely among people many of whom are almost illiterate, and move rapidly from one place to another. It is very difficult to keep a check on them as they move about.

4903. Who applies the test of means? The scheme gives a pint of milk a day to expectant mothers, normally at the reduced price of 2d. a pint, but free where the income is below a certain limit. Who applies the income test?—It was always maintained, so I understand, that the Ministry of Food should not apply a means test. We laid down certain standards of income below which recipients could get this free milk—namely, when a claimant's income does not exceed 40s. with two parents or 27s. with only one parent, adding 6s. in respect of each non-earning dependant. That claim is made on a form which states the income. We do in a number of cases check that up by applying to the person's employer, if in civilian employment, or to the military authorities if it is the wife of a soldier, sailor, or a member of the Air Force.

4904. Before a woman can qualify for the free issue she has to fill up a form?—Yes, stating what the family income is and claiming it.

4905. Is that covered by a doctor's certificate certifying that she is expectant?—Yes, in the case of the expectant mother. We are, I should say, altering that scheme now. An announcement was made quite recently. It was felt that we could not even to this extent administer a means test, and the Assistance Board is going to take on responsibility for this administration probably from July.

4906. I should like to ask the Treasury whether they are satisfied that all that can be done has been done to make this scheme, I was going to say, "watertight"—perhaps I should say "milk-tight"?—(Sir Herbert Brittain.) I do not know that we should like to say that. We appreciate that some progress has been made. We also appreciate the difficulties, and we have asked the Ministry to let us know six months hence how the thing stands again.

4907. You take the view that even under the best possible administration there is bound to be leakage?—I think so.

4908. Sir Gilbert, have you any observations to make?—(Sir Gilbert Upcott.) Yes. I agree with the Treasury that this has always been a very leaky scheme, both on the side of the beneficiary and on the side of the retailer, though the Ministry of Food did their best some years ago to put some check on the claims of beneficiaries, and they are now, as the Accounting Officer has

30 May, 1946.] Sir FRANK TRIBE, K.C.B., K.B.E., and Mr. R. LEACH, C.B.E. [Continued.]

explained, attempting to check it on the side of the retailer. I have never felt able to certify without qualification that the payments under this scheme are correct, and I am afraid there are, as the Accounting Officer said, no doubt owing to staff difficulties, great limitations on what they can do; but at the same time I find that even on their own administration they are very much in arrear. I was quite recently informed by the Ministry of Food that there are still alleged over-payments made in 1944 under investigation. Quite obviously there is a lot of leeway to be made up.

Chairman.] Are there any questions on the Treasury Minute on paragraphs 20 to 22 of the Report of the Committee of Public Accounts, 1945?

Sir Frank Sanderson.

4909. In the last sentence of paragraph 21 of their Report of 1945 the Committee said that a report made by the Internal Audit Division of the Ministry "stated that the registration records maintained by Food Offices for the purpose of checking retailers' claims were often defective." Has anything been done to try to bring them to a more regular form?—(*Sir Frank Tribe.*) Yes. This June and July there will be the exchange of books for the whole population. We have previously, of course, required the holder of the books to register with her butcher and her grocer. This time we are going to make her register also with the milk distributor. That document will come then to us, and we shall be able to compile up-to-date lists showing who is the milk distributor of every individual in the country. We shall have to keep it up-to-date in respect of all the constant movements of population, but it will bring our records three years in advance of what they are now.

4910. It will be a very arduous task, will it not?—Yes.

4911. You feel it is practicable?—Some of my advisers said they did not think it would be practicable and that we should not get sufficiently near complete records to make it worth while, but I was so anxious to deal with this that I felt we should take some risk, and my Minister agreed, and that is why we are imposing this rather onerous task on the whole population in July—simply in order to try to deal with this.

4912. The main point, I take it, is that you feel that it is at any rate a step in the right direction, and you are going to give it a run?—Yes, that is right.

Mr. Thurle.

4913. In the second sub-paragraph of paragraph 21 of their Report the Committee stated: "The Ministry were, therefore, forced to abandon this method of control and to rely largely on the accuracy of the retailers' certified claims." Who is it who certifies these claims?—These are the claims which the retailers put in to us, claiming that they have distributed so much milk cheap and so much milk free, certified by themselves.

4914. Only by themselves?—Only by themselves, yes.

4915. That is a very poor form of certification, is it not?—Yes. Then, of course, we do what we can to verify their certificates, and we have had a certain number of prosecutions. I might say, for instance, that we have proved overclaiming in 136 cases, and we are taking action to recover. We have brought quite a large number of cases before the Courts. The Courts, I am sorry to say, have not given us as good support as I should have liked. They have been rather unwilling to convict, and we are now trying to settle as many as we can out of court.

4916. These prosecutions are against retailers?—Against retailers for making false claims.

4917. I wondered, if this scheme is so difficult to administer, whether any administrative genius has thought of any alternative scheme which could be more easily administered?—This has been thought round and round by many people over the last few years, and on the whole, in relation to the total turnover, the losses are quite insignificant. At the same time, naturally, one does not like a scheme with these loose ends. I have now instructed my Organisation and Methods Division, which has just been established at the Ministry, to make another examination of this from a new point of view, and see if they can devise anything better to improve the machinery.

Chairman.] Are there any further questions on paragraphs 20 to 22 of the Report of the Committee of Public Accounts, 1945?

VOTE OF CREDIT APPROPRIATION ACCOUNT, 1944.

MINISTRY OF FOOD.

Chairman.

4918. Will Members turn to the Vote of Credit Appropriation Account, to paragraph 29 of the Report of the Comptroller and Auditor General, which is on page xi: "Fee paid to the Milk Marketing Board to cover

Bad Debts, etc." The Comptroller and Auditor General states that it was arranged in October, 1942, that the Milk Marketing Board should act as your agents for the purpose of recording and collecting or paying sums due to or by the Ministry. A

30 May, 1946.] Sir FRANK TRIBE, K.C.B., K.B.E., and Mr. R. LEACH, C.B.E. [Continued.]

fee of 4s. 3d. per cent. was allowed to the Board if they accepted the liability for bad debts. That is to say, I take it, for dairies not paying their bills for milk supplies?—Yes.

4919. The rate was reduced in 1943 to 3s., but it would appear that the bad debts in the earlier period had been considerably below 3s. per cent. Can you give us the figure of what they actually proved to be in that period, the 1st April, 1940, to September, 1942?—We knew that the figure had fallen below 2s. per cent. when we got them to reduce it to 3s. Our evidence is that it is now considerably lower than that.

4920. In paragraph 30 the Comptroller and Auditor General states that for the year ended 31st March, 1945, there was every reason to believe that the cost of bad debts had fallen to less than 6d. per cent.?—We have no reason to dispute that.

4921. Can you give me the total amount paid by way of fees under this heading?—During the three years up to September, 1945, we paid £368,000. The payment is now running at the rate of about £110,000 a year.

4922. What is the destination of this payment?—It goes to the Milk Marketing Board.

4922A. What do they do with it?—Having paid Income Tax and N.D.C. on it, they put it to reserve, as I understand. They are a non-profit making concern.

4923. They are a producers' organisation primarily?—They are primarily a producers' organisation. They operate on behalf of the producers. Previously, they were not a trading concern, but in 1942, when this scheme was brought into operation, we made new arrangements with them. Rather than merely controlling the peacetime operation, we made new arrangements with them whereby the producers sold milk at wholesale to the Board. The Board sold the milk to us and we sold the milk to individual distributors. That formed them into a trading concern and made them thereby liable to Income Tax and N.D.C. But they are not a profit-making concern, and any income they get in this way is at the moment being posted to reserve.

4924. Have they any reserve other than what they have obtained by way of profit on this arrangement?—They have certain reserves. They publish a balance sheet. In their last balance sheet for the period ended March, 1945, they have a contingencies reserve of £400,000, a general pool account of £30,000, and a contract emergency reserve of £153,000.

4925. Does the statute prescribe what is the ultimate destination of these reserves?—Not to my knowledge.

4926. Or the extent to which they can be built up?—I believe not. We have

taken them on, so to speak, during the war. They were originally the child of the Ministry of Agriculture, and they are simply operating this scheme for us as a temporary measure, pending some decision by the Government of the day on the whole future.

4927. Have they any duties laid on them in regard to the improvement of the quality of milk or the yield of cows, research work, or anything of that sort?—Yes. Their principal duties are to regulate milk marketing by prescribing conditions upon which milk may be sold, the description or quantity of the milk, the manner of grading, marking, packing, etc. They have also to buy and market milk and milk products, promote research, licence collecting depots and licence premises for the manufacture of milk products. They have also to impose rates and one or two other minor duties.

4928. Are the Treasury satisfied with this arrangement, which appears, on the face of it, to have been over generous to the Milk Marketing Board?—(Sir Herbert Britain.) No, I do not think we could say we are satisfied. The whole position is rather unsatisfactory, but it is very difficult to see what we can do about it. Neither the Ministry nor ourselves have any power to compel the Milk Marketing Board to make an arrangement more favourable to the Exchequer than this. The only consolation, perhaps, is (it is no justification for this arrangement but it is some consolation) that, as I think perhaps Sir Frank would say, the Ministry do get certain benefits from the Board for which they do not pay, in the matter of accommodation, offices, and that sort of thing. Whether they are at all commensurate with the deficit on this I am not sure.

4929. The Comptroller and Auditor General tells us that even after it appeared that the bad debts had in practice fallen to under 6d. per cent. it was decided to continue the arrangements for the six months ended March, 1946, on the same terms. I cannot see what motive the Milk Marketing Board have for trying to extract an unduly large amount of money on this item if they cannot use the money in any way except by putting it to reserve?—I suppose every undertaking attaches a certain importance to putting moneys to reserve. They do not know quite what their future is going to be. Presumably, that may be the explanation. I repeat what I said just now that it is unsatisfactory.

Chairman.] Are there any questions on paragraphs 29 and 30?

Mr. Benson.

4930. On what Sir Herbert said, it almost seems as though this Board were an autonomous organisation which nego-

30 May, 1946.] Sir FRANK TRIBE, K.C.B., K.B.E., and Mr. R. LEACH, C.B.E. [Continued.]

tiated on equal terms with the Ministry. What is the instrument of its appointment and control?—(Sir Frank Tribe.) It was constituted in 1933 under the general Agricultural Marketing Act, 1931. The scheme was promulgated by the Milk Marketing Scheme Approval Order No. 789 issued in 1933. That was by the Ministry of Agriculture. It is, as you say, a producers' body. It consists of 15 members elected by the registered producers and two other persons who are co-opted by the elected members with the approval of the Ministry of Agriculture. It is, therefore, entirely a producer-controlled body, although set up by statute.

4931. Is that a very satisfactory situation? It was set up by Order, I gather?—It was set up by Order under the Agricultural Marketing Act.

4932. Does that mean that a variation of the Order would enable you to lay down specific terms, or, having been set up, can nothing be done with it save legal dissolution?—I should have to study the Agricultural Marketing Acts, which are really, as I say, the Acts for which the Ministry of Agriculture is normally responsible. I should doubt whether, under the terms of this Act, it would be possible to make any violent radical change in the constitution of this Board, because the whole conception of that Act was to set up producer boards.

4933. The reserves, which must be a considerable amount, are apparently in the hands of a producer board, and could be used, if necessary, for the benefit of, and an improved price to, producers?—And I think, to give them credit, they would like to spend probably more than they are able to now on research work. They have done quite a lot of that. We have tried our best, I may say, to get them to reduce this. We negotiated with them first in November, 1944, then in December, 1945, and recently within the last few weeks, trying to get them to reduce this.

4934. And they are obdurate?—They are obdurate, and really we are in their hands, because to set up any alternative organisation would involve a very much larger expenditure on the part of the Government.

4935. Now with regard to those bad debts they incur, they amount to a considerable sum, and in present circumstances it seems rather difficult to understand why they incur bad debts?—They actually do not incur very few bad debts. They originally thought they would. There is no doubt when this scheme was first discussed with them they had always been setting aside reserves at the rate of 5s. per cent., and their hold had been the threat to stop bad debts by withholding supplies. They knew quite well that when the Government took control the Government would not let supplies be withheld, because the Government

obviously had to see that milk was distributed. They therefore felt that the one sanction they had in peacetime was likely to be withdrawn and that their debts were likely to increase. Moreover, they hold guarantees and other forms of securities from dairymen to whom they had sold milk, and if they had not carried this on these would have had to be transferred to us, but I think they generally did expect their risks under this to increase. That has not in fact proved the case, and the losses have gone down from year to year.

4936. Their charges are not decreased proportionately, and apparently the fee arranged originally was arranged with the approval of the Treasury. Surely, if you negotiate an original price you are in a position to negotiate a supplementary revision of that price?—That, as I say, is what we have tried to do. We have met three times in the last three years to negotiate a revision of that agreement, but the Board have been obdurate and we have not been able to do so.

4937. Supposing you say you are not prepared to pay more than a certain sum, what is their move?—They would say: "The whole agreement has to be reviewed, and if you review it we want certain other items dealt with." They feel very strongly that we are being high-handed with them because we insist on taking the profits they make on their creameries into account in determining the remuneration to the producers. Those profits amount to about £100,000 a year, which is about the same as the annual fee. They have claims against us, and they would say that if we were going to insist upon calling for a formal review of the agreement, they had counter claims to make upon us. Another claim they would make is that we should pay something for the accommodation which they give us. Before the war they built some very good offices at Thames Ditton, which they have put at our disposal, and our Milk Section occupies those offices at Thames Ditton free of charge, which has been extremely convenient, so if the whole agreement were revised there is no doubt they would have certain counter claims, which on our part it would be difficult to resist.

4938. Who has the final say in the price the producer gets for milk? Where does the ultimate power rest there?—The fixing of all these agricultural prices is done by agreement between the Minister of Agriculture and the Minister of Food on the one side, and either the National Farmers' Union or representatives of the producers' interests on the other. It is a matter of bargaining, which takes place generally for most commodities in February. It is called the February Price Review, and the Minister of Agriculture working in association with the Minister of Food really negotiates with the producers.

30 May, 1946.] Sir FRANK TRIBE, K.C.B., K.B.E., and Mr. R. LEACH, C.B.E. [Continued.]

4939. So it really comes down to the old, old tale of the farmers using their power to screw the Ministry?—In regard to this particular question I entirely agree with what the representative of the Treasury has said, that we have a strong case for asking that this particular fee should be reduced, but I do not think it would be wise for the Government to press this. The only thing we could do would be to give notice of the cancellation of the agreement, which would then put the whole of our agreement with the Board into the melting pot.

Sir Frank Sanderson.

4940. I am still not quite clear about the set-up of the Milk Marketing Board. Was this Board set up by the Ministry of Agriculture? Were they responsible for the setting up of the Milk Marketing Board?—Yes. That is what I understand to be the position—in 1933.

4941. Has the Ministry of Agriculture any say in regard to the appointment of those who sit on the Board?—Only in respect of two out of these 17 members.

4942. Can you state who nominates the Chairman and who is responsible for the appointment of the Chairman?—I fancy the Board elect their own Chairman. I am pretty certain of that.

4943. He is not necessarily one of the members appointed by the Ministry?—No.

4944. Could you state whether the officers are paid—whether they receive a fee of any sort, or whether it is voluntary?—The Chairman is certainly a full-time paid office. The members are elected by the registered producers, and I am afraid I do not know whether they receive any extra remuneration because of their membership.

4945. Can you state the remuneration of the Chairman?—I have their published accounts, and there is an item shown of £8,988 for the remuneration of the members of the Board for the year up to the end of June, 1945.

4946. That is £8,000 for the whole of the members. Is that right?—Yes.

4947. One further point. I was at a complete loss to decide in my own mind what is going to be the ultimate distribution of the very large amount of profit which will accrue. To whom does that profit belong? Will it belong to the Ministry of Agriculture finally, or to whom?—No, I should say it undoubtedly belongs to the Board, which is a statutory body, and I presume when the final winding up comes there will have to be negotiations as to what should be the future of the Board and of its assets.

4948. I understood you to say that it is distinctly laid down that it is a non-profit-earning concern?—It has no equity capital. It does not pay dividends.

4949. It is not a company and it has no capital?—No.

Sir Frank Sanderson.] Mr. Chairman, I really would suggest that we should press for information to know what is to become of this profit, which will be a considerable amount of money, which, apparently, is accruing for the credit of no one in particular.

Chairman.

4950. Our difficulty is, I think, that we have no jurisdiction over the Milk Marketing Board. You have very little, either, Sir Frank, as I understand it?—We have very little. The only normal jurisdiction would be through the Ministry of Agriculture. By statute they have to send copies of their accounts to the Minister of Agriculture, and a copy of the accounts is included in the Ministry of Agriculture's Annual Report to Parliament.

Sir Frank Sanderson.] Would I be in order in suggesting that this Committee should invite the Milk Marketing Board to advise us what it is proposed should be done with the money which is accruing?

Chairman.

4951. We can certainly consider that. I understood you to say, Sir Frank, that there is nothing in the Statute, Regulation or Order which prescribes what the Milk Marketing Board are to do if they build up any reserve?—I should not like to commit myself finally on that. I am afraid I have not examined that side of it. I could definitely find out and, if you like, let the Committee have a note.

4952. The best thing would be if you would furnish us a note perhaps in conjunction with the Ministry of Agriculture upon what the position of the Milk Marketing Board is in regard to these financial questions?—(Sir Gilbert Upcott.) Subject to correction, Mr. Chairman, I do not think the accounts of the Milk Marketing Board now at any rate are laid before Parliament, and, if they are not laid before Parliament, they do not come within the scope of this Committee's terms of reference.

Chairman.] No, but what I was inquiring about was whether anything in the Order or the Statute prescribed what was to be done by the Milk Marketing Board with its reserves. That, surely would be a matter upon which we could be informed if there is anything laid down.

Sir Frank Sanderson.] Surely, we are entitled to inquire what is to become of this accumulated money. Am I right in surmising that it is conceivably possible that the time will come when the Milk Marketing Board will cease to exist as such?

30 May, 1946.] Sir FRANK TRIBE, K.C.B., K.B.E., and Mr. R. LEACH, C.B.E. [Continued.]

Mr. Benson.] Apart from that, is there not also the possibility that they will accumulate reserves and then pass them back to the producer in increased prices, and gradually wipe out the reserves? There seems a possibility of their being able to do that.

Chairman.] As I understand it, it is not open to the Board to increase the producer's prices. They are fixed by agreement between the parties.

Mr. Benson.

4953. By negotiation?—(Sir Gilbert Upcott.) What you want to know is what is the position of the Milk Marketing Scheme with regard to the destination of their funds.

Chairman.

4954. It is a statutory scheme?—It is a statutory scheme.

4955. I think perhaps you could furnish us with some more information, Sir Frank?—(Sir Frank Tribe.) Yes, certainly.

Mr. Thurtle.

4956. I was wondering about this particular reserve which is an accumulated fund of the excessive payments in respect of a guarantee against bad debts. I gather from what Sir Frank said it amounts to between £400,000 and £500,000. Is there a possibility that at some time this reserve will be distributed amongst the members of the Milk Marketing Board?—I think I would like to deal with that in the proposed memorandum, if I may—as to what their powers are and whether they have a power to distribute a reserve like that among themselves. I should very much doubt if they could do that.

4957. It seems quite clear, from what you have told us about their reluctance to relinquish certain profits, that they are anxious to accumulate large reserves?—Yes.

4958. Presumably, there is some motive behind that?—Yes, but it need not necessarily be a financial motive. I think they generally want to embark on greater experimentation and research work.

Chairman.

4959. Are there any further questions on paragraphs 29 and 30? We pass to paragraph 31, which deals with the Biscuit Levy. It appears that the subsidy on flour has exceeded in value to the biscuit manufacturers the cost of the Biscuit Charges Levy. The Comptroller and Auditor General states that he was informed by the Ministry that the question of the revision in the amount of the charge had been under active consideration. Has any decision been reached yet on that?—Yes. A revised Order was signed last week, I think, by the Lords of the Treasury, and actually came into

* See Appendix No. 7.

49852

effect on Sunday last, the 26th May. It is, of course, subject to affirmative resolution by the House of Commons. It will have the effect of reducing the profits from the current figure of about 17½ per cent. to 15¼ per cent., quite apart from any other rises in cost which may be taking place.

4960. You said 17½ per cent. 17½ per cent. on what—on cost or on the selling price?—On selling price. I should also like to remind you that quite recently my Minister had to announce in the House a cut, unfortunately, of 25 per cent. on the production of biscuits. That is going to involve a much bigger loss on the industry than any of this will, and they have naturally come back to us and said they want this whole question revised *de novo* in the light of their very greatly reduced turnover.

4961. What does the Order do? It increases the levy?—It increases the levy from 20s. 3d. to 24s.

4962. So that on the calculations in this paragraph there would still be a slight element of subsidy. Sir Gilbert states that the cost of the subsidy on flour was about 25s.?—It varies the whole time. The basis upon which this paragraph is written is that when we examined it then we thought that the cost of the subsidy was about 25s., and steps would have been taken to reduce it proportionately, but since then we have ascertained that the cost is really 24s. The difference is that in the meanwhile the rate of extraction of flour has been raised from 80 per cent. to 85 per cent. and now to 90 per cent., and that has its effect upon the subsidy.

4963. Biscuits are price-controlled, are they not to the consumer?—Yes.

4964. That means that any increase in the levy must directly reduce the profits of the manufacturers?—Yes.

Chairman.] Are there any questions on paragraph 31?

Mr. Thurtle.

4965. I notice in the second sub-paragraph of paragraph 31 the Comptroller and Auditor General states: "The Biscuits (Charges) Order was made following a costings investigation which indicated that the biscuit manufacturers had been making profits considerably in excess of their pre-war profits." I wondered how long a period that excess profit covered—whether it was for the whole of the war period, and that for the six years of the war they have been making these excess profits?—I gather that these excess profits did not show themselves up too much until the degree of austerity was introduced by making biscuits simpler and simpler, and they made bigger profits out of the simpler biscuits. (Sir Gilbert

L 4

30 May, 1946.] SIR FRANK TRIBE, K.C.B., K.B.E., and Mr. R. LEACH, C.B.E. [Continued.]

Upcott.) I think I can answer your question a little more fully by saying that this statement was based upon a report made by the Director of Costings in 1944, which related to the profits made in the year ending December, 1942.

4966. So it has been going on for the greater period of the war?—(Sir *Frank Tribe.*) Yes.

4967. Now that it has been revealed is there any suggestion that the biscuit manufacturers should be asked for any refund in respect of their excess profits?—No. Of course, many of them will have paid excess profits tax.

4968. But there is still something accruing to them, apart from that, is there not?—There has been no suggestion made to me that we might suggest a retrospective cut.

4969. Other manufacturers who have been proved to have made excess profits during the war have been invited by Departments to make repayments. I wondered whether there was any case for asking the biscuit manufacturers to do the same thing?—As far as I have a recollection of those cases the profits made in those cases were very much higher than the profits made in this case. I think 25 per cent. profit on selling price is not comparable with some of the rates of profit which I have experienced in certain other Departments with which I have been associated.

Chairman.

4970. Can you relate the figure of 25 per cent. on selling price to any other figure—say, capital employed or cost of production? 25 per cent. on selling price does not tell us much?—I am afraid I have not those figures here. I could let you have them if you wished.

4971. I do not think we need trouble with them, because steps are being taken to reduce the profit margin?—We are taking steps, provided the House will give the Order an affirmative resolution.

4972. Are there any further questions on paragraph 31?—We pass now to paragraph 32: "Price Structure of Semolina, Macaroni, etc." What is semolina?—Semolina is produced from wheat, and is a flour of approximately 60 per cent. extraction. It is the base from which, among other things, macaroni is made.

4973. How does it come about that a subsidy is involved in its production.—The price of semolina is bound up with the general financial arrangements with the milling industry. Originally, when semolina was fixed at a bulk figure of 50s. per 280 lbs. sack it was unsubsidised, but the production expanded very much, particularly when rice imports went down. The public demand for semolina went up. The price remained at the original figure, and it became apparent in 1945 that a subsidy estimated at something between 10s. and

£1 a sack was by then involved. We had a costings investigation and the result was that we advanced the selling price of semolina on the 26th April of this year from 50s., the figure I have mentioned, to 70s. a sack. At that figure of 70s. we reckon that it is not any longer subsidised. By having raised the price of semolina to a level which is not subsidised we have automatically dispensed with the hidden subsidy on macaroni.

Chairman.] Are there any questions on paragraph 32?

Mr. Benson.

4974. I am a bit puzzled as to how you got rid of the subsidy by increasing the price. Does the Government purchase all semolina?—It is all part of the millers' agreement; it is an integral part. It is what we call an included activity in the millers' agreement, which I think this Committee has considered on previous occasions at considerable length.

4975. But the Committee is apt to forget these things?—The increase of price accrues to the Government.

4976. It does?—Yes.

4977. The increase of price accruing to the Government reduces the margin of profit?—On macaroni, yes.

4978. But what about semolina?—(Sir *Gilbert Upcott.*) The miller buys his wheat at the price fixed by the Government, and sells the product at the price fixed by the Government, and the Government makes up the difference.

4979. I gather that the profits on semolina have been high—23 per cent. The increase in the selling price reduces the profit margin?—(Sir *Frank Tribe.*) It was the profit on macaroni that was high. Semolina is the main raw material from which macaroni is made. Macaroni was admittedly making a profit of 23 per cent. We raised the price of semolina and thereby brought to an end the excessive profits on macaroni.

4980. It is the profit on macaroni that is 23 per cent?—Yes. (Sir *Gilbert Upcott.*) A profit was being made on macaroni by getting subsidised semolina.

4981. I understood the 23 per cent. applied to the semolina?—(Sir *Frank Tribe.*) No.

4982. How comes it that you are milling any wheat at a 60 per cent. extraction level?—A very small part goes in this. It is, to a large extent, a substitute for rice. As you know, we have not imported an ounce of rice to this country for nearly two years. It is one of the varieties of diet, and the Government so far have found it justifiable to allow a small amount of semolina to be made. Whether that will continue, in view of the increased stringency of wheat supplies, remains to be seen.

30 May, 1946.] Sir FRANK TRIBE, K.C.B., K.B.E., and Mr. R. LEACH, C.B.E. [Continued.]

Sir John Mellor.

4983. The subsidy was not intentional, I take it? That was more or less accidental and has now been removed?—Yes, that is right.

Chairman.

4984. Are there any further questions on paragraph 32? We pass to paragraph 33: "Retail Butchers' Margin." This has always been a difficulty, has it not?—Yes.

4985. Because you have to provide that the most inefficient butcher shall make a living?—That is the real problem, and unfortunately there are 45,000 butchers, and 15,000 of them are on a very small turnover of not more than £50 a week.

4986. That means the efficient butchers are making much too much profit?—Yes.

4987. The Comptroller and Auditor General states: "In February, 1945, following an investigation into the profits of retail butchers during the year to 1st July, 1944, which showed that the trade as a whole were then earning profits substantially in excess of their pre-war profits, the Margins Committee of the Ministry recommended a further reduction in the margin." Can you give us any figures there for the first two or three pre-war profits, and secondly their profits during the war period?—Yes. We had intended, by earlier cuts to which the Comptroller and Auditor General refers at the end of the first subparagraph of paragraph 33, to cut the net profit down to 4 per cent., but investigations made in respect of the year up to the 1st July, 1944, showed that actually the net profit was still then some 10½ per cent. We succeeded in cutting the gross margins, but we have not succeeded in cutting the net margins, largely, one imagines, because during that period manpower was becoming more stringent, and butchers had very largely reduced their overheads. As a result of that our internal Margins Committee, to which reference is made—which is an internal committee of the Ministry, though the Treasury have the right to attend—recommended that there should be a further cut. If the cut had been 2½ per cent. it would have had the effect of making a reduction to 7¾ per cent. in the net profit. That was considered by successive Ministers, and no action was taken, partly because in the meanwhile the amount of meat available in the country had been reduced, and therefore the allocation to butchers had gone down, thereby reducing their turnover, and partly because all Ministers who had considered this had come up against this very difficult problem of the small man. If the recommendations of the Margins Committee had been accepted it would have meant that the small man, of whom there are 15,000, instead of getting £5 net weekly profit, or income, as he has been doing, would have that reduced to £4 5s. My Minister did not feel that he

was justified in taking any action which would reduce the income of 15,000 skilled men to a level of £4 5s., which was below the level of many unskilled workers. He was assured to some extent that the large men who were making the excessive profit would pay over a considerable part of it in excess profits tax, and he thought that on the whole he was justified in continuing the prices as at present without making a cut, and not, therefore, inflicting this grave hardship on 15,000 small butchers.

4988. What was the cut recommended by the Margins Committee—2½ per cent?—Yes, the Margins Committee recommended 2½ per cent. That was subsequently departmentally considered as too stringent, and 1½ per cent. was considered. Actually, when Sir Ben Smith considered the proposal, the proposal was 1½ per cent.

4989. What would the saving to the Exchequer have amounted to at those figures?—The 1½ per cent. would have saved the Exchequer about £2,000,000 a year..

4989A. Sir Herbert have the Treasury anything to say about this?—(Sir Herbert Brittain.) We did not hear of this topic from the time the Margins Committee recommended 2½ per cent. until early this year, after the Minister took his final decision that he would not reduce it at all. We were given the reasons which Sir Frank Tribe has given about the small man, and, on the face of it, we thought that if that was the Minister's considered decision about the need to keep these small retailers going at their present profit on their present small turnover, it was not a thing we could challenge.

4990. I suppose the question has been considered of trying to introduce some form of differential rates, so as not to give excessive profits to the large man and the efficient butcher?—(Sir Frank Tribe.) We have considered that many times, and it is very difficult. One reason is that in the food industries anyhow it is not always the big man who makes the big profits. It is often the small man who makes the higher rate of profit—proportional profit. We feel that any system of differential margin would be open to grave abuse. There would be a grave temptation to present claims in such a way as to qualify for the higher rate, and also intrinsically if you give a higher rate of profit for a less efficient organisation it is a direct encouragement to inefficiency.

Chairman.] Are there any questions on paragraph 33?

Mr. Haworth.] I was intending to put a question about the differential, but I think the answer which has been given is convincing.

Mr. Benson.

4991. If you link a differential rate up with turnover it is unrelated to efficiency.

30 May, 1946.] Sir FRANK TRIBE, K.C.B., K.B.E., and Mr. R. LEACH, C.B.E. [Continued.]

I do not see why it should make it possible to fake claims or that it would have the effect of putting a premium on inefficiency?—If you relate it to turnover directly it would not have an effect on inefficiency. I think the objection to doing it on pure turnover is, as I said, that our costing investigations show definitely that it is often the small man who makes the excessive profits and the big man with the big turnover often makes the smallest profits, and a cut on the big man might in certain cases put him out of operation.

Mr. Thurtle.

4992. That argument surely neutralises your other argument that a general cut would be very hard on the small man because he was not making quite enough to live on?—That is the basis upon which my Minister came to his decision.

4993. You were surely being a little hard on the small man when in your answer you equated size with efficiency. Surely you can have a butcher in a small way in a village who may be highly efficient but have only a very small turnover. It does not necessarily follow that because a firm is big it is highly efficient?—Most certainly I entirely agree with that, but when you get down to these very small turnovers, however efficient a man is his net income per week may be very small in relation to the wages of the skilled worker.

Sir John Mellor.

4994. During the period under review were people restricted with regard to changing from one butcher to another?—It is like some of our other systems. You register every year at the exchange of books with a particular butcher. Up till now you have not been able to change your butcher during the course of the year. An announcement was made by my Minister ten days ago which indicated that in the coming year beginning on July 21st we are going to allow customers to change their retailers every eight weeks if they want to do so.

4995. During this period in 1944 was not the restriction on changing an influence towards inefficiency?—There was always a fear of a change at the end of the year. Milk is the only commodity in respect of which we have tied people down without giving them the chance of changing yearly. So a butcher has had this incentive to efficiency, that he has known that by next July if his customer is dissatisfied the customer can go to another butcher. Now we are going to alter that from yearly to two-monthly.

4996. The efficient butcher who attracted more customers at the expense of the inefficient—did he then get a larger supply so that he was able to accept those new customers?—Yes.

Chairman.

4997. Are there any further questions on paragraph 33? We pass to paragraph 34—“Fish Levy.” This deals with a scheme for placing a levy on fish landed in order to equalise out the transport charges over the fish conveyed to destinations at long distances from the ports. That is right, is it not?—Yes.

4998. We are told in the second subparagraph that there was some loss of revenue by reason of failure to collect all the levy due at some of the small villages and landing beaches, and the Comptroller and Auditor General states: “Special investigators have therefore been appointed to minimise the loss.” Could you tell us what is the result of the efforts of the special investigators?—Yes. We have appointed four of these special travelling inspectors. They have been in operation since the 1st April, 1945. During the first eight months of their employment they recovered levy arrears amounting to £25,000. Their methods alternate between routine checking of records along the coasts and special investigations where a trader is reasonably suspected of trying to avoid the levy.

Chairman.] Are there any questions on paragraph 34?

Mr. Hector Hughes.

4999. Is the object of this equalisation of transport charges to provide equality of freight charges all over the island?—Equality of retail prices of fish all over the country, yes; otherwise to equate freight rates so that the ultimate cost to the consumer was the same whether he lived in the middle of the country or in a fishing village.

5000. To take an example, does it mean that Aberdeen fish could be put on the London market at the same price as Grimsby, Hull or Fleetwood fish?—Yes.

5001. So there is in fact a flat rate all over the country for the transport of fish?—Yes.

5002. I notice that there is £100,000 difference between the transport charges and the amount of the levy?—Yes. The levy is calculated over-all to equal the cost. It is not possible in any one particular year always to make it come out exactly right. In some years we have gained slightly on it and in other years we have lost slightly on it. These are the figures for 1943 and 1944. In 1945 actually our income exceeds our expenditure.

5003. How, in the instance before us, would that £100,000 be made up?—By the Exchequer. This is simply a levy which is paid into the Ministry's funds, and the Ministry then pay the cost of transport.

5004. Does a bad year pay for a good year?—Yes, and the Summer pays for the Winter, and so on.

5005. I would like to ask you a question about the last sentence of the second subparagraph of paragraph 34, in which the

30 May, 1946.] Sir FRANK TRIBE, K.C.B., K.B.E., and Mr. R. LEACH, C.B.E. [Continued.]

Comptroller and Auditor General states: "Special investigators have therefore been appointed to minimise the loss." How do they minimise the loss?—Partly by going round these small landing villages and making inspections. The fishermen do not always know when they are going to come along, and they pounce upon them and find out whether they are in fact putting in their proper records of the fish landed, because it is on those records that we have to levy the transport levy, and sometimes by hearing of suspected cases of fraud and making special visits in order to catch that up. As I say, we have been successful in recovering arrears of about £25,000 levied by that means.

5006. What I wanted to know was this. There would be two ways of minimising the loss. One would be by discovering defaulters, such as you have indicated, and the other would be by amending the system so as to have a system that would preclude loss?—It is very difficult in these small villages, some of which are hardly more than just landing beaches. We have really to rely upon the fishermen. Any other system would be, I think, very expensive in operation and involve man-power which is not really justified. By far and away the bulk of this fish is landed at the big fish ports, and there we have a very efficient system in operation, and investigations show that there is practically no loss. Such loss as does occur probably occurs in these small villages where the total turnover is quite small, and we are satisfied that, for instance, to employ more than our four inspectors would mean spending more in staff costs than the amount of levy we should collect.

5007. Do I take it that in attempting to minimise loss you confine yourself to minimising it by discovering defaulters and making them pay but not by changing the system?—We do not think there is much wrong with the system.

5008. After discovering all the defaulters there is still, I gather, some loss?—The total recovered is less than a quarter of 1 per cent. and I am bound to say, coming to this fairly new, that I think the scheme works with remarkably little loss. There is not much wrong with the scheme really. It is really rather remarkable how well it does work, I think.

Mr. Haworth.

5009. There is more fish in the country now, is there not?—Yes.

5010. What would be the position if you removed altogether all the controls and left it to work out its own salvation? Is that a practicable proposition yet?—It is one which one has constantly under examination. My information is that if we did that now fish would still not get into the country districts in the way in which we are very

anxious it should, because it is one of our main sources of protein at the present time, that there would not be the equitable distribution which we are able to assure by our present methods; and, moreover, if you relax price control at the same time prices might rise to unduly high levels in the areas remote from the sea.

5011. I suppose one difficulty is that although fish is plentiful so many other foods are short that this is artificial?—Yes, it is rather.

Mr. Thurtle.

5012. Have there been any prosecutions for evasion of the levy as the result of the work of your investigators?—I am afraid I cannot say definitely. We have, as I said, recovered £25,000. Whether that has been voluntary or after prosecution I am afraid I cannot say offhand.

5013. I imagine because of the size of the sum there must have been some rather large evasions taking place, and I wondered if you did contemplate proceedings at all in any case?—Certainly we should be prepared to do so, but often we find when it is explained they are quite ready to hand the money over rather than go to Court.

5014. When they are found out?—Yes, when they are found out.

Sir John Mellor.

5015. How are the investigators remunerated?—The salaries of these four investigators come to £1,800, so that they each receive £450 a year.

5016. That is all?—There are their travelling expenses, of course.

Mr. Hector Hughes.

5017. Do they get a percentage on the results?—No.

Mr. Hector Hughes.] I thought that was what Sir John meant.

Sir John Mellor.

5018. It was?—An incentive bonus!

Chairman.

5019. Are there any further questions on paragraph 34? We pass to paragraph 35—"Loss on Cabbage Contracts." Paragraph 35 tells us a rather sad story about cabbages. Unexpectedly good weather resulted in the Ministry making a heavy loss, I gather?—Yes.

5020. You wished to buy 30,000 tons of cabbages for the dehydration plants in 1944. Contracts were placed on an acreage basis, an average yield being estimated at 10 tons per acre. I do not know quite why you placed the contracts on an acreage basis if you wanted a fixed quantity of tons of cabbage?—We had in mind our previous experience, which was not a happy one, and we consulted the Ministry of Agriculture, who are really our expert advisers on this. In the first place we had to be able to

guarantee the War Office that we should be able to get 30,000 tons for dehydrating for them.

5021. If I may interpose, what is the ultimate use of dehydrated cabbage?—It was entirely a military requirement.

5022. What do the Army do with it, I mean?—If you dehydrate a cabbage or, shall I say, if you dehydrate 33,900 tons of cabbage, you reduce it into a volume of weight of only 1,311 tons. You reduce its size and its weight enormously, and thereby you enable it to be transported very much more easily, and in the case of operations, by reducing the weight and size, you enable soldiers to carry very much more with them. That was the object. This was purely to meet the requirements of the War Office.

5023. It is used as a foodstuff in the Army?—Yes.

5024. It is not used against the enemy?—No. It is used as a foodstuff. It is not particularly palatable, and I am afraid we see no peacetime prospect for it. If you pour water on it and boil it up it becomes a nice cabbage again—or a moderately nice cabbage again.

5025. When I interposed you were on the point as to why you purchased on an acreage basis?—We were under an obligation to find this for the War Office, and therefore we had to be able to guarantee to get 30,000 tons of cabbage. The possibility of excess production was really a lesser evil. Anyhow, the Ministry of Agriculture's firm advice was that satisfactory results could not be achieved unless the contracts were placed on an acreage basis. The reason is really this, that growers will not enter into contracts on a quantitative basis where the crop is so dependent on weather. Moreover, in cases where a grower falls short in his deliveries it is very unlikely any breach of contract would lie against him if the contract was not on an acreage basis. We knew when we placed these contracts that we were running a risk. We knew that there are enormous variations—as much as between 5 tons per acre and 45 tons per acre in the same year dependent on weather conditions. It is quite impossible to forecast. We had to take a risk and err on the side of caution—that is to say, not financial caution but military caution, in order to ensure our getting these 30,000 tons which the War Office so badly needed. So we took the risk knowing what might be involved.

5026. Would you go on now to explain the point why, there being this great surplus of cabbages, you were restricted from disposing of them on the civilian market?—The Minister of Food of the day had given a firm undertaking to farmers that he would not, in any circumstances, break the market by flooding it with any excess cabbages which might arise from these contracts.

5027. Cabbages are not price-controlled. Is that the point?—There is a maximum price, but in the latter part of the year they were fetching well below the maximum price.

5028. If you had marketed your cabbages it would have caused a collapse of the price. Is that it?—Yes. We did in fact sell a very small proportion of them, and on those we got a sale price of only £7 10s. If we had tried to sell the whole 21,000 tons we should undoubtedly have flooded the market and reduced prices all round, and it would have been contrary to the undertaking which the Minister of the day had given to the farmers.

5029. About 22,000 tons were ploughed back into the land and the growers were compensated. I suppose you paid the growers something less than the market price under the contract, because they got the manurial value of the cabbages into their land. Is that right?—Yes. We made a reduction of £1 per ton by virtue of the saving of carting, loading and packing, and we reduced the price by 10s. per ton for the manurial value to which you have just referred. Against that, we had some additional costs, because before ploughing in they have to disc them—run over them with a disc—and that costs an additional £3 an acre. So the average price paid for those which were not taken worked out at £8 14s. 8d. a ton.

5030. Was that higher or lower than the contract price?—£10 was the average contract price.

Chairman.] Are there any questions on paragraph 35?

Mr. Hector Hughes.

5031. Was there not some lack of prescience here? Should this not have been foreseen when the contracts were made? In other words, how long before the change in the weather were the contracts made?—They were made, I believe, in the winter. I do not pretend to be a farmer, but I gather it is extraordinarily difficult to say what your harvest of cabbages is going to be in a year. Even in the same year there were variations of as much as 5 tons right up to 45 tons. It seems to be entirely conditioned by weather, and nobody has sufficient prescience to be able to foretell the conditions.

5032. Having regard to that danger of variation in the weather, making such a tremendous difference as between 5 tons and 45 tons, does it not seem clear that whoever made the contract should have had regard to that, and made a shorter-term contract?—The land had to be prepared in advance, otherwise it would have been taken up for some other produce, and the War Office was pressing us very strongly to do this, and we gave this priority and definitely took a risk.

30 May, 1946.] Sir FRANK TRIBE, K.C.B., K.B.E., and Mr. R. LEACH, C.B.E. [Continued.]

Mr. *Hector Hughes*.] Passing from that point about the time of the making of the contract, which does seem to suggest some lack of prescience or some inadequate appreciation of the risk which might be incurred as the result of the change in the weather, passing from that to the question of who was to bear the loss which was ultimately incurred of £600,000, did it become a question—

Chairman.

5033. You are wrong, Mr. Hughes. The loss of £600,000 was in 1943. That was a different matter altogether, I think. Am I not right, Sir Frank?—Yes, that is a different thing altogether. (Sir *Gilbert Upcott*.) The loss in this case was £191,000.

Mr. *Hector Hughes*.] I am obliged.

Chairman.] The loss is £191,000, which is stated at the end of paragraph 35.

Mr. *Hector Hughes*.

5034. Even that is very substantial. The question then arose as to who was to bear the loss, the Crown or the market. Was not that the question?—It was definitely a liability of the Crown, because we had placed the contract and we had to meet the obligations under the contract.

5035. Was the reason why the loss was not put on the market that it would depreciate the price of cabbage on the market?—Yes. That happened to be an extremely good year. There were plenty of cabbages about. There was no great dearth of them. In the circumstances the Minister felt that he could not depart from the pledge he had given previously that this particular, very special War Office scheme would not be used, if it did turn out that there was a glut, to put the glut on the market.

5036. Would it not have been in the public interest to put cabbages on the market?—I gather that there was a glut generally of cabbages; there was no shortage of cabbages at that time. Anyhow, for better or worse, the Minister had given this undertaking to the farmers that he would not do so. Having given the pledge, he could not have broken it, and he would not be able to induce people to co-operate again in the future if he had departed from what he had said.

5037. Is not that the kind of thing that should be taken into account when the contract is being made?—It was taken into account. The risk was definitely faced, that if this particular contract resulted in a surplus the surplus would be ploughed in.

5038. A surplus is the kind of thing that should be envisaged by a person making a contract about such things as cabbages, is it not?—It was envisaged. In all these agricultural matters one envisages a possibility of a big short fall or a big surplus.

5039. But apparently no account was taken of it in making the contract?—As I tried to explain, the reason why the contract was placed on this basis, on an acreage basis, was that it was the only way to safeguard the supplies we needed for the Army.

Chairman.

5040. It was a military requirement of 30,000 tons?—Yes, entirely military.

5041. And you had to ensure it, and you had to have a margin, therefore, and you were particularly unlucky that year and the margin was higher than it should have been?—Yes. For once in a while God was too kind to us.

Mr. *Haworth*.

5042. I suppose it would have been administratively very difficult, but I should have thought it would have been cheaper and more advantageous to the public had it been possible to put the cabbages on the market and make up to the grower any fall in price that might result?—This is comparatively small in relation to the total number of cabbages on the market. I do not know what they are, but to have compensated farmers over the whole country for a reduction even of a few shillings in the price for every ton of cabbage would, I should have thought, have become much more expensive than to incur this loss.

5043. I should have thought it would be very difficult, if not impossible, but I think it would have resulted in more food for the country. It is always unfortunate to think of this sort of thing being ploughed back if it can be avoided?—I gather in peacetime it is quite customary in times of glut to plough back crops like cabbages into the land. They do have a very definite manurial value.

Mr. *Benson*.

5044. I do not understand why, if you made your contract on an acreage basis, you were responsible for the surplus tonnage of cabbages—unless I have misunderstood what a contract on an acreage basis is?—We said we would take all the cabbages grown on so many acres.

5045. In that case you paid them so much an acre. Did you pay them so much an acre and say: "We will take the produce"?—No. "We will take the total output of the acreage but pay you at so much per ton."

Chairman.

5046. I suppose in point of fact you had to estimate what the tonnage was, because a lot was ploughed back without ever being gathered?—Yes, but one can tell pretty accurately.

Sir *John Mellor*.

5047. Am I right in assuming, from the statement that growers were instructed to

30 May, 1946.] Sir FRANK TRIBE, K.C.B., K.B.E., and Mr. R. LEACH, C.B.E. [Continued.]

plough in those cabbages, that these cabbages would be no value to feed to animals?—No; they were on the whole of greater value being ploughed back into the land than at that particular time for feeding to animals.

5048. The farmers would have been free to feed them to animals if they wished? The expression here is "instructed".—So far as I know we were instructed that this was the most economical and sensible way of dealing with them.

5049. The farmers would have been free, if it had been of any use to them, to have fed them to animals instead of ploughing in?—So I understand, yes.

Chairman.

5050. Are there any further questions on paragraph 35? We pass to paragraph 36, "Long Term Contracts". This deals with the arrangements made with Australia and New Zealand. I think there was a White Paper published on this matter, was there not? Perhaps Sir Herbert Brittain could tell us. Or was a statement made in Parliament? (Sir Herbert Brittain.) A statement was made in Parliament. Sir John Anderson answered a question in November, 1944, about this.

5051. I think the point that arises is really a technical one on the last subparagraph of paragraph 37. There is a provision for a number of annual instalments of £4,000,000 to be paid to New Zealand. Under these arrangements, Sir Herbert, Parliament seems to me to be bound to meet these payments over a period of years. Whilst that was all right so long as you had the Vote of Credit procedure, now it will have to be included in the annual Estimates, will it not, anyway—the instalment of £4,000,000?—Yes. This all hangs on the powers which Departments have been given through the medium of the Supplies and Services Act, to control food supplies and make the necessary purchasing arrangements, and the Government I am sure is relying on those powers to make these long term contracts. If you are given power to make long term contracts I imagine Parliament will implement the basis on which you make them.

5052. This was originally done before the Supplies and Services Act was passed?—Yes, but that is the lineal successor of the powers we had under the Emergency Defence Act at the time.

5053. So long as the Supplies and Services Act is on the Statute Book we may expect Parliament to be committed over a number of years for future expenditure?—It may be, in matters like this where you are making contracts for some years ahead in food, and possibly other things.

Chairman.] Are there any questions on paragraphs 36 and 37?

Mr. Hector Hughes.

5054. This seems to be a question for Sir Herbert rather than for the Witness. The same kind of consideration arises in regard to these long term contracts as arose in the case of the short term contracts for the cabbages. It arises still more strongly in the case of the long term contracts. Do you not think it would be right, Sir Herbert, to have, in these long term contracts, and in the short term contracts, protective clauses against losses which might be incurred as a result of changes in climate or weather, and so on.—I suppose there are two possibilities there. One is a question of price, where, as the Comptroller and Auditor General says, purchase prices are subject to review after two years at the request of either party. That is a precaution as far as it goes. I do not know whether you are thinking that we may possibly get too much butter and too much meat from New Zealand?

5055. I was not thinking so much of that. I was thinking of cattle. Suppose there was an outbreak of foot and mouth disease, there might be a very great loss incurred, and the question would arise as to upon whom it should fall—should it fall upon the Crown or on the vendor of the cattle?—I think we only pay for what we get. The Ministry of Food will be able to answer that, but I am sure we pay only for what good meat and good butter we get.

5056. In the case of the cabbages we had to bear the loss on the cabbages?—That was a different kind of contract altogether.

5057. Apparently we bore that loss because there was not in the contract a protective clause dealing with what seems to me a foreseeable possibility, namely, a loss due to changes in the weather?—I am not quite sure how loss could arise in this New Zealand case.

5058. By foot and mouth disease?—Then we should not have bought the meat. We should not be under any obligation to buy.

5059. Not if the contract were drawn in such a way that we were not obliged to buy?—(Sir Frank Tribe.) I think the only possible danger in this is if we gave a long term contract for the total exportable surplus of any particular country for some commodity which could have its production increased very rapidly. For instance, we should not give a long term contract for eggs, because if the price proved subsequently to be very attractive eggs could be increased very rapidly. That is why we have never included in these long contracts, as regards quantity, pig meat, because pig meat can be multiplied much more quickly than beef. That is why pig meat has not been included. Otherwise, the risk we take is very small, because we have a general regard for the future requirements of this country, and

30 May, 1946.] Sir FRANK TRIBE, K.C.B., K.B.E., and Mr. R. LEACH, C.B.E. [Continued.]

know that for so many years ahead this country will need all the butter or cheese or meat that New Zealand or Australia or any other country is likely to be able to send us. It does, at the other end, definitely have certain advantages. By having a guaranteed market it stimulates production in the Dominions, and it probably has a tendency to avoid inflation, because it does help to stabilise prices over a number of years.

5060. I would not have made this point if it were not for what arose over the cabbages. I was rather startled to find that there was such a substantial loss flowing from the fact that there was not, in the contract with regard to cabbages, a protective clause to protect the Crown against such a loss. If we agree to buy cattle from New Zealand or anywhere else without such a protective clause—agree to take all their cattle, say, for the next five years—and there is an outbreak of foot and mouth disease, are we to bear a great loss?—The contract is subject to quality. We do not undertake to buy inferior meat, meat that is bad. If there is any question of any foot and mouth disease, or compensation for diseased animals, and so on, that would be entirely an internal matter for New Zealand, I should have thought, and nothing to do with us, under a contract like this.

Mr. *Hector Hughes*.] It would depend on how the contract was drawn. However, I have made my point.

Mr. *Benson*.

5061. I do not understand why we pay this lump sum, and a fixed annual sum. What is that to compensate New Zealand for? Apparently, it is as a result of the benefit to the United Kingdom. Is that to help them to stabilise their price?—(Sir *Frank Tribe*.) Yes. They complained, with some justification, that we had not restrained the price of our exports to them, and that they were having to pay up to 95 per cent. more for their imports from this country, whereas internally they had adopted a rigid stabilisation policy, so that their exports to us stood at only about 25 per cent. above pre-war level.

5062. Had they fixed maxima or did they get stabilisation by subsidy?—Largely by subsidy. They claimed—I do not think they put it forward as a final figure—that they were losing by their efforts at stabilisation against the general world inflationary tendency something like £100,000,000. It was in a sense a political deal rather than a definite charge to the Ministry of Food.

5062A. If they were losing £100,000,000 then we have a good bargain?—I do not think we ever accepted that figure, but that was the kind of figure they put forward as the kind of thing they had in mind.

5063. I understand the purpose of the thing now.—(Sir *Herbert Brittain*.) Could

I add on that paragraph that this £18,000,000 due by New Zealand at the time this paragraph was written has all been repaid now. None of these advances are outstanding under this memorandum of security now. New Zealand has in fact met all her war expenditure in this country out of her own resources. Although we did advance money temporarily from time to time that, has all been repaid.

Chairman.

5064. Are there any further questions on paragraphs 36 or 37? Paragraphs 38 and 39 are more or less formal. They record the cost of the principal subsidies. Are there any questions on those paragraphs? Then we pass to paragraph 40: "Accounts of the Potato Division." Your accountancy as regards potatoes has been a weak spot throughout the war, has it not? They seem to be elusive articles.—(Sir *Frank Tribe*.) We stand in a white sheet on this year after year. We are doing our best to improve the position. It is gradually improving. It is a slow process. We are getting now down to the hard core of the problem and it is more difficult to report annual progress. As the Committee will realise, we are keeping quite up-to-date with current accounts. It is only these arrears, dating back sometimes three and four years, which are so difficult to trace.

5065. In paragraph 41 the Comptroller and Auditor General states: "I have recently been informed by the Ministry that the reconciliation of tonnages for the year 1942 is still proceeding and that it is not possible at the present stage to state when it will be completed." Will it ever be completed?—I suppose we shall probably reach some stage at which a decision will have to be reached that it is not worth while for the sake of the last few thousands of pounds, going on employing all the staff employed on it. But we have not reached that stage yet. We still think we are justified in employing the staff on it, and we are reducing quite substantially the out-standings. For instance, between the end of December last and March last, only a matter of three months, we reduced the out-standings from £1,500,000 to £1,270,000—by nearly quarter of a million in that period of three months. That shows the rate of progress at which we are tackling the problem.

5066. In paragraph 42 there are some figures of debts outstanding. Do you agree those figures?—We agreed those figures as correct at the time the report was made. Actually, since then, that figure of £500,000 has been reduced to £450,000. That is an indication of the progress we have been making in the period.

5067. These are debts due to the Ministry from potato merchants, I take it?—Yes, in the main.

30 May, 1946.] Sir FRANK TRIBE, K.C.B., K.B.E., and Mr. R. LEACH, C.B.E. [Continued.]

5068. In the concluding part of paragraph 42 the Comptroller and Auditor General states that "it will be a very considerable time before the amount of any ultimate write-off in respect of the period of 31st March, 1944, can be determined." Have you formed any estimate of what the ultimate write-off may have to be.—We hesitate to give a figure. We think something over £500,000 would be the maximum. I should think certainly under £600,000, and we hope that it may be well under that.

5069. The trouble really is, I suppose, that as the potatoes proceed directly from the farm to the potato merchants you cannot always trace either the producer or the consumer?—Yes, especially when these events took place back in 1942 and it is difficult to trace them back. Unfortunately, it has been admitted by Accounting Officers of the Ministry that the accounting arrangements set up in the early days of the war were not satisfactory, and in fact we never got them really satisfactory until 1944, when we decentralised the work. Until then we had tried to centralise it at Oxford. Innumerable transactions, many of quite a small nature like this, do not lend themselves to a centralised machine.

5070. There was one year—1942, I think it was—when potatoes were very plentiful and you were buying at £7 a ton, and they were being sold back to farmers as feeding stuffs at £2 5s. a ton. The result was that a great many potatoes were sold a great many times over to the Ministry. It must complicate the accounts a great deal?—I should imagine it does.

Chairman.] Are there any questions on paragraphs 40 to 42?

Mr. Benson.

5071. Is the difficulty of agreeing accounts due to bad book-keeping of the potato merchants?—I should like Mr. Leach to answer that. (*Mr. Leach.*) I think the trouble was that in 1941 and 1942 we suddenly had to take on a large volume of trading in potatoes for which we had not the staff or the machine. We needed about a thousand people to administer this, because a unit of accounting is the truck load. We simply could not build up the staff and even the accommodation for that in the time. The result is that the work fell behind. It was so large in volume—the transactions ran into millions—that they never caught up. By the time we got the thing really efficient we were keeping pace with current work, but the arrears one had to tackle as best one could. The result is that we got these arrears prior to 1942, and it is quite clear that we must make a loss, because in some cases the original documents are not available in the area offices to prove that a particular truck load of potatoes went to particular merchant, so if we sue him we may not have sufficient evidence. It is possible the man may have died, and it is possible in some cases

that the original documents got mislaid in the area offices and were never recorded. So we shall have debts which will have to be written off in the end, but in the last three years the position has been satisfactory.

Sir Frank Sanderson.

5072. On that same point, it is, I think, generally accepted that the potato merchants have had a very prosperous time during the period of the war, and therefore it would not be expected that there would be any material losses sustained in the form of bad debts, and I was wondering whether you could give any figure of definite losses which have in fact been sustained and written off to date or to any other date?—The amount of debts written off, as you say, has been very small. There have been one or two cases of overtrading by one or two merchants, where bankruptcy occurred, and I think we have lost a few hundred pounds, but there have been no substantial bankruptcies during the the war.

(*Sir Gilbert Upcott.*) The trouble is not bad debts in these cases. They are cases where you cannot trace where the potatoes were sent or, if you say the potatoes were sent to a particular man, he may say he has not had them, and you cannot prove it. That is owing to the confusion of the records.

5073. The records of delivery were incomplete?—A lot of invoices were never recorded.

Sir John Mellor.

5074. Would you agree that it was not only difficult, in some cases, for the Ministry to obtain money due from the growers, but also often the growers had considerable difficulty in obtaining payments due to them from the Ministry?—(*Mr. Leach.*) That was at that particular time. I think not recently.

5075. I remember it was about this time that a farmer in my constituency had been trying to get money due to him from the Ministry for many years. He then received the full amount twice over in the same week!—I must apologise for the full measure! At that time, obviously, if the machine was overburdened, I am afraid every part of the accountancy would be similarly rather slow; but I do not think that has happened during the last three years, to my knowledge.

Chairman.

5076. Are there any further questions on paragraphs 40 to 42? We pass to paragraphs 43 and 44: "Audit of Tea Purchases Abroad." In paragraph 44 the Comptroller and Auditor General says that the covering reports have not yet been received by the Auditor General of India?—(*Sir Frank Tribe.*) We have now received them, covering the period up to 30th June, 1945.

30 May, 1946.] Sir FRANK TRIBE, K.C.B., K.B.E., and Mr. R. LEACH, C.B.E. [Continued.]

5077. Are they satisfactory?—We are examining them.

5078. Sir Gilbert states: "Copies of the audit report on the accounts of the Tea Controller for Southern India for the year 1944 have been received, and are under the examination of the Ministry." Can you express any view about those?—No, I am afraid we have not yet been able, owing to our own internal staff shortages, to get down to a consideration of that report. I am afraid I am not in a position to express any opinion about it.

Chairman.

5079. Are there any questions on paragraphs 43 and 44? We turn now to the Account on page 14. Would you tell me how the figure under (b) "Wartime meals," £496,000, is made up and what it consists of?—It consists really of three main items. £413,000 is our reimbursement to local authorities of their approved capital expenditure on British Restaurants, cooking depots and emergency meal centres; about £35,000 on reimbursement of their revenue losses, and the balance, about £48,000, on the purchase of equipment which we purchased direct for British Restaurants. I should like to say that it only appears here as the expenditure. There is also involved in the first line, the receipts from sales, receipts amounting to over £225,000 in respect of our wartime meals activities.

5079A. At the top of the next page, page 15, I see £50,250 was written off in respect of balance of a lend-lease shipment to the Middle East in 1941, not accounted for. Will you tell us about that item?—Yes. When lend-lease shipments began in 1941 it was decided, in consultation with the Treasury, that the Ministry of Food should take on charge the f.o.b. value of all shipments of foodstuffs, whether to the United Kingdom or to elsewhere, with certain exceptions. In practice it amounted to this, that foodstuffs for shipment other than to the United Kingdom were consigned to local representatives of the Departments or other organisations, and the Ministry of Food simply transferred the title at the same point as it was assumed, that is, the f.o.b. stage. The Ministry of Food was really only a seller of documents. It had no responsibility whatever for the goods after they had been shipped, and it was really quite impracticable for us to assume any responsibility, because we had no control over the goods, either during shipment or after arrival at the destination. We protested against this, and it was proved in practice to be wholly unwarranted, and finally, the system was discontinued as from the end of September, 1943. But these particular losses had been incurred on paper anyhow during that

period, and the Treasury asked us to carry them on our Vote. They were mainly due to military diversions. All this was taking place in the Middle East at a time when war was waging round there, and I think it is not surprising that a certain amount of financial transactions went awry. But it does not represent any food over which we had any physical control at any time. (*Sir Gilbert Upcott.*) The same sort of thing happened on a much larger scale in the case of Army supplies, as the Committee has heard on a previous occasion.

5080. It is only a book entry anyway, is it not, because these were Lend-Lease supplies. There is no payment made to the United States?—(*Sir Frank Tribe.*) No, that is closed. (*Mr. Jones.*) The Ministry of Food, in the ordinary way, would have charged the costs against the Army Votes for the foodstuffs consumed by the Army, so that to that extent there is a cash loss to this Vote of Credit account, but it is merely a question of inter-departmental book-keeping.

Chairman.] Are there any questions on the accounts?

Mr. Haworth.

5081. The £862,000,000 Purchases, Freight, Storage, etc., does not include any subsidies, I assume. The £162,000,000 subsidies are not included there, are they?—(*Sir Frank Tribe.*) The subsidies are bound up in the whole account. These are the payments we made. Of course, this actually turns out, as you will see, to be a net receipt. This shows that we paid over £50,000,000 during that period to the Exchequer. That is because, in spite of the subsidies, in spite of our losses on food, we received, under Lease-Lend, considerably greater sums than we lost on subsidies. That is how we were able in the event to show, for this particular year, net receipts to the Exchequer of £52,000,000.

5082. Would I be right in saying, or have I got it wrongly, that we could deduct £52,000,000 from £162,000,000 and say that food subsidies have cost us net £110,000,000?—I do not think that would be putting it quite rightly. The reconciliation is broadly like this. It is rather difficult to describe by word of mouth. I do not know whether the Committee would like me to put a little paper in on this. It is a series of figures which reconcile the statement and, I think answer the question, but it is rather difficult to describe verbally except in a rather confusing way.*

Chairman.] I think it would be interesting if you would hand those in. That is the best way.

* Circulated to members: not printed.

30 May, 1946.] Sir FRANK TRIBE, K.C.B., K.B.E., and Mr. R. LEACH, C.B.E. [Continued.]

Mr. Haworth.

5083. I should like that if it could be done?—(Sir Gilbert Upcott.) It is accidental that in one particular year it happens to be net receipts and in another particular year it happens to be a net debit. It would be much better to explain it on paper.

Sir John Mellor.

5084. With regard to the war-time meals, did you say that included advances to local authorities for British Restaurants?—(Sir Frank Tribe.) Yes. It includes capital grants to them, too, and grants in respect of their justified losses.

5085. Is not all that due to come back by way of amortisation?—The greater part of it, yes. We are not in a position to frame a final balance sheet for the whole system, but the greater part will undoubtedly come back.

5086. It will only be remitted in the case of exceptional difficulties. Is that so?—Yes.

5087. Arising out of enemy action or something of that sort?—Yes. We are not now approving any capital expenditure on these British Restaurants any more. We are leaving it entirely to local authorities to bear it.

Chairman.] Are there any further questions on the account?

CIVIL APPROPRIATION ACCOUNTS (WAR SERVICES), 1944.

CLASS X.

VOICE 4.

MINISTRY OF FOOD.

(Partially Confidential Accounts of the British Sugar Corporation for the year ended 31st March, 1945.)

Chairman.

5088. Will Members turn to the Civil Appropriation Accounts (War Services) 1944, to page viii, paragraph 19 of the Report of the Comptroller and Auditor General? This deals with payments to the British Sugar Corporation Limited. In paragraph 19 the Comptroller and Auditor General explains that the subsidy for the year amounted to £4,058,000 and of this amount a sum of just under £4,000,000 represents the loss incurred on revenue account by the Corporation; the balance of £59,000 is the Corporation's share of economies achieved in previous years. Could you explain that to me? I cannot understand that. Why does the Corporation receive £59,000 from the Exchequer as its share of economies achieved in previous years?—(Sir Frank Tribe.) This goes back to the original scheme, when the British Sugar Corporation was set up in 1936. There was embodied in the original scheme a system whereby the Government should pay to the Corporation a certain incentive to efficiency. It was a rather elaborate scheme, which had the effect of reimbursing to the Corporation the whole of its economies made through increased efficiency in one year and on a diminishing scale in respect of previous years. The scheme was set out fairly fully in a White Paper presented to Parliament in 1936 by the Ministry of Agriculture (Sir Gilbert Upcott.) The Committee had it before them in pre-war years and grappled with it on a good many occasions. It is a highly difficult exercise in mathematics. (Sir Frank Tribe.) Anyhow, when the moment came we decided it was much too complicated to operate in wartime so we had an agreement with the Corporation to introduce another

scheme which is not in itself exactly simple. The system, broadly speaking, is this, that the war-time procedure for determining economies was to compare the actual results of 1939-40 with a figure based on the 1938-39 performance, adjusted for changes in price levels, the actual results of 1940-41 on an estimate based on the 1939-40 performance and the actual results of 1941-42 based on 1940-41 and so on. These calculations brought out the economies achieved each year, and were added to the brought-forward total of accumulated economies from March 1939. The Corporation is entitled to 100 per cent. of the economies in the first year it makes them, and a share on a diminishing basis from year to year of previously accumulated economies. That is the war-time system and it is worked out in great detail in agreement with the accountants, and the results for this particular year is as shown in paragraph 19. (Sir Gilbert Upcott.) The main difference is that it is based on actual figures under the Ministry of Food arrangement, whereas under the Ministry of Agriculture arrangement it was based upon hypothetical figures. (Sir Frank Tribe.) We made the same change in relation to the deficiency payment.

5089. I think I have a vague idea of what the scheme is?—I am sorry I cannot explain it more easily.

5090. It is, I am sure, my density. As I understand it, they get the full amount given them on any economies they achieve in a particular year?—In the first year.

5091. And then they get further amounts on not so large a scale in future years?—Yes, on a constantly diminishing scale.

30 May, 1946.] SIR FRANK TRIBE, K.C.B., K.B.E., and Mr. R. LEACH, C.B.E. [Continued.]

5092. That is their incentive to economical working?—Yes.

5093. Now let us look at the balance sheet of the British Sugar Corporation. They have issued share capital and some debenture stock, and I see that the payment made in the year under review allowed for interest at $3\frac{1}{2}$ per cent. per annum on the issued ordinary share capital?—That is the rate of interest considered reasonable by the Treasury. In peace-time it was 4 per cent., but in view of the war-time operations and the extent to which we gave this guarantee, it was reduced through the war from 4 per cent. to $3\frac{1}{2}$ per cent.

5094. Is that more or less a guaranteed minimum dividend, then?—Yes, it amounts to that. They are entitled, over and above that, to pay in respect of other sources of income—and this year, as you will see, they actually did pay a $4\frac{1}{2}$ per cent. dividend. (Sir Herbert Brittain.) We do not guarantee the actual dividend. It is just conceivable that there could be other factors in the working of the Corporation in any year which might offset the money they have available to pay even $3\frac{1}{2}$ per cent.

Chairman.] I think we might take the accounts of the British Sugar Corporation and the Civil Appropriation Accounts together. I will ask Mr. Benson to deal with the very complicated question of quota income, which he has dealt with before, which is to be found on page A (B) the back page. There is an item of £729,000 for quota income.

Mr. Benson.] I think one accepts that as a mystery.

Chairman.

5095. I leave it to you, Mr. Benson. I pass from that. The last page shows the losses made by the various individual factories—what is called the loss on beet campaign. The right-hand side shows a summary—there is the net operating deficiency and service payments. The service payments, I take it, are overhead charges really, are they?—(Sir Frank Tribe.) Yes, they are brought down from above, from Part II.

5096. It includes interest on share capital. That is the 3 per cent. dividend you have been speaking of, is it?—(Mr. Leach.) That is so.

5097. That is how you arrive at the total grant of public money—£4,058,000?—Yes.

Chairman.] That is carried forward into the General Trading Account, which is on the previous page. I think that is all I have to ask on these accounts. Has any Member of the Committee any questions on the accounts?

Mr. Haworth.] I am trying to trace where these losses occur. They do not appear on the balance sheet because it is a Vote from the Crown.

Chairman.] You will see brought into the General Trading Account—which is the Statement A (A), on the right-hand side—a deficiency payment of £4,058,000. That is brought in before striking the trading profit for the year, which is shown on the other side at £530,000.

Mr. Haworth.] Thank you very much.

Mr. Benson.

5098. I notice that the stocks and stores in the balance sheet stand at £6,000,000 which seems to be very high. Is that due to the time at which the balance sheet is struck in relation to the harvest?—Yes. The harvest runs from about November to February, I think it is, which means that at about March the stocks are almost at their maximum.

5099. You have to refine immediately the harvest is gathered, do you?—You have to process at once. (Sir Gilbert Upcott.) Of course, they include the surplus stocks officially held for the Government. (Sir Frank Tribe.) Yes, they hold special stocks for us in respect of which we make them a special grant which is included in the Vote of Credit.

5100. I notice also the Corporation holds its own debentures. That is a rather unusual proceeding, is it not? I thought a company could not trade in its own securities.—(Mr. Leach.) It can hold its own debentures.

5101. What does “beet campaign” mean? Is that your term for harvest?—Yes.

Chairman.] The word “campaign” is used because in a campaign you nearly always encounter certain losses!

Mr. Benson.

5102. What exactly does “loss on beet campaign” mean. What fixes the price of beet to the grower.—(Sir Frank Tribe.) There again it is the Ministry of Agriculture who fix the price. We purchase the sugar produced at a price equivalent to the cost of imported sugar and the difference between the two is ostensibly a deficiency payment. (Sir Gilbert Upcott.) The price of beet to the farmer is prescribed by the Ministry of Agriculture. (Sir Frank Tribe.) Yes.

5103. The farmer does not know the price he is going to get until the beet has been processed and refined?—(Mr. Leach.) He gets so much a ton for his beet. (Sir Frank Tribe.) We pay the Corporation, not the farmer, for the beet. I was thinking of buying the sugar.

5104. “Loss on beet campaign”—is that a loss on purchase of beet?—(Mr. Leach.) That is the loss we expect to make by buying beet at this price from the farmer, and processing it and marketing it. That is what the deficiency payment is intended to cover.

30 May, 1946.] Sir FRANK TRIBE, K.C.B., K.B.E., and Mr. R. LEACH, C.B.E. [Continued.]

5105. This is merely an estimate of the losses arising from beet in given years?—It is an actual fact. It is not an estimate. It is the effect of trading at those various factories, in buying beet and turning it into sugar. The figure of £3,947,000 can be reconciled on Sheet A (A). If you take the first two figures, the costs of beet, it comes to some £16,800,000; take off the beet sugar manufacturing cost of some £12,800,000 on the other side, and you are left with £3,900,000 which is the same figure. It merely breaks it down to factories on the last page.

5106. The fixing of the price of beet is not your responsibility?—(Sir Frank Tribe.) No, not to the farmer. The Ministry of Agriculture fix that.

5107. Can you say whether it varies from year to year or whether there is a fixed price?—It varies from year to year. All agricultural prices are fixed about February. (Sir Gilbert Upcott.) It was 8s. 2d. a ton in 1944, as compared with 8s. 3d. a ton in 1943.

Mr. Benson.] I will not ask any questions about quota rates.

Sir Frank Sanderson.

5108. I think you made reference to economies, and also you used the word "efficiency." I take it during the course of your remarks you were not regarding them as one and the same, were you?—(Sir Frank Tribe.) No; certainly not.

5109. What I have in mind is this. In dealing with the question of economies I assume you refer to economies in running costs in endeavouring to keep down your charges—your overhead charges, labour, and so forth—but in regard to efficiency, am I right in assuming that what you have in mind is that the resultant process extracts the maximum amount of sugar from the beet; whereas, if it is not run efficiently, obviously the amount you will extract will be a lesser quantity?—I am not sure whether you have misunderstood me. I was talking about a "deficiency" payment, not an "efficiency" payment—a payment in respect of a deficiency incurred on their account.

5110. That is what you would have in mind in regard to an efficiency payment?—Yes.

5111. In regard to the cost of the beet, surely I am right in saying that the price paid to farmers does not, in fact, vary from year to year, but varies on each delivery from each respective farm? Are they not paid on the sugar content of the beet which they in fact deliver to the Corporation on an analysis basis?—On an analysis basis, yes, certainly.

5112. One further point in regard to the balance sheet. The balance sheet shows the cost of the factories, land, buildings, roads, railways, plant, machinery, rolling stock, etc., at £6,276,000. Would it not be better if that amount were split up at least under three headings—1. Land, 2. Buildings and 3. Machinery. Unless we have that figure it is very difficult for us to follow it. I think the Comptroller and Auditor General will have regard to what I am about to say. It does seem to me on the aggregate figure shown there that the amount set aside for depreciation for the year would appear to be very insignificant. If, however, much of that figure is represented by land and buildings, then I can understand it?—Perhaps I could say this. I am not of course, the accounting officer for this corporation. It is a private concern, and the extent to which it is under obligation to submit its accounts to the Government was definitely laid down by rules and regulations made under Sections 28 and 29 of the Sugar Industry Reorganisation Act, 1936. That is a Statutory Rule and Order made in 1937 and it is in pursuance of that regulation that two of these documents, the balance sheet and the profit and loss account, are submitted to this Committee. As I understand it, the other documents marked "Confidential" are also provided, though they do not follow the Statutory Rule and Order, and I think, without an amending Statutory Rule and Order, one would not have any right to dictate to the Corporation the exact form of its accounts.

5113. Do I understand that the Order provides the terms under which depreciation is to be written off? Does it provide for the percentage which has to be written off?—No, this Rule and Order I was mentioning simply deals with the question of what documents should be submitted by the Corporation to the Government.

5114. There is nothing to determine how this figure of depreciation is arrived at?—(Mr. Leach.) It is an agreed amount which we have included in the deficiency payment. If a larger sum could be claimed by the Corporation it would be paid in the deficiency payment by the Government. That is the amount which our accountants agreed with the Corporation.

5115. Take the figure of £196,000 set aside for the year ended 1st April, 1944, on a capital expenditure of £6,462,000, it is only one-third of 1 per cent. On the face of it it appears to be incomprehensible?—I think it is 3 per cent., is it not? If you subtract the land from that, it would probably send it up to 4 per cent. or 5 per cent.

5116. You are not able to say what amount is represented by land, what amount is represented by buildings, and

30 May, 1946.] Sir FRANK TRIBE, K.C.B., K.B.E., and Mr. R. LEACH, C.B.E. [Continued.]

what amount is represented by plant and machinery?—It is quite possible that the Corporation are unaware of it, because this corporation was formed by the amalgamation of a number of existing companies, and the balance sheet states that the assets were valued at cost, so that it is quite possible that in many of those balance sheets there was no split of their fixed assets when the Corporation was formed. So I think it is quite possible that the information is not available.

5117. Could you answer this one question. I am sorry to press the point. Assuming that the amount set aside for depreciation is less than would normally be considered correct, who sustains any loss?—As I was saying, in calculating the deficiency payment we have allowed the Corporation this figure of £196,000 for depreciation. If they could prove and satisfy us that that amount was inadequate and a further provision should be made, it would merely increase the amount the Government would have to pay to them. (Sir Gilbert Upcott.) Perhaps I ought to make it clear to you that I am not the auditor of this Corporation. I am not responsible either for the form or the correctness of their accounts.

5118. No; I think that point arose on a previous occasion?—You will find the accounts are certified by Deloitte, Plender, Griffiths and Company.

Mr. Thurtle.

5119. Do I understand that this £5,000,000 ordinary capital is privately held?—(Mr. Leach.) Yes.

5120. Do I understand further, that the Government is under an obligation year after year to make a sum available to enable the Company to pay 3½ per cent. dividend?—(Sir Frank Tribe.) No, the rate is prescribed as what is regarded as a reasonable rate, by the Treasury. The Treasury at present have prescribed 3½ per cent. as a reasonable rate, but the Statute lays it down that on this capital there shall be payable a dividend at the rate prescribed by the Treasury as reasonable.

5121. So it is within the power of the Treasury either to increase the rate or to decrease it?—Yes. (Sir Herbert Brittain.) Yes.

5122. In view of the fact that money has been tremendously cheapened lately and you can borrow on Government security at about 2½ per cent., would it not be a reasonable thing, as this in effect, although it is an ordinary share, is a gilt-edged security, to cut down the percentage which you pay to the Corporation?—It is not a completely gilt edged security. We have guaranteed certain deficiency payments temporarily during the war, but of course, what is going to happen after the

war no-one quite knows. No-one quite knows how long that will go on. It is only for a short period in the life of this security that we have guaranteed certain payments.

Chairman.

5123. The gilt edges are really a bit ragged here, are they not!?—We had, in fact, regarded the appropriate rate here as something in between—a little above gilt-edged and below ordinary market yield.

Mr. Thurtle.

5124. You are under an obligation to continue this payment so that they may get what you define as a reasonable dividend indefinitely?—I am not sure when it comes to an end—whether it is in a year or two year's time. Perhaps Sir Frank could say that. It is not a permanent arrangement for all time.

5125. Has any period been set to it?—(Sir Gilbert Upcott.) It runs to the 31st December, 1947. (Sir Herbert Brittain.) Yes; at the end of that period we should revert to the pre-war arrangement unless legislation is introduced to alter the 1936 Act, under which there is no corresponding deficiency payment like this.

5126. Is it not a fact that as things are, with this guaranteed 3½ per cent. and the possibility of additional payment in respect of other profits, the Corporation is really on velvet and is doing very much better than the holders of gilt-edged?—For the time being, I would agree, but I think it is just a short period, probably, in the life of the capital of the Company.

5127. I see that there is a dividend equalisation fund. I wonder when this reserve was created? Was it created during the time the Government has guaranteed this 3½ per cent. dividend?—They certainly began to set aside money out of the sums payable before the war. Even the 1936 formula was pretty favourable to the Corporation and they used some of that in order to establish this reserve. Whether the whole £230,000 was put in then I am not quite sure. I am not sure whether that was wholly pre-war.

5128. I was wondering whether they were accumulating this dividend accumulation fund out of some of the deficiency payments of the Government, and if so, it would be a rather extraordinary procedure?—I do not think there is any provision in the formula for establishing the annual deficiency. There is no provision for any sums to reserve in that.

Chairman.] The dividend equalisation fund has stood at the same figure for the last three years. It has not been increased recently. I imagine that was accumulated before the war.

30 May, 1946.] Sir FRANK TRIBE, K.C.B., K.B.E., and Mr. R. LEACH, C.B.E. [Continued.]

Sir John Mellor.

5129. Do you know if any of these shares have changed hands at all, and, if so, at what price?—They are quoted on the Stock Exchange at present between 22s. and 23s. They are very largely held by the shareholders in the old companies which amalgamated to form the British Sugar Corporation.

Chairman.

5130. The account is at page 13. I have no questions on the account. Has any Member of the Committee any questions? If not, may I take it that the account is approved? (*Agreed.*)—(Sir Frank Tribe.) Would you allow me to make one remark? I know it is rather unusual, but I think this is rather an unusual occasion. I should like this Committee to know that throughout the whole war Sir Harry Peat, with some of his partners from Peat, Marwick Mitchell & Co., has given his services without stint and without remuneration either on his own behalf or his partners, to the

(*The Witnesses withdrew.*)

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

TUESDAY, 4TH JUNE, 1946.

Members present:

Mr. PEAKE in the Chair.

Lieut.-Colonel Alan Dower.
Mr. Haworth.
Mr. Hector Hughes.

Sir John Mellor.
Mr. Thurtle.
Mr. Wadsworth.

Sir GILBERT UPCOTT, K.C.B., Sir HERBERT BRITAIN, K.B.E., C.B., and Mr. C. E. I. JONES called in and examined.

COAL COMMISSION ACCOUNTS, 1944.

(REPORT OF THE COAL COMMISSION FOR THE YEAR ENDED 31ST MARCH, 1945.)

Sir ERNEST GOWERS, G.B.E., K.C.B., and Mr. H. W. NAISH, M.B.E., called in and examined.

Chairman.

5131. Will Members turn to the Coal Commission Accounts. We have had circulated the Report of the Coal Commission for the year ended 31st March, 1945; that is only for the purpose of informing the Committee. The paper with which we have to deal is the Coal Commission Accounts for the year ended 31st March, 1945. The report of the Comptroller and Auditor General is on page 12. On the first paragraph, Sir Ernest, by the Coal Act, 1938, the property in all unworked coal and mines of coal was vested in the Coal Commission as from 1st July, 1942. Under the Coal Bill now before Parliament, I understand that the property will all pass to the Coal Board. Is that right?—(Sir Ernest Gowers.) Yes.

5132. On the vesting date, whenever that may be?—Yes.

Ministry of Food. They have run the whole of the financial side of the Ministry of Food throughout the war, and I feel that the Ministry and the country are greatly indebted to them. I hope this Committee may feel so, too. They have kept our accounts in very good order throughout the war. There have been no permanent Civil Servants of any standing in our finance organisation. The time has now come when Sir Harry and his partners feel they must leave us. They are leaving us at the end of next month. I felt it would be appropriate if you would allow me to put on record this tribute to the very magnificent work they have performed for the Ministry throughout the war. Mr. Leach is one of the partners and he has aided the Accounting Officer on more than one occasion, as you know. (Sir Gilbert Upcott.) Perhaps I ought to add that the Ministry of Food's financial department have always been very helpful to my officers.

Chairman.] Thank you, Sir Frank.

5133. As regards the liabilities which are mentioned in paragraph 2, you have issued £71,500,000 of Coal Commission 3 per cent. Guaranteed Stock at 97½ per cent. Could you tell the Committee what will happen to that stock under the Coal Bill?—I think that is really for the Treasury to say rather than ourselves. If I remember rightly, under the Bill the Treasury may make regulations about it. It is taken over. (Sir Herbert Britain.) An amount of compensation stock to be agreed with the National Debt Commissioners who hold this stock is to be issued in exchange.

5134. Instead of the stockholders having the Coal Commission 3 per cent. Guaranteed Stock, they will hold a purely Government stock?—Yes, a new Government stock issued under the Bill.

5135. I imagine that, as their present stock is not redeemable until 1980, they

4 June, 1946.]

Sir ERNEST GOWERS, G.B.E., K.C.B., and
Mr. H. W. NAISH, M.B.E.

[Continued.]

will get a stock which will be on similar terms, will they?—That has not been settled yet; it has to be agreed with the holders. We have not yet got down to the actual terms.

5136. There will have to be agreement with the holders for the surrender of their existing stock?—Yes. (Sir Ernest Gowers.) The stock is not held by the public; it is held by the National Debt Commissioners.

5137. It is all held by the National Debt Commissioners?—(Sir Herbert Brittain.) Yes.

5138. In paragraph 3, the Comptroller and Auditor General tells us what has been issued by way of compensation to previous owners of minerals. He states that the balance remaining unpaid at the 31st March, 1945, amounted to £2,847,331. Sir Ernest, can you tell us if that outstanding balance has been paid now?—(Sir Ernest Gowers.) It has all been paid, with the slight exception that there are 100 recipients of cheques whom we cannot induce to clear them. We have paid everything, but 100 cheques have not been cleared, amounting in all to about £1,600.

5139. Are there any questions on the first three paragraphs? We pass to paragraph 4, which deals with the Superannuation Fund of the Coal Commission. The Comptroller and Auditor General states: "In paragraph 5 of my Report on the Commission's account for 1938 I mentioned that a Superannuation Fund had been set up by the Commission to provide benefits broadly equivalent to those granted to civil servants under the Superannuation Acts." Would you agree that that was the intention of the establishment of the Fund?—Yes.

5140. I suppose you had to take on a number of people who were of middle age or past middle age?—Yes, an exceptionally large number.

5141. Persons who were versed in measuring up minerals and surveying?—Yes, and lawyers.

5142. Your Superannuation Fund is a contributory fund. In normal cases the contribution of the officer was 5 per cent. of his salary, and the Commission paid 11 per cent. of his salary into the Fund?—Yes.

5143. That appears to be the normal arrangement?—Yes.

5144. But in 1943 the rules were revised to permit of larger pensions being paid to officers who entered the service in middle age?—(Sir Gilbert Upcott.) In 1944. Perhaps I misled the Committee. I said: "The increase from £7,988 in 1943"—I meant that the expenditure was £7,988 in 1943 and £12,021 in 1944.

5145. In the second subparagraph of paragraph 4, the Comptroller and Auditor General states: "Payments by these officers vary according to age within a maximum of 17 per cent. of salary, the contributions

of the Commission to the Fund in such cases being increased proportionately up to a maximum of 37 per cent." That seems a pretty heavy contribution for the Commission to be making?—(Sir Ernest Gowers.) It seems so at first sight, but I do not think it is when you come to analyse it. We realised what I think we ought to have realised from the start, that you cannot let a man of 20 years' service leave your service and go into retirement on a pittance of a pension. You must do something for him, and, as we all know, what generally happens in such cases is that you make him a non-contributory addition—an eleemosynary addition. That seemed to us to be all wrong and more expensive than what we proposed. We have an exceptionally large number of these people, so that any expenditure on our contributions now is likely to be the peak expenditure, and we thought it right to make provision for their getting a reasonable pension after a reasonable number of years service, in which I think we conform to the almost universal practice of good employers; and indeed I observe that in the Bill now before Parliament the Treasury are proposing to do much the same thing for the Civil Service.

5146. Could you tell me what is the highest salary range to which this voluntary arrangement is applicable?—The highest salary to which it applied was £2,000 a year.

5147. So that an officer by increasing his deduction from 5 per cent. of £2,000, which is £100, up to 17 per cent. of £2,000, which is £340 a year, could attract a payment by the Commission of 37 per cent. of £2,000 a year?—Yes.

5148. A payment of £740 a year by the Commission. Would the employee's contribution be allowed as a deduction from his income tax liability?—81 per cent. of his deduction is allowed for income tax purposes.

5149. 81 per cent. of the employee's contribution would be allowed as a deduction before striking his income tax liability?—Yes.

5150. So that it would seem a very good bargain. You increase your contributions from £100 a year to £340 a year, but of the increase you bear only 20 per cent. yourself; 80 per cent. would be a deduction for income tax purposes. That is right, is it not? Let me put it again. At a salary of £2,000 a year, your basic rate of contribution would be 5 per cent., which is £100 a year?—(Mr. Naish.) Yes.

5151. But you have the option of increasing your contribution to 17 per cent. of your salary?—Yes.

5152. Which is £340 on a salary of £2,000?—Yes.

4 June, 1946.]

Sir ERNEST GOWERS, G.B.E., K.C.B., and
Mr. H. W. NAISH, M.B.E.

[Continued.]

5153. That is to say, you increase your contribution from £100 a year to £340 a year. You increase your contribution by £240 a year?—Yes.

5154. But all of that £240, except 20 per cent., you can deduct from your salary before you pay your income tax?—That is so.

5155. You referred to the Superannuation Bill just now, I think, Sir Ernest?—(Sir Ernest Gowers.) Yes.

5156. In that Bill, there is a provision, I think, for cases of this kind being reported to Parliament, is there not?—I do not know. (Sir Herbert Brittain.) Yes.

5157. I should just like to ask you, Sir Herbert, whether the Treasury have any observations on this Superannuation scheme before we pass from it?—This scheme is not subject to Treasury control, of course. We do not control even the salaries or numbers of the staff of the Commission. We certainly do not control this. I think the original scheme was sent along to us after the event. This particular extension of it was not. It has never been put to us. It differs from the scheme which is put forward for the Civil Service generally in the Superannuation Bill in that the Civil Service scheme only starts normally at 40; it is only people entering over 40 who are to have this concession of added years. There is a secondary concession by which people between 35 and 40 get a modified concession, but the normal rule is over 40, whereas, in the case of the Commission, it starts at 30. It is not quite clear how the Commission will work this scheme, because they have a discretion left to them to add any number of years up to 10 in individual cases, and I think it is right to say that in some cases it might be more favourable to the individual than the Civil Service scheme, and in others it might be less favourable. One cannot say which it will be until one knows the facts in individual cases.

5158. Under your scheme, Sir Ernest, a man can not only increase his contribution upon this voluntary basis and attract larger contributions from the Commission, but he can also get added years up to 10 to his years of service, cannot he?—(Sir Ernest Gowers.) It is the same thing, is it not? He gets added years, and, because he gets added years, he has to increase his contribution so as to make up for the years for which he has not, in fact, paid. He pays for those added years afterwards, and that is why he increases the contribution.

5159. There is a relationship between the addition to his contributions and the number of years he gets added?—Yes, certainly; an actuarial relation. (Mr. Naish.) He cannot have more than 10 added years, and he must not bring his pension up to more than 30/80ths of his retiring salary. The maximum pension normally is 30/80ths.

5160. You mean to say there is a ceiling upon the amount by which he can increase his contributions?—(Sir Ernest Gowers.) Yes.

5161. In an individual case, 17 per cent. is the normal ceiling, is it not, for the employee's contribution?—(Mr. Naish.) 17 per cent. is the maximum. (Sir Ernest Gowers.) 17 per cent. is the maximum which anybody could possibly pay.

5162. But in an individual case the actual ceiling may be less than 17 per cent., may it?—Certainly.

5163. Sir Herbert, under the Coal Bill, of course, the Exchequer will be taking over this liability, will it not?—(Sir Herbert Brittain.) The Coal Board.

5164. I beg your pardon; it will be on the Coal Board, will it?—Yes; I think that is right.

5165. Sir Gilbert, have you anything to add upon your paragraph?—(Sir Gilbert Upcott.) These arrangements are within the statutory discretion, or were within the statutory discretion, of the Coal Commission, and I reported them because they appeared to me to be an unusual departure from the terms of the Superannuation Acts. As Sir Herbert has said, the Treasury are now proposing a modification in the Superannuation Acts somewhat in this direction, but of a very much more limited character, because it applies only to particular people specified by the Treasury over the age of 40 whose names are presented to Parliament. This is applied to 100 or more officers of the Coal Commission over the age of 30. It is entirely a matter for the Committee to judge, but it is, in fact, a modification of what was originally stated in 1938, namely, the provision of benefits broadly equivalent to those granted to Civil Servants.

Chairman.] Are there any questions on paragraph 4?

Mr. Haworth.

5166. One or two of the questions I was going to put have been anticipated. Broadly, you provide for 40/80ths, for half salary, in this superannuation scheme. Normally, the superannuation scheme is half the retirement salary or the average salary—which?—(Sir Ernest Gowers.) The average retiring salary, provided you have done 40 years' service. You get 1/80th for each year of service.

5167. It is based on the average salary over the 40 years?—No; the average of the last three years.

5168. I understood you to say not more than 30/80ths?—(Mr. Naish.) Any person who has the benefit of these added years cannot have more years added than will bring his retiring salary up to 30/80ths.

5169. Why not to 40/80ths?—Because the Commission thought they should not go the whole length of the 40/80ths, but that 30/80ths would be a reasonable salary on which a man should retire.

4 June, 1946.]

Sir ERNEST GOWERS, G.B.E., K.C.B., and
Mr. H. W. NAISH, M.B.E.

[Continued.]

5170. You did say the calculations were worked out actuarially?—Yes. The actuary assesses what he considers is the salary the man would have earned in the added years in which he did not serve, and he spreads that over the rest of the man's career until the age of 60.

5171. What happens in the case of a man in industry who is in a superannuation fund? Is there any provision for transferring his payments over to you *en bloc*? Does he begin again and start with a refund from his previous firm?—He has the right, subject to the concurrence of the Commission, to bring over any money he gets from his previous fund, and the actuary assesses what benefits he should get from that in terms of our fund, and that is credited to him.

5172. There is only one comment, Mr. Chairman. This assessment seems to me to be out of balance with most private industries. Is it not usual for it to be about half and half. The employer contributes about the same amount as the contributor in most funds?—It varies in different funds. When the Coal Commission Fund was set up the Treasury advised them that, by and large, the cost of superannuation in the service was 15 per cent. of the salaries, and the Commission decided that they would bear two-thirds of that and the staff should bear one-third. After we had been going for some years, we had an actuarial valuation, and the actuary said that, mainly owing to the fact that the rate of interest had fallen, he thought the Commission's contribution for the next quinquennium should be 11 per cent., to put matters right, because he had been working on a $3\frac{1}{2}$ per cent. basis.

Lieutenant-Colonel Alan Dower.

5173. In the last subparagraph of paragraph 4 the Comptroller and Auditor General says: "During the year some 100 officers elected to pay increased contributions". I do not know whether the question has been asked already. If so, I apologise for asking it, but what percentage is that?—It is about two-thirds. (Sir Ernest Gowers.) What percentage of the staff?

5174. Of the staff who could take advantage of that if they wished to do so?—(Mr. Naish.) It is two-thirds of the members of the fund, or somewhere between one-third and a quarter of the staff of the Commission. (Sir Ernest Gowers.) That was not the question. The question was: how many of those who might have taken advantage of this concession have, in fact, taken advantage of it?—(Mr. Naish.) I should say everyone did, except two. I would say that each case is submitted to the Commission and they consider cases individually. There is no inherent right in the staff to it. They have to get the sanction of the Commission before they can receive the added years.

(Sir Ernest Gowers and Mr. Naish withdrew.)

Chairman.

5175. Sir Ernest, a good many of these men whom you took over, of middle age, would have been enjoying good professional incomes before you took them over?—(Sir Ernest Gowers.) Yes.

5176. And might even have, I suppose, certain pension rights in the firms they were with before—or is that unlikely?—I think that is unlikely. Some of them who were civil servants brought over their accumulated civil service rights.

5177. You could not have told, at the time you entered upon these arrangements, that your organisation would pass to the Coal Board, and that the whole of the coal industry would also pass to the Coal Board?—Not at that time.

5178. This may prove a somewhat embarrassing precedent for the Coal Board when they find themselves saddled with tens of thousands of salaried officials of colliery companies?—I think it is the right thing to do for any staff. I do not think it is the least embarrassing in the sense of being unreasonable.

5179. You do not think it is at all unreasonable?—No, not at all. I think it is a very proper provision to make for staffs.

Mr. Haworth.

5180. In most funds there is a limit of age of 40. They are not able to join the superannuation fund after that age. Many private industrial firms do not allow people to join their funds beyond the age of 40. The fact that you are taking people over late means a higher contribution, of course?—Yes, it does, but you have to do something for them in the end. You cannot let them go out into the street; and it is more expensive if you leave it to them, because you do not get any contribution at all.

Chairman.

5181. What is the maximum pension which could be earned by a man who was taken on at the age of 50 and retired at the age of 60, supposing his retiring salary to be £2,000?—(Mr. Naish.) £500.

5182. Under these arrangements, of course, more than two-thirds of that would have been paid for by the Commission and one-third, or rather less, by his contributions. I think my arithmetic is correct?—(Sir Ernest Gowers.) Yes.

5183. I think we have the position clear. Would you now turn to the Accounts. Page 3 gives the amount borrowed and the maximum amount which may be borrowed. Is there likely to be any further exercise of borrowing powers?—No. On the contrary, we borrowed £1,000,000 too much, and have repaid it.

Chairman.] Are there any questions on the Coal Commission Accounts? May I take it that the Accounts are approved? (Agreed.)

4 June, 1946.]

[Continued.]

CIVIL APPROPRIATION ACCOUNTS (WAR SERVICES), 1944.

CLASS X.

VOTE 5.

MINISTRY OF FUEL AND POWER.

(Report and Accounts of the National Service Hostels Corporation Limited, 1944.)

Sir DONALD FERGUSSON, K.C.B., and Mr. A. E. WATSON, C.B., C.B.E.,
called in and examined:*Chairman.*

5184. This is your first appearance before this Committee as representing the Ministry of Fuel and Power, is it not?—(Sir Donald Fergusson.) Yes.

5185. You have no doubt accounted here for agricultural matters for several years?—Yes, for eight years.

5186. Will Members turn to the Civil Appropriation Accounts (War Services), 1944, to the report of the Comptroller and Auditor General, paragraph 20 and onwards. Paragraph 20 deals with the manufacture of briquettes. This, I take it, was an experiment in the use of low-grade fuel, undertaken by the Ministry?—Yes.

5187. In paragraph 21, the Comptroller and Auditor General states, "With the exception of one case, where a double unit plant is rented from the Ministry, it was decided that plants should remain the property of the Minister and be operated for Ministry account by colliery or other undertakings." I am not sure I understand this. The Ministry do not themselves operate these plants by direct labour do they?—No.

5188. The collieries act as agents for the Minister, is that right?—Yes.

5189. In the previous paragraph the Comptroller and Auditor General tells us that the cost of these plants was estimated at £162,500 in all; then there was a revised estimate later under which the capital outlay was expected to reach £320,000. That looks as if the original estimate of the capital outlay was too small?—I think the main explanation was that we were experimenting with a new process, and a large part of the increased cost referred to here arose from the fact that, in using the process, it was found that it was necessary to take extra precautions and spend a good deal of money for the protection of the workers engaged on it, and various requirements of the Ministry of Labour in respect of welfare. That was the main reason for the extra cost over our original estimate.

5190. Were these plants using fuel which otherwise would have been wasted?—Yes. For the most part it was the use of slurry dumps all over the country which were not being used at all for fuel purposes, and this process was designed to use these waste products—slurry, and anthracite duff

for manufacturing into something which would relieve the coal industry.

5191. I suppose you cannot tell us what the commercial result of the plants has been because they have been operated by the collieries, or have you some commercial results?—I can tell you the results in respect of the loss per ton that we have incurred through operating the plants. They have not been operated to capacity because we have not had sufficient labour to work the double shifts, as they should be worked. The loss has so far been 8s. 7d. per ton.

5192. That is after making allowance for depreciation of plant and overheads and so on?—Yes.

5193. Could you give me what the selling price of the briquette is per ton?—They are sold at a price comparable to what other similar types of fuel would fetch. The average price per ton has been 37s. 11d. That is of the slurry; and of the anthracite 66s. 8d.

5194. You have given us a figure for the loss of 8s. 7d. a ton?—That is on the average of both of those.

5195. Could you separate it up into the loss on the slurry and the loss on the anthracite?—Yes, I could for the last six months. The loss per ton has been 8s. 9d. in the case of slurry ovoids and 1s. 7d. in the case of anthracite. Those losses are slightly less than the losses previously incurred and we hope to reduce them more when we can get the plants working to full capacity and in the light of the experience we have already had.

5196. There is one plant, we are told in paragraph 21, which is rented to the Ministry. That means that the colliery undertaking pay a fixed sum?—Yes. They pay 12½ per cent. on the machinery and 6 per cent. on the other costs, and they of course bear all costs and take all proceeds. That 12½ per cent., of course, covers depreciation. It is a charge designed to cover interest on the capital and depreciation of the plant.

5197. That seems a better bargain from your point of view than operating the plants yourselves?—Yes, but the difficulty there was that, while there had been some experience of briquetting superior materials in this country, there was very great reluctance on the part of anybody to undertake this rather experimental process with slurry, and indeed I think the results show

4 June, 1946.]

Sir DONALD FERGUSSON, K.C.B., and
Mr. A. E. WATSON, C.B., C.B.E.

[Continued.]

that it was not, in the experimental stage, an economic proposition.

5198. But this firm which rents plant from you is using superior fuel, is it?—It is using anthracite duff, and, as I indicated in the previous figures I gave, the loss on anthracite duff is much less than on slurry, because it is very much nearer the type of material which was used in the commercial briquetting.

Chairman.] Are there any questions on those two paragraphs?

Sir John Mellor.

5199. Were the processes similar to the other processes in use for manufactured fuel?—Yes.

5200. How did the results compare? Were not profits being made by companies making similar fuels to those upon which you were making losses?—Nobody was using slurry for this purpose. The briquettes being made commercially, on which, no doubt, profits were being made, were being made out of a superior raw material—fine coal and that sort of thing. But there would be no commercial briquetting of slurry.

5201. There were no cases where you got existing enterprises doing virtually the same thing?—No. They were using much the same type of plant. We copied and adapted the plant that had been used for briquetting of the superior qualities of fine coal and we then started in on these slurry dumps with these machines. There had, of course, been a considerable manufacture of different types of briquette, but, as I say, it was from a superior type of material.

5202. There is no case where you can find a fair comparison between your results and the results of existing enterprises?—Only on the anthracite duff. In the case of the anthracite duff we were getting something nearer the type of briquette that was being made by commercial firms.

5203. Was that coalite, or what was it, they made?—(Mr. *Watson.*) Coalite is a carbonisation product, similar in some respect to coke.

5204. They were making profits, were they not?—(Sir *Donald Fergusson.*) They were not doing the same thing as this. (Mr. *Watson.*) It is not the same thing at all.

5205. In the case you have mentioned, where there was a comparable position, were not profits being made by the undertakings which were already carrying on that process?—Yes. (Sir *Donald Fergusson.*) It was quite a proper thing to make briquettes out of fine coal, but the problem of making briquettes out of slurry, if I may say so, is a very different one indeed.

5206. Were there no cases where you were doing the same thing with the same

material as existing enterprises?—No. The object of this scheme was to use waste material, which would not have been used by commercial firms for briquetting in the ordinary way.

5207. In no case was waste material being used by commercial firms?—No, not slurry, nor anthracite duff exactly, but something very near anthracite duff; we are just on the borderline case with anthracite duff. (Mr. *Watson.*) If I may say so, there were some cases where firms were making briquettes of what is called fresh-wrought anthracite duff. They were not using the duff we use that had been laid aside for some considerable time and had deteriorated in stock.

5208. It is all rather out of my depth, and rather technical, but I want to get this quite clear. You are quite satisfied that that is a fair answer that, owing to the type of material used, no fair comparison can be drawn between the results which you obtained and the results being obtained by existing enterprises?—(Sir *Donald Fergusson.*) That is true.

Mr. Thurtle.

5209. I see the Comptroller and Auditor General states in this paragraph that the plants were operated for Ministry Account by colliery or other undertakings. Could you say upon what basis this work was undertaken by these companies? Were they paid so much per ton?—People operating these plants as our agents receive 9d. a ton for the briquettes produced and 3d. a ton for the wholesale distribution of the resulting briquettes; so it is 1s. per ton in all.

Mr. Hector Hughes.

5210. As a commercial proposition this experiment appears to have been a failure. Is that right?—It is too early to say that. The position was that we were experimenting with a form of material. The losses are declining. In the early stages of the experiment there was a lot of wear and tear of the machinery and, owing to shortage of labour, we were able to work only single shifts, whereas the machinery was designed for double shift working. I cannot say whether it will ever be a commercial proposition, but in the early years it could not have been. In the case of anthracite duff it is very near it at the present time.

5211. There would be only one of two justifications for continuing in those circumstances. One would be, would it not, that it was likely to be a profit, and the other that it was likely to supply public need even at a loss?—Yes.

5212. Do either of those justifications exist for going on with it?—I should say the main justification and the object of the scheme was the second one mentioned; it was to supply, in a time of great shortage

4 June, 1946.]

Sir DONALD FERGUSSON, K.C.B., and
Mr. A. E. WATSON, C.B., C.B.E.

[Continued.]

of coal, some additional fuel, and we have, in fact, added 400,000 tons of solid fuel by this briquetting process to the supplies available for the country at a cost so far of 8s. 7d. a ton loss to the State. That was the object of the scheme and the justification for it, and it was the policy of the Ministry to continue this process so long as there is a shortage of coal.

5213. Pardon my ignorance if I ask you this, but what is slurry?—It is the residue from washing coal. The slurry is lying about in large dumps and has been for years and years near collieries, just waste. It was to utilise these waste heaps of the washings off the coal.

5214. Hitherto has it not been used for anything?—No.

Chairman.

5215. I am not sure you are right there, Sir Donald?—It has not been used for this purpose.

5216. I think it has been used by the electric power stations for a good many years. Your expert will assist you on this?—A certain amount of slurry has been used in colliery boilers. That would be freshly-washed slurry.

5217. The point is, that there were very large dumps of unused slurry which are being utilised very slowly. Is not that the position?—It is not worth sending by rail. That is the trouble. It lies at the colliery in many cases, especially when it is old and very moist.

Mr. Hector Hughes.

5218. The point I am anxious to elucidate is this. There is that vast quantity of waste lying there in the country, hitherto unused. If a means could be devised for converting it into a useful fuel on an economic basis that should be proceeded with. What I was anxious to know was: What are the prospects of doing it on an economic basis? When is it likely to be run at a profit or even without a profit but without a loss?—It is very difficult to say when we should expect to be able to run it without making a loss, if ever. The real problem that arises is, as we see it, the grave shortage of coal and the need for any type of fuel that we can produce in this country to make up such deficiency as

(*Mr. Watson withdrew.*)

Chairman.

5225. We will pass to paragraph 23, which deals with the gas oil subsidy. Would you explain to the Committee precisely what is happening here (I cannot understand it) and why it is necessary to subsidise the production of gas in this way?—The basic fundamental fact is that there has not been enough gas coal to enable gas production to be maintained in this country. At the time this scheme was

there is. We hope that the present loss per ton has been reduced over the last year, and we hope it will be still further reduced. If we can get double shifts working we hope it will be further reduced, but I would not like to prophesy about what the figures would be.

5219. Is the difficulty with regard to double shifts a difficulty of manpower?—Yes. (*Sir Gilbert Upcott.*) Perhaps I might interrupt by saying that of course, when you come to making comparisons, a little later on in the accounts you will find the loss per ton upon open cast coal is about twice this.

Lieutenant-Colonel Alan Dower.

5220. The reason there is a loss is that it just would not be there if it could be used at a profit. You are making use of material which would not normally be made use of except because of shortage?—(*Sir Donald Fergusson.*) Yes.

5221. My only other question is this. You said that one of the extra expenses was the initial stage of wear and tear of the machinery. I am completely ignorant, unlike the Chairman, about this, but is there any hope of that item being reduced? Why should the wear and tear of machinery be heavy now?—We have eliminated that. We were using the original machines that were being used for a cleaner and easier working material. In the early stages some of this slurry in particular was very unsuitable material for putting through these particular machines, and there was a great deal of wear and tear, break-downs and that sort of thing. But we have overcome, to a large extent, those problems, and I think we can say that now there is no undue wear and tear.

5222. So that that particular form of expenditure may be reduced?—Yes, we hope so.

Chairman.

5223. You cannot give us any information as to the effect of these briquettes when they are placed upon the fire?—All I can say is that they are not too bad, and we have a ready sale for them.

5224. They are readily saleable at the present time?—Yes. Perhaps I could say they are better than nothing.

started in 1943, when the shortage of gas coal became acute, there were ample supplies of gas oil. It had been the practice and habit of gas companies or of a number of gas companies—about 250 gas undertakings—to have plant as standby plant for making gas from oil. The reason they had that was that it can be very quickly manufactured and therefore they could meet unexpected peak loads in the winter in cold spells; but it was not an economic

4 June, 1946.]

Sir DONALD FERGUSSON, K.C.B.

[Continued.]

proposition, in the sense that it was a very much more expensive process than using gas coal. The object of this scheme was this. Owing to the shortage of gas coal a subsidy was given to gas undertakings to manufacture gas from oil, the subsidy being calculated under certain varying conditions, but, broadly speaking, it was calculated on the basis of the extra cost to the companies of running these gas oil plants over and above what they normally used before the war.

5226. The purpose being—?—To save coal.

5227. The purpose being first of all to save coal, but also the purpose of the subsidy, I presume, was to obviate the necessity for an increase in the price of gas. Is that right?—Yes. It was really two things. There would not have been the gas if we had not been—

5228. There would not have been the gas at all?—We had to induce the gas companies to go on making gas without the coal. We could not supply the coal.

5229. Are there any questions on paragraph 23? We pass to paragraph 24, which deals with petroleum products. The Public Accounts Committee has, on previous occasions, gone into the affairs of the Pool Petroleum Board, I think it is called. Paragraph 25 tells us that at one time there was a surplus of approximately £6,500,000. That had arisen by 30th June, 1943, and it had been agreed that that was to be disposed of by reducing the prices of certain oil products, but, with Treasury approval, action was suspended until the taxation position of the Board had been settled. The surplus increased to some £12,000,000 by the end of 1944. Can you tell me if the taxation position of the Board has been cleared up and what has happened to reduce the surplus or dispose of it?—Yes. The taxation position that the Comptroller and Auditor General had in mind was this, I think, that the surplus had arisen, or part of it had arisen, in respect of profits that had accrued before 1944. The taxation point that had to be cleared up was, if those profits had accrued whether they were due to be paid over to the Inland Revenue in the form of Excess Profits Duty. The Petroleum Board, having been formed since the war, had no existing standard, so that virtually all surpluses accruing to the Petroleum Board had to be paid in Excess Profits Duty.

5230. It is supposed to be a non-profit-making body, is it not?—Yes, but if it has a surplus that has accrued, if you have let the surplus accrue before you have reduced the price, that surplus, I understand, goes practically all to the Inland Revenue in Excess Profits Duty. That was the taxation point to be cleared up.

5231. Has been cleared up?—Yes, it has been cleared up.

5232. In the sense that the whole of the surplus will be paid over?—Almost the whole of the surplus that accrues in any year goes to the Inland Revenue in taxation. With regard to the surplus that had accrued up to 1944 over the preceding years, the question might be asked why it had been allowed to accrue and then go to the Inland Revenue, and why prices had not been reduced to avoid the accumulation of a surplus. If I give the Committee the figures they will see that it had been very variable. In 1940 there was £4,500,000 deficit; in 1941 £4,500,000 profit; in 1942 £8,000,000 profit and in 1943 just over £1,000,000 deficit. It has been a fluctuating and uncertain thing and in any given year it was not quite clear what was going to be the ultimate position. I should perhaps add this, that the surplus which did accrue, to which the Comptroller and Auditor General refers, was only approximately 1.05 per cent. of its total turnover of £680,000,000. That was from the outbreak of war until the end of 1943.

Chairman.

5233. Are there any questions on those paragraphs?—Now we turn to the account which is at page 15. Could you just give me the main items comprised in sub-head G., a figure of £4,000,000 odd, "Expenses in connection with the production, distribution and maintenance of supplies of coal"?—The main items are transport subsidies, £2,000,000, opencast mining about £1,000,000, briquetting expenses—which has already been mentioned earlier on—just over £300,000, and Government coal reserves £290,000.

5234. I think that is all I want?—(Sir Gilbert Upcott.) Perhaps I might remark that that opencast coal figure is, of course, not the production expenditure, which, as the Committee heard the other day, is on the Ministry of Works Vote. That is presumably selling expenses.

5235. We shall strike that again over the page, I think. In the details of receipts at the top of page 16, the first item is "Sales of Coal (including opencast coal)" and the figure for opencast coal receipts appears to be £11,344,000?—(Sir Donald Fergusson.) Yes.

5236. Could you give the corresponding figure of total cost including the cost of selling. We have had some figures from the Ministry of Works which give us the cost of getting the coal at the site, but we have never had any figure which included the cost of disposing of the opencast coal?—I can give you the cost per ton figure.

5237. Yes, please.—Production costs at site (I am giving them for the year 1944-45) 30s. 1d.; prospecting and boring, 1s. 3d.; royalties and compensation, 1s. 4d. (Sir

4 June, 1946.]

Sir DONALD FERGUSSON, K.C.B.

[Continued.]

Gilbert Upcott.) If I might say so the Committee have had all the figures of production costs down to the figure adding up to 43s. 11d. The Committee have had 43s. 11d. as the production cost. (Sir *Donald Fergusson.*) Did that include plant? (Sir *Gilbert Upcott.*) It goes down to the plant division. It covers everything except depreciation of stocks and selling expenses. (Sir *Donald Fergusson.*) The figure for depreciation of stocks is 1s. 6d. per ton; for selling expenses 2s. 5d. per ton, and the total cost, 47s. 10d. per ton. This is for the year 1944/45.

5238. And the selling prices?—31s. 1d., and a deficiency of 16s. 9d.

Chairman.

5239. Are there any questions on the Account?—We pass back to paragraph 26 of the report of the Comptroller and Auditor General, which deals with the Coal Charges Account. This is rather a sad story. The total indebtedness at the end of March, 1945, was £34,580,000 and the levy was increased on the 1st May to 15s. a ton on the previous figure of 12s. As a result of that by January, 1946, the indebtedness was reduced by only £1,000,000. It does not look as if the Account will ever be squared by a process of increasing the levy, does it?—I think the Committee is aware that most of the indebtedness arose during one period, and the levy was increased. One of the reasons why repayments have not been on as large a scale as they would have been otherwise is that we have had an unexpectedly large bill, so to speak, from the Ministry of Supply for timber, which has been very much in excess of anything we had been led to contemplate before. That amounts to several million pounds.

5240. We shall see that when we come to the Account, I daresay?—(Sir *Gilbert Upcott.*) That is since the date of this Account. That does not account for the deficit of £16,000,000 in the year of account. (Sir *Donald Fergusson.*) The deficit in the year of account arose from the fact of the delay in raising the price of coal to meet the increased wage costs that had arisen out of the various awards.

5241. If I understand you aright, Sir Donald, you were saying that the reduction of the indebtedness by only £1,000,000 is largely due to a heavy bill you had had for timber from the Ministry of Supply. Is that right?—I cannot remember whether that was in the year of account, I am afraid. All I know is that the position to date is that there would have been repayments but for this large liability hanging over us for timber. (Sir *Gilbert Upcott.*) The last subparagraph of paragraph 26 refers to the period April 1945 to January 1946. That is outside the period of the Account which is before you now. (Sir *Donald Fergusson.*) I should perhaps make this

further point, that, of that £33,000,000 about £10,000,000 is required for what is virtually working capital, owing to the delay in receiving the charge. There is a delay of two months normally. The real deficit at the moment would therefore be about £23,000,000. Of course, if one looked at it in another way, even if that deficit were written off it would have been equivalent to about 7d. a ton subsidy on coal from the time the Coal Charges Account was started. That is on 775,000,000 tons of coal raised in this period. I only mention that because it is not a large sum per ton of coal.

Chairman.

5242. Are there any questions on paragraph 26? Paragraph 27 deals with miners' hostels. The Comptroller and Auditor General refers to a considerable loss on the running of the miners' hostels, which is largely due, I gather, to the fact that they have been under-occupied in the sense that there have never been sufficient guests ready and willing to reside in them to use them to capacity. Is that right?—(Sir *Donald Fergusson.*) Yes, that is the position.

5243. I take it these hostels are being used less and less as time goes on, now?—Yes.

5244. Could you tell us how many there are open now?—We are releasing them as and when we can. The original programme was for 74 hostels. It was subsequently reduced to 62 and then to 59. With regard to the actual use as miners' hostels, in March 1944 we had 4; in March 1945 we had 47 and in June 1945 we had 50. That was the peak number. By March 1946 that had been reduced to 42 and in April 1946 to 41. Now we have 38.

5245. What happens when you release them?—Do they pass back to the Ministry of works?—Yes, they pass back to the Ministry of Works for other departments, I suppose. I do not know what happens then.

Chairman. Are there any questions on paragraph 27.

Mr. Hector Hughes.

5246. To what other uses are they diverted?—During the war, sometimes for people who have been evacuated because of bombing, or some reason of that kind.

5247. I am speaking of peace-time. Can they be used economically for some other purpose, and if so what?—I am afraid I could not answer that question. (Sir *Herbert Brittain.*) Our information is that there is a very big demand for this type of accommodation and, if it is not wanted where it is, the Ministry of Works will probably take it up and put it somewhere else.

5248. For what?—For the general purposes of departments.

4 June, 1946.]

Sir DONALD FERGUSON, K.C.B.

[Continued.]

5249. Hostel purposes?—Not necessarily. It may be for some other use, for which a department wants this sort of accommodation—for offices possibly.

Lieutenant-Colonel *Alan Dower*.

5250. What were the hostels originally? Were they houses?—(Sir *Donald Fergusson*.) They are huts.

5251. They are encampments which have been made?—Yes.

Mr. *Hector Hughes*.

5252. I thought they were huge buildings specially built for the purpose, like the miners' hostel at Blackpool?—They were built for miners' hostels.

5253. And the one at Blackpool is one of them, I suppose, is it?—I do not think we have one at Blackpool.

5254. It is a place like a huge hotel?—(Sir *Herbert Brittain*.) You are not thinking of the miners' convalescent home?

5255. Yes, I am thinking of that?—That is a huge place in its own grounds. (Sir

Donald Fergusson.) These are pre-fabricated temporary hutments.

Lieutenant-Colonel *Alan Dower*.

5256. These are not requisitioned hotels, are they?—No.

Chairman.

5257. Are there any further questions on paragraph 27? If not, we pass to the Account at page 18. I have no questions to ask on the Account. I want to have a look at the Miners' Welfare Fund Account. It is on pages 20 and 22. This shows very substantial investments. On page 22 you will find a schedule of about £2,000,000 invested in the Miners' Welfare Fund. I suppose that is on account of the impossibility of spending the money under war conditions on welfare schemes?—Yes, it is mainly, or to a considerable extent, the holding up of pit baths, owing to the difficulty of building in war-time.

Chairman.] Are there any questions on the Account? May I take it that the Account is approved? (*Agreed*.)

VOTE OF CREDIT APPROPRIATION ACCOUNT, 1944.

MINISTRY OF FUEL AND POWER.

Chairman.

5258. Will Members turn to the Vote of Credit Appropriation Account, 1944. The Account is at page 13. Could you explain to me Item 61 "Receipts from the proceeds of sale of oil, oil products, etc." a figure of £149,000,000?—(Sir *Donald Fergusson*.) This really is Lend-Lease oil. It has been sold all over the world and these are the receipts which we have received for the Ministry of Fuel and Power, who were largely responsible for arranging the sale. These receipts have been paid into the Exchequer.

5259. Imported oil for use of the Air Force, for example, would not come into this Account, would it? You do not charge the Air Ministry a notional figure for the use of Lend Lease oil, do you?—No. The

(Sir *Donald Fergusson* withdrew.)

Air Ministry arrangements were separate from ours. (Sir *Gilbert Upcott*.) It all goes through the Petroleum Board, surely?

Sir Herbert Brittain.] The Air Ministry buy from the Petroleum Board for cash.

5260. Would that appear in this figure, then?—Yes.

5261. The whole of the imports of oil have been on Government Account, have they, under war conditions?—(Sir *Donald Fergusson*.) I would not like to say that for certain.

5262. At any rate, this sum is the result of the disposal of imported oil into this country?—Yes.

Chairman.] Are there any questions on the Account? That is all we have to trouble you with, Sir Donald, thank you.

CIVIL APPROPRIATION ACCOUNTS, 1944.

CLASS VI.

VOTE I.

BOARD OF TRADE.

(Bankruptcy and Companies (Winding-up) Proceedings Account, 1944.)

Sir JOHN WOODS, K.C.B., M.V.O., Sir EDWARD HODGSON, K.B.E., C.B., and Mr. LESLIE called in and examined.

Chairman.

5263. Sir John, you are here for the Board of Trade?—(Sir *John Woods*.) Yes.

5264. Will Members turn to the Civil Appropriation Accounts, 1944, Class VI, Vote I, the Board of Trade. We take first paragraphs 35 and 36 of the report of the

Comptroller and Auditor General, which are on page xiii. These paragraphs describe some new assistance being given to the Council of Industrial Design. Would you mind telling the Committee whether the Council is making any progress?—I can tell you in general terms that it is making progress. Of course, it has not

4 June, 1946.]

Sir JOHN WOODS, K.C.B., M.V.O.,
Sir EDWARD HODGSON, K.B.E., C.B., and Mr. LESLIE.

[Continued.]

had very much time yet. The two main things which prove it is making progress are, I think, that although the accounts of the grant in aid of the Council for the financial year subsequent to the one we are now considering are not ready, we do know the full amount, or pretty well the whole of the amount of £55,000, has been expended. Secondly, arrangements are well under way for a large design exhibition called "Britain Can Make It," to be held in the autumn of this year. Mr. Leslie, who is director of the Council and accounting officer for its accounts, is here to add to what I say if you wish.

5265. The only question I have to ask on this matter is on paragraph 36 in which the Comptroller and Auditor General states "The Treasury, whilst recognising that at the outset the Council would be dependent upon the grant in aid as its sole source of income, placed on record their view that it was desirable that in course of time the Council should receive a measure of financial support from industry and organisations concerned with design." I wondered if any discussions had been proceeding with a view to enlisting the support of industry for this body. Perhaps Mr. Leslie would like to answer that?—(Mr. Leslie.) Our discussions with industry are part of the pro-

(Mr. Leslie withdrew.)

gramme of getting design centres set up, which will be mainly financed by industry with a grant in aid from the Board of Trade on the Council's advice. The feeling is that until some design centres are in being the question of further support from industry for the general work of the Council should be deferred. (Sir John Woods.) I think it might also be easier to get financial support after the exhibition has been held later this year.

5266. There is an exhibition this year, is there?—Yes.

5267. On British Industrial Design?—Yes.

5268. Where is that to be held?—(Mr. Leslie.) At the Victoria and Albert Museum, in September.

5269. No doubt we shall all duly receive invitations in a representative capacity! Are there any questions on paragraphs 35 or 36? We turn to the Account at page 244. On that I have no questions. These are your Accounts in peace-time form?—(Sir John Woods.) Yes, these are the ordinary Civil Accounts.

Chairman.] Are there any questions on the Account? May I take it the Account is approved?—(Agreed.)

VOTE OF CREDIT APPROPRIATION ACCOUNT, 1944.

BOARD OF TRADE.

Chairman.

5270. Will Members turn to the Vote of Credit Appropriation Account, 1944, to paragraphs 19-22 of the report of the Comptroller and Auditor General, which are on pages ix and x. These paragraphs describe two rather complicated methods of subsidising utility clothing, one in regard to cotton cloth and the other in regard to wool. Could you explain how this works as regards cotton cloth?—(Sir John Woods.) Very briefly, I think it runs this way. At the time when this scheme was introduced, there was existing a maximum price for cotton cloth, the finished cloth, which the merchant converter disposed of. That maximum price had been arrived at by a process of building up from the original raw cotton price, the original raw cotton being also issued at a controlled price. There was then a controlled margin for the spinner and a controlled margin for the weaver, and so on, so that you got a maximum price built up. An increase in price of the basic raw material, the raw cotton, would obviously in the ordinary way have reflected itself all the way up and would have resulted in an increase in the price of the finished cloth. In order to establish the rate of rebate what was done, I understand (I was not there myself at the time) was to start at the end. You started with the price of the finished cloth and then

deducted from that the proper margin which ought to go to the converter both for the processing he had done, and also his general costs and expenses in overheads, and that established what was called a basic grey cloth price. That is the basic price for the cloth which the merchant converter gets from the weaver. That basic price was then compared with the weighted average of all the prices which converters actually paid to weavers after the increased price had come in for raw cotton. The difference is the amount of the rebate.

5271. In the final sentence of paragraph 20, the Comptroller and Auditor General tells us that during the year, the cost of this arrangement was £554,000. Can you give us the figure for a full year, because this covers only half a year?—I am afraid I have not got it with me. Could I let the Committee have a note about that?

5272. Yes please?—Would you like it up to date, so to speak—as far as it has gone?

5273. I was wondering if you could make any guess at the annual cost of this subsidy, at present prices for raw cotton?—It is very difficult, because as time has gone on this rebate has included other elements than changes in the price of raw cotton. It includes an element arising from an increase in spinners' wages, and things of that kind, so that you do not get a comparable figure

4 June, 1946.]

Sir JOHN WOODS, K.C.B., M.V.O., and
Sir EDWARD HODGSON, K.B.E., C.B.

[Continued.]

all along, and I would not like to guess what the subsidy has cost up to date; but I could quite easily let the Committee have the figures.*

5274. You cannot give us a figure for the proportion of the subsidy element in the price of cotton cloth?—No, I am afraid I could not without notice.*

5275. We do not know whether this is a 2 per cent. subsidy or a 20 per cent. subsidy?—It is nearer 2 per cent. than 20 per cent., but I should really hate to guess.

5276. These arrangements were designed, we are told, to enable the converters to sell the finished cloth within the existing statutory maximum price, whilst continuing to earn the same margins as before. Is that the same margins as before the war?—No, as before the increase in the price of raw cotton.

5277. Was any inquiry made as to whether the margins they were making before were reasonable?—Yes; I think the margins which they were getting though not statutorily controlled, were, so to speak under control, because the whole process was really controlled from the raw cotton upwards.

5278. You cannot relate these margins to any increase of profit, I take it, can you?—No, the margin of course, is not a profit. It is a total margin which includes the man's costs. The margin, in fact, at this time, varied between 13 to 18 per cent. on his returns—that is to say on the price of the finished cloth which he sold; but what element of profit was in that I could not say.

5279. You do not think these people were making an unreasonably high profit at any stage of the war?—No, I do not. I have no reason to suppose that at all.

5280. Are there any questions on paragraphs 19 or 20? We pass to paragraph 21, which describes a different scheme with a similar object in the case of wool. Is not that right?—Yes, it is a similar scheme. It works in exactly the same way except that you substitute for the merchant converter the cloth manufacturer, who is rather a mixture of the weaver and the converter in the cotton trade.*

5281. This appears, on the face of it, a rather more expensive scheme than the cotton scheme?—Yes, it certainly was in this year.

5282. Judging by the amounts quoted in the paragraph?—Yes.

5283. Here again, you cannot tell us what the extent of the subsidy is?—I am afraid I cannot. I will gladly let the Committee have a memorandum on both.

5284. It would help the Committee if you could furnish us with a paper showing the proportion that the subsidy bears to the selling prices of the cloths in question?—Yes, I will do my best to do that.

Chairman.

5285. Are there any questions on paragraphs 21 or 22? We pass to the Account, which is at pages 12 and 13. At the top of page 13 there is an item "Diverted Cargoes" with an asterisk against it, and the explanation is that the figures include receipts and payments since October, 1941. Could you explain this item to us—receipts £312,000, less payments £202,000?—Yes. There are two elements in it of which the more important is cargoes diverted when Japan came into the war. Those were cargoes destined for the Far East and they were diverted to India. The Board of Trade arranged that the Government of India should requisition the cargoes, and they set up a committee to dispose of the cargoes to the best advantage and to compensate owners from the proceeds of sale, supplemented, if necessary, with a Treasury guarantee. That was done.

5286. Diverting cargoes appears to be a highly profitable business, on the face of these accounts?—Up to date it appears to be. The total receipts and payments under this head—that is to say cargoes intended for the Far East—in 1943-44 were: receipts £168,000, and payments £14,000. In 1944-45 the receipts were £139,000 and payments £185,000, and at the 31st March, 1946—that is this year—there was a balance of £108,000, which is available to meet outstanding claims. Of course, outstanding claims may well come in, because some of the owners of the goods may be domiciled abroad and may have been in enemy occupied territory, and so on. The total is made up by another small case of a particular vessel which was diverted to the Faroe Islands. The figures there were that we got from the Faroe Islands Governor £5,060 and so far we have paid out £2,484.

5287. Item 58 on page 13 is "Encouragement of Export Orders." Here again, you seem to have received a very much larger sum than you had to pay. I do not know how you make a profit out of encouraging export orders. Can you explain that?—That arises from the origin of the orders. It was at the time of the export drive in early 1940 when it was very desirable, before Lease-Lend, to get a large volume of exports but exceedingly difficult to find the resources to export. In the case of cotton, wool and leather, special bodies were set up and under the Defence (Encouragement of Exports) Regulations they were given powers to raise moneys by levies on cotton, wool or hides, as the case might be, so that these corporations might, so to speak, focus the export possibilities in each of these trades. The possibilities of export very soon diminished, but the levies have gone on, so that the expenses of the corporation have not been great and the income has increased. In fact in the

* See Appendix No. 12.

4 June, 1946.]

Sir JOHN WOODS, K.C.B., M.V.O., and
Sir EDWARD HODGSON, K.B.E., C.B.

[Continued.]

three cases the balances available by 31st March, 1946, are approximately these: In cotton £350,000, in leather £175,000 and in wool £150,000. It remains for consideration to what purpose those balances shall be put. The report of the Cotton Working Party last week had a specific suggestion about the cotton one; but those are all matters still open for consideration by Ministers.

Chairman.] Are there any questions on the Account?

Mr. Thurtle.

5288. Is it proposed to continue this levy?—I think in the case of cotton the levy has already ceased. In the case of the other two, they are still going on, but that also is a matter for consideration. We have power to continue the levies now and it may be desirable to continue them for the purpose of some continuing body of this kind which would be an industry body, so to speak, which would deal between the operative units of the industry and the Government, but that is a question of policy which has still to be decided.

Mr. Hector Hughes.

5289. Was this diverting business peculiar to the war, or is it a diversion that is practised in time of peace?—It was simply because vessels were liable to be intercepted by the enemy unless they were taken off their course and sent somewhere else.

Lieutenant-Colonel Alan Dower.

5290. I must be careful not to ask a political question, which is always avoided on this Public Accounts Committee, but, reverting to the levy again, do the industries concerned in your experience consider that they are getting full benefit from the levy which they are contributing, or do you have difficulty over it?—It is difficult at the moment to say that they are getting full benefit from the levy, when the levy is to a large extent piling up in balances, but I think they have quite an open mind as to the value that may come to them from these levies by way of arrangements for scientific research or market research or this or that kind of activity.

Chairman.] Are there any further questions on the Account?

CIVIL APPROPRIATION ACCOUNTS (WAR SERVICES), 1944.

CLASS X.

VOTE 13.

WAR DAMAGE (BUSINESS AND PRIVATE CHATTELS).

(War Damage (Business Scheme), Statement of Receipts and Payments in the year ended 31st March, 1945.)

Chairman.

5291. Will members turn to the Civil Appropriation Accounts (War Services) 1944 to paragraphs 41—43 of the report of the Comptroller and Auditor General, which are at pages xv and xvi. These paragraphs deal with the financial position of the various war damage schemes which you administer. There is a business scheme, a private chattels and a commodities scheme?—(Sir John Woods.) Yes.

5292. The private chattels scheme gave a great deal of free cover, to small people especially?—Yes.

5293. And was never intended to be either a profitable or a balancing account?—That is true. But if you extract the £300 free cover for the married householder the best guess we can make is that on the rest of the scheme it has worked out; it has been more or less self-liquidating.

5294. That is the private chattels scheme?—Yes.

5295. Are these figures the final figures? This is the approximate position at the 31st March, 1945. By that time would all claims have been made under the chattels scheme?—No, I do not think they would.

5296. We have not got a final picture then?—No, not completely, but it is very near finality. (Sir Gilbert Upcott.) The private chattels scheme is rather optimistically portrayed in that paragraph. (Sir Edward Hodgson.) We are still getting 3,000 claims a month.

5297. Under the business scheme, that shows premium receipts of about £77,000,000, and payments of £90,000,000. That scheme, I take it, was intended so far as possible to be a scheme which would balance?—(Sir John Woods.) I think there was a good deal of "as far as possible." Like the property scheme under Part I of the War Damage Act, I do not think anybody really thought they were establishing under this scheme an actuarially sound proposition which would be self-liquidating.

5298. The insurance of business stocks was compulsory, was it not?—Yes.

5299. Whereas the chattels scheme was voluntary?—Yes.

5300. You came in when the flying bombs began to fall, and you went out again when peace was restored, so to speak?—Yes. (Sir Gilbert Upcott.) It was long before the flying bombs.

4 June, 1946.]

Sir JOHN WOODS, K.C.B., M.V.O., and
Sir EDWARD HODGSON, K.B.E., C.B.

[Continued.]

5301. The business scheme was obligatory and will probably turn out in a loss in the long run, will it not?—Yes.

5302. On the next page the Comptroller and Auditor General refers to the commodities scheme. That has proved highly profitable, has it not?—Yes, that has been a highly profitable one.

5303. What was the difference between this and the business scheme?—This was established right at the beginning of the war under a different Act, under the War Risks Insurance Act, 1939. It was a compulsory scheme, designed really in the interests of trade generally.

5304. The business scheme covered business stock in the ordinary way, did it not?—No. The business scheme was really capital equipment.

5305. Then the commodities scheme would be stocks of perishable materials—foodstuffs, and so on?—Yes. (Sir Gilbert Upcott.) All goods. (Sir John Woods.) All goods for sale, yes.

5306. There, you surrendered £79,500,000 into the Exchequer?—Yes. It is £80,500,000 now.

Chairman.] Are there any questions on those paragraphs?

Lieutenant-Colonel Alan Dower.

5307. I should like to ask a question or two about the private chattels scheme. You are not suggesting for a moment that the agreed claims have been paid, are you, or even a very large proportion of those claims?—No, not paid, but of the claims that have been received—

5308. Of the claims that have been received but not paid?—Of the claims received a large proportion has been settled.

5309. The payment is?—The payment is deferred, yes. (Sir Edward Hodgson.) We have paid out more under the private chattels scheme than we still have to pay under the deferred arrangements. (Sir Gilbert Upcott.) My paragraph 7 sets out, under different headings, the figures.

5310. Yes, I am sorry?—£41,000,000 has been paid out out of £82,000,000.

5311. About 50 per cent?—At that date £41,000,000 had been paid out out of liabilities of £82,000,000.

5312. That is 50 per cent?—Since that date, of course, further payments have been made.

5313. When these agreements are made, of course, they are made upon prices which were ruling at the time, either before the war, or when the chattels were destroyed?—(Sir John Woods.) Yes.

5314. No one can tell what price furniture is going to fetch?—A statement was made on that in the House of Commons by the Parliamentary Secretary as long ago as 1942, to the effect that the Government have in mind the possibility of hardships arising to persons of modest resources if the price level at the date of the payment differs materially from that at the date on which compensation was based. That possibility is still in mind. It does raise much wider issues.

Chairman.

5315. Under all these three schemes you get paid your money as soon as your loss has occurred, I take it?—No, you do not.

5316. What do you have to wait for—until you are 65?—That, I think, was part of deliberate Government policy at the time all these three schemes were set in force. Under the commodities scheme, payment was made at once. Under the War Damage Part I Scheme, the business scheme and private chattels scheme, it was deliberate policy not to pay at once, unless the circumstances were such that it would constitute hardship if payment were not made.

5317. We shall not see the final result of these schemes for several years?—You will know the final result as soon as the amounts are settled.

Lieutenant-Colonel Alan Dower.

5318. Might I ask one further question with regard to that. Has it not always been said that the reason the compensation is not paid when it is agreed is because we must not help to force up the price level still further?—I have no doubt that was in mind when the original decision was taken.

Chairman.] The Account is at pages 44, 45 and 46. I have no questions. Has any Member any questions on the Account? May I take it that the Account is approved? (Agreed.)

(The witnesses withdrew.)

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

THURSDAY, 6TH JUNE, 1946.

Members present:

Mr. PEAKIE in the Chair.

Lieutenant-Colonel Alan Dower.
Mr. Hector Hughes.
Sir Frank Sanderson.

Mr. Thurtle.
Mr. Wadsworth.

Sir GILBERT UPCOTT, K.C.B., Mr. D. F. C. BLUNT and Mr. C. E. I. JONES called in and examined.

TREASURY MINUTE ON PARAGRAPHS 7-8 OF THE FIRST REPORT OF THE COMMITTEE OF PUBLIC ACCOUNTS, 1945-46.

Mr. O. S. FRANKS, C.B.E., and Mr. E. L. PICKLES, C.B., O.B.E., called in and examined.

Chairman.

5319. Mr. Franks, during the year under review, I understand you were neither connected with the Ministry of Aircraft Production nor did you sign the Accounts, but you are prepared to accept responsibility for them and answer questions this afternoon? (Mr. Franks.) I must do so.

5320. The Ministry of Aircraft Production is now amalgamated with the Ministry of Supply?—Yes.

5321. I think originally it was called the Ministry of Supply and Aircraft Production, was it not, for a short time?—I think the position was that the Minister had that title, but that the two Departments remained formally distinct until the 31st March, when one Department took their place, which was the amalgamated Ministry.

5322. Will Members turn to the Treasury Minute on paragraphs 7 and 8 of the First Report of the Committee of Public Accounts, 1945-46. Paragraphs 7 and 8 deal with the old and somewhat vexed question in regard to fixed price contracts. The position, it appears from paragraph 8, is that a comparatively small miscalculation of estimated costs is reflected owing to the very large turnover of these aircraft firms in relation to their capital in a considerable increase of profit on capital employed. Could you give us the corresponding figures as regards profit on cost and profit on capital employed for the year 1944?—Yes. The sales for 1944 were £178 million, and the profit which emerged on those sales was at the rate of 5.74 per cent.

5323. On cost?—On cost of sales. When that is translated into a percentage of the firms' capital employed, it becomes 29.74 per cent.

5324. In the last sentence of paragraph 8, the Committee speaks of the rate of profit envisaged by Government policy. I am not sure that it appears here, but I take it that the rate of profit envisaged on capital employed was very much smaller

than the 29.74 per cent?—Yes. The margin on which the prices were fixed—that is to say, the margin on the estimated cost of the sales—was 2.88 per cent., whereas the margin, as it actually turned out, as I said, was 5.74 per cent. The broad effect of that is that the profit in relation to capital employed is about double what was aimed at.

5325. That is to say, 15 per cent. was about the target?—Yes.

5326. And the figures which you have given us are, of course, higher than those for the previous year 1943?—They are much higher.

5327. Which seems to show that the previous experience of the Ministry of Aircraft Production had not helped them very much as regards margins for 1944?—There seem to me to be two points there, if I may make them briefly. The first one is this, that the experience of previous years did help the Ministry in relation to the prices which it was able to fix, in the sense that the economies in manufacture which the constructors had been able to make in the previous years were taken account of in fixing the prices. We were able to fix the prices at lower levels than in previous years. The second point to which I have to come is that, despite making those allowances, the manufacturers did still better; they found more economies, and those economies which they found took the profit margin above what we had estimated it would be.

5328. Thank you. I do not think we can carry the matter any further. I take it that the current values of contracts with these manufacturers are very much below the wartime figures?—Yes. This picture has changed very considerably indeed.

Chairman.] Are there any questions on the Treasury Minute on paragraphs 7 and 8?

Sir Frank Sanderson.

5329. I would like to ask a question in regard to the current position. Can you state on what terms the contracts are let

6 June, 1946.]

Mr. O. S. FRANKS, C.B.E., and
Mr. E. L. PICKLES, C.B., O.B.E.

[Continued.]

today?—I believe that we are still continuing at present on the basis of the results now before you. We have not yet moved over to tendering.

5330. Do you propose ultimately to go to a basis of tenders?—That is probable, yes.

5331. In the meantime, you really are not able to determine whether or not excessive profits are being made? I take it you just do not know?—At the moment, of course, we are mainly preoccupied with the cancellation of contracts rather more than with the placing of new ones, and dealing with the consequential financial settlements on those cancellations. We, of course, do not know what the profit margins, say, for work being done in the present year will turn out to be against the prices which have been fixed and agreed with the manufacturers.

We have to wait until their year is closed and their actual trading results are known.

5332. All things being equal, you would expect, would you not, that, with the considerable curtailment of output, they may show a loss or, at any rate, it would be reasonable to assume that the ratio of profit would not be in excess of that which you anticipate?—I should certainly assume that the picture will be very different in 1946 from that we have just talked about as the picture of 1944, but I should prefer not to guess which side of the red line the result will be. I do not know.

Sir *Frank Sanderson*.] I do not think we can well pursue that any further.

Chairman.] Are there any further questions on the Treasury Minute on paragraphs 7 and 8?

TREASURY MINUTE ON PARAGRAPH 9 OF THE FIRST REPORT OF THE
COMMITTEE OF PUBLIC ACCOUNTS, 1945-46.

Chairman.

5333. Paragraph 9 deals with what we know here now as the Simmonds case. All I want to ask on this is a question of the Treasury—whether a Treasury Minute will be forthcoming upon the special report made in that case?—(Mr. *Blunt*.) Yes. We did consider whether we ought to issue a Special

Treasury Minute on that special report, but we thought that it would be better to wait, and to sweep it up in the general Treasury Minute. There was nothing we could say in a special Treasury Minute, and we thought we had better wait.

Chairman.] Are there any questions on the Treasury Minute on paragraph 9?

CIVIL APPROPRIATION ACCOUNTS (WAR SERVICES), 1944.

CLASS X.

VOICE 2.

MINISTRY OF AIRCRAFT PRODUCTION.

Chairman.

5334. Will Members turn to the Civil Appropriation Accounts (War Services), 1944, to page iv, paragraph 7 of the report of the Comptroller and Auditor General. Paragraph 7 is, I think, merely formal and I have no questions on that paragraph. Have any Members of the Committee any questions on paragraph 7? We turn to paragraph 8, which deals with the progress of price settlement. The Comptroller and Auditor General states: "During the year to 30th November, 1945, there was a considerable reduction in the number of contracts where final prices had not been fixed." Can you give us some figures to bear out that statement about a reduction in the number of contracts where prices had not been fixed?—(Mr. *Franks*.) I can give you some figures, which have to be stated in terms of contracts placed since the beginning of the war. The round figures are that the Ministry of Aircraft Production placed something like 90,000 contracts in the whole period, and of those contracts the number now remaining to be priced is about 7,000. We have reduced the number outstanding very considerably during the last year, because, apart from the reason to which you have referred, the

cancellation of a number of contracts, the number of new contracts placed has, of course, been much smaller, and, therefore, the work which the Department has done in fixing prices for contracts already in existence has outweighed the new work coming on, so that we are catching up quite rapidly.

5335. The Comptroller and Auditor-General states: "This result was due in part to further progress in the settlement of final prices and in part to the changed war situation which led to the cancellation of a number of contracts for which prices had not been fixed." Can you give us any figures as to the number of cancellations in that class, or the number of cancellations in total?—We have cancelled up till the end of March of the present year, or substantially reduced, some 22,000 contracts.

5336. Would those mainly be contracts, do you suppose, where the prices had not been fixed?—No; I think most of them would be where prices had been fixed. In the broad, prices had not been fixed where you were dealing with the early stages of production and it was not possible to assess in advance what costs were likely to be.

6 June, 1946.]

Mr. O. S. FRANKS, C.B.E., and
Mr. E. L. PICKLES, C.B., O.B.E.

[Continued.]

5337. In the next subparagraph, Sir Gilbert states that in some cases "it had been agreed that final prices should be settled on the basis of the actual approved costs incurred by contractors with an addition for profit." Can you tell us what was the ordinary figure added for profit there?—It would be the normal figure for costed work; that is to say, it would start from a basis of a return of 7½ per cent. on capital employed.

5338. With something extra for efficiency?—Yes.

5339. The Comptroller and Auditor-General goes on to say: "Since the date of that Report" (that is the Report of 1945) "there has been an increase in the proportion of supplies to be priced on that basis"?—That is, I think, in the main due to the fact that the numbers of prices established on this basis, because of small batches of production, early stages of production and so on, have been increased by the fact that the cancellation of contracts has produced another set of relatively small batches where you could not deal with them on the ordinary fixed price basis, and you have to cost them thereafter to establish a proper price. (Sir Gilbert Upcott.) It is not an absolute increase; it is a proportionate increase. (Mr. Franks.) Yes, it is a proportionate increase.

5340. Then, in his report, Sir Gilbert states "but the actual prices payable have been ascertained in only a relatively small number of cases." Can you tell us what progress has been made in price settlement?—Generally, or in this particular relationship?

5341. In this particular relationship?—We are getting on in this rather slowly, because the time lag depends essentially on the firms themselves having the time to prepare their costs and present them to us. I do not think anything more is involved than that natural time lag.

Chairman.] Are there any questions on paragraph 8?

Sir Frank Sanderson.

5342. I would like to put one question in regard to the all-important matter of the cancellation of contracts. Do the contracts include a 'break clause whereby, in the event of the contract being closed down, no compensation should be paid, or other terms in connection with that break clause?—(Sir Gilbert Upcott.) I am sorry to interrupt, but that comes later.

Chairman.

5343. This question will arise quite expressly on paragraph 12. We pass to paragraph 9, which deals with the case of a particular firm, whose name the Committee had, I think, better have, although it need not be recorded in the minutes?—(Mr. Franks.) The firm was (name given).

5344. The Comptroller and Auditor-General states that early in 1943 the Minister appointed an authorised controller. Could you tell us shortly what are the functions of a controller appointed by the Minister? Does he take the place of the board of directors?—No. I think a controller does not necessarily do that. He is there to represent the Minister, and he exercises certain powers, particularly, it may be, powers of veto on financial matters to ensure that the work carried out by the firm is in accordance with the broad policy that the Minister feels to be necessary, but he does not himself take the place of the management, and, in fact, in this particular case, there were changes in the management subsequent to the appointment of the authorised controller; but the two moves were separate moves, not one move.

5345. It appears that the appointment of a controller was an inadequate step to secure what the Ministry had in mind?—We had to do more than that. We had to put in efficient technical management.

5346. The controller had very little executive power? He could not order this or that to be done, or give somebody notice and appoint somebody else in place?—(Mr. Pickles.) No. He looked after the financial affairs of the Company in relation to the Department, but he had no executive functions.

5347. Then the Comptroller and Auditor-General speaks of the reorganisation of the board of directors. That means that some of the directors got the sack and some new ones were appointed, does it?—(Mr. Franks.) Yes.

5348. Appointed by the Minister?—Brought in through the agency of the Minister.

5349. The whole position appears to have been thoroughly unsatisfactory. The first arrangement made was—it is at the top of page 5—that "the Treasury approved an overall settlement on the basis of reimbursement of costs incurred by the firm subject to the deduction of items not normally allowed in Government contracts, together with a small percentage addition for profit". Could we know what the percentage addition for profit under that arrangement, which was never actually implemented, was to have been?—I will refer to Mr. Pickles, if I may. I am not clear that there was an exact figure involved at that stage. (Mr. Pickles.) There was a suggestion that it might be 2 to 3 per cent.

5350. May I ask the Treasury this: Did they give their approval to an arrangement which contained no definite figure for a profit margin, but simply a rather vague understanding that the profit would be small?—(Mr. Blunt.) No; we did, in

6 June, 1946.]

Mr. O. S. FRANKS, C.B.E., and
Mr. E. L. PICKLES, C.B., O.B.E.

[Continued.]

fact, mention the figure to which Mr. Pickles has just referred. We said we thought the proper rate might be in the neighbourhood of 2 to 3 per cent., which we called the ordinary non-risk rate allowed on development contracts. That is the sort of figure we had in mind. We thought that might be the equivalent to, say, 3½ per cent. on the capital employed.

5351. The 2 per cent to 3 per cent. was on cost?—Yes.

5352. That arrangement was never implemented. There were some further negotiations with the Company, and then the terms of the agreement reached with the Company are set out here. Could either Mr. Franks or Mr. Pickles tell me why the arrangement approved by the Treasury was abandoned in favour of the arrangement here set out?—(Mr. Franks.) The particular circumstances of the history of the firm led to an overall settlement which results from a consideration of separate periods of time in the firm's history, but we do not feel that the overall settlement is really very different from what the Treasury originally had in mind. If I may start from the end first, while it is true that the broad result leaves the firm with a gross profit on the work they had done in this period of some 4½ per cent., it has to be remembered that the net retainable profit that the firm are left with is very much less than that; it is, in fact, of the order of 1.77 per cent. on the work done, which is something like £157,000 on £8½ millions worth of work done.

5353. When you speak of the net retainable profit, do you mean after taxation?—Before taxation.

5354. What accounts for the difference between the 4½ per cent. on cost stated here and the 1.77 per cent.?—There are two elements which count for more than the rest. One of them is income which the firm derived from various sources entirely outside these particular contracts, which amounted to something over £80,000, and the second is the expenditure which the firm had incurred on its private venture work in the first two years under discussion. That expenditure was over £100,000, and it had been on work which, at the time the Ministry of Aircraft Production had approved and encouraged.

5355. Exactly what do you mean by "private venture work"? Do you mean work for private clients, not on Government account?—It was work in the design and development of private aircraft not on Government account.

5356. Under the financial arrangement, do you think that the firm came out better or worse than it would have come out under the original arrangement which was abandoned?—We think that the final arrangement with the firm was not un-

reasonable and not, in the main, out of line with the suggested approach set out in the Treasury letter, to which you referred earlier.

5357. Mr. Blunt, were the Treasury satisfied with the upshot of the negotiations and the results from them?—(Mr. Blunt.) We only heard of this new arrangement when we saw the Comptroller and Auditor General's report. When we saw that, we were a bit surprised, because the final arrangement did not look at all like the one we had approved. We asked the Ministry to report it to us, and we have had an official report from them in which they do express their regret that they did not consult us on this change. They then proceed to explain why they did it in this way, the course the negotiations took, and they give us full information of the way they have done this and the reasons why they have done it like this. While it is clear, I think, that the firm has got somewhat more by way of profit than we anticipated they would have, I think the reasons given for the change are such as we could accept, and we are, in fact, proposing, subject to any observations the Committee have to make, to accept the arrangement. I do not know whether you were going to ask Mr. Franks further why this was changed? I am not sure whether he had really completed his statement. He spoke of the fact that the settlement must be looked at in three stages. In the first stage, the firm was really doing its own sub-contract work, and this work on which this accounting muddle subsequently took place had really not started. In the first years, 1940 and 1941, they were mainly engaged on their own fixed price sub-contract work. It was in the years 1942 and 1943 and later that they got into this muddle. What the Ministry have done, broadly, is to allow them to retain in those first two years, 1940 and 1941, the profits which they had made on their sub-contract prices. They allowed them to retain that; and, in the second period, in the period of muddle, if I may call it so, they have not given any profit at all. Therefore, in the first period, the Ministry, in a sense, has given more than we anticipated they would give, and, in the second period, they have given less. In the result, for the whole period from 1940 to 1943, the profit given to the firm under this arrangement was something like £150,000 more than it would have been under the Treasury arrangement, but, as I have said, we have looked at the reasons which prompted them to allow those profits in the earlier years to be retained by the firm in exchange, shall we say, for not getting any profit at all on the second period, and we think those were satisfactory—the reason being that it was represented to the Ministry very strongly that the Ministry really had no right to take away from the firm profits which had been

6 June, 1946.]

Mr. O. S. FRANKS, C.B.E., and
Mr. E. L. PICKLES, C.B., O.B.E.

[Continued.]

made in the ordinary course of business on fixed price work before any suggestion of muddle had come along. (The firm had earned those; they had earned them in their balance sheets, and they had a right to them, but, as I say, in exchange for being allowed to retain those, the Ministry allowed them no profit in the next period either on the work done directly for the Ministry or on the further fixed price sub-contract work. That profit was taken away in the second stage. On the whole, I think, having seen the Ministry's explanation and having discussed it with them, the final arrangement made, which allowed, as Mr. Franks has said, a net retainable profit of £154,000 on a total work getting on for £9 millions, is not an unreasonable settlement.

5358. Could you or Mr. Franks tell me what rate on capital employed results from the figure of $4\frac{1}{2}$ per cent. on cost mentioned in the last sentence?—(Mr. Franks.) I think it is that plus a half; it would be of the order of 7 per cent. (Mr. Blunt.) $7\frac{1}{2}$ -8 per cent. (Mr. Franks.) $7\frac{1}{2}$ per cent.

5359. Sir Gilbert, have you anything to say to the Committee on this?—(Sir Gilbert Upcott.) I think this explanation brings out that the essential point of difference is the discovery of the substantial profits made on the earlier sub-contracts, and that is only one more example of the fact which has been brought to the notice of the Committee several times already, particularly on the Navy sub-contracts, that in the earlier years of the war particularly, profits on sub-contracts were, to say the least of it, very substantial. That has been rather more controlled in the later years of the war, but that was undoubtedly the case in the earlier years of the war.

5360. You would agree with Mr. Blunt that it would be a high-handed action to try to deprive the firm retrospectively of those profits on fixed price sub-contracts?—It has been explained to the Committee on numerous occasions that any recovery on fixed price sub-contracts is voluntary.

Chairman.] Are there any questions on paragraph 9?

Sir Frank Sanderson.

5361. At the top of page v, the Comptroller and Auditor General states: "It was therefore proposed that the whole of the company's work should be placed on a cost basis from 1st January, 1940, until current contracts had been completed." Is that same basis being continued today?—(Mr. Franks.) Yes, I think that is so; it is so, up to the present time.

5362. Ultimately, I assume you hope to get on to a tender basis with this firm?—Yes.

5363. There is only one other point. In regard to the controller, am I right in assuming that the controller will be responsible for determining exactly what shall be

regarded as expenditure for arriving at the net profit retainable? Who is responsible for determining whether or not the directors should receive a fee or should receive a commission? Assuming they receive a commission which is a substantial one, would it be up to the controller to determine whether or not that expenditure should be allowed before arriving at the percentage profit which they retained?—That would not, in the ordinary way, come before the controller, who would be more concerned with the general financial policies of the firm. I think, in a case like that, the issues to which you have referred would have been dealt with and determined in discussion between the firm's accountants and the Ministry accountants. The views of the Ministry would have been taken into account in determining what could and could not be reckoned as expenditure in arriving at profits.

5364. From that, am I right in assuming that the Ministry have direct access to the firm's accountant, and that the Ministry is in a position to cross-examine the company's accountant in regard to any expenditure upon which he feels doubtful as to whether or not it should be permitted as an expenditure?—In a case like this, where we are trying to make an overall settlement, where things have gone wrong, certainly, as is usual, we have direct access to the firm's accountants, if there were things which we could not recognise in the form in which the firm and the accountants wished them recognised.

Lieut.-Colonel Alan Dower.

5365. Would that apply also to what the Comptroller and Auditor General just mentioned, cases of sub-contract? Would you have the same authority to inspect the books?—May I refer that question? I am not sure that I shall give the right answer. (Mr. Pickles.) According to our contract terms, the Ministry has the right to look at sub-contract costs for the purpose of seeing whether they were correct, but the Ministry has not the right to alter those sub-contract prices which have been fixed. In other words, we can investigate them to see if they were reasonable, but not to alter them.

Mr. Thurtle.

5366. Mr. Franks, you said that the authorised controller is concerned with the general financial policy of the company, but you also said that, when the authorised controller was appointed, he effected changes in the technicians; that is to say, he substituted efficient technicians for inefficient ones. Under what power did he do that?—(Mr. Franks.) I did not think I said that. If I gave that impression, it was a mistaken one. What I think I said was that, after the authorised controller had been put in, there were changes in the management, and then, in reply to the

6 June, 1946.]

Mr. O. S. FRANKS, C.B.E., and
Mr. E. L. PICKLES, C.B., O.B.E.

[Continued.]

Chairman's question, I said those changes were brought about at the instance of the Minister. I did not go on to say, as I might have done, that they were in fact made by the shareholders of the company, who appointed a new management to look after their affairs though it was at the prompting of the Minister.

5367. I think the phrase you used was: "We had to substitute efficient technicians for inefficient ones"?—That is so. The Ministry, which became dissatisfied in the course of 1942, not merely with the financial position of the firm but with the production position, had to take steps to try to get the production of the firm put on a more efficient basis, in the national interest.

5368. Do I gather the way in which you did that was to stimulate the discontent of the shareholders and get the shareholders to change the board?—If I may, I should like to assent to the second part of what you have just said, believing that the first part of what you said was not necessary and did not occur.

Chairman.

5369. Are there any further questions on paragraph 9? Paragraph 10 deals with a scheme for an annual rebate in respect of aluminium castings, I think it is, is it not?—Yes, and magnesium, I think.

5370. The scheme was designed to produce net prices yielding a reasonable rate of profit. Could you give us the rate of profit envisaged?—Yes. The rate of profit in the year under reference on the firm's capital turned out to be 16.23 per cent., and what was aimed at was 12½ per cent.

5371. On the second subparagraph of paragraph 10, could you give us the total amount paid by way of rebate for the year 1944?—The total amount was £7,614,507.

5372. That was the total amount of the rebate?—Yes.

5373. We had better take paragraph 11 with this paragraph. Paragraph 11 deals with similar arrangements in respect of another class of products. Perhaps we had better know what the classes of products are?—Yes. I think here reference is made to two other branches of the light alloys industry, casting and smelting, whereas the first branch is the fabrication of wrought products.

5374. Here again, there was a scheme for a rebate?—Yes.

5375. We are told by the Comptroller and Auditor General, at the top of page vi, that: "Investigation of the financial outturn in 1944 was made for only a few, including some of the larger, firms. While the results of these cases were on the whole satisfactory, the investigation was too restricted to enable reliable conclusions to be drawn as to the profits retained by the

firms as a whole." In the cases which were investigated, were the profits reasonable?—They were, of course, within a broad bracket, but, taken as a whole, they were not unreasonable. (Sir Gilbert Upcott.) The main point I am making on that paragraph is that the rebate was limited to sales in excess of an agreed minimum.

5376. That is to say, there were a number of smaller firms which did not come into the rebate scheme; is that right?—(Mr. Franks.) No. The point at the end of the paragraph, if I understand it rightly, is simply that the Ministry had not the accounting staff to go round and deal with all these firms.

5377. The point Sir Gilbert was raising is in the first two lines on page vi, that, in the case of this scheme, the rebate was "limited to sales in excess of an agreed annual minimum value"?—That is so.

5378. That means, in excess of an agreed minimum value from each firm, if there were a number of firms engaged?—Yes; from each firm.

5379. So that there were some firms—there may have been a large number of firms—whose sales did not attain the prescribed minimum, who did not come into the rebate scheme at all: is that right?—There might have been. Some firms, in fact, did not sell more than the minimum, the minimum being goods to the value of £30,000 in the year under reference.

5380. I think you told me that in the rather small number of cases where you did examine the financial results the profits were not, on the average, unreasonable?—Yes.

5381. Have you an average figure of profit on capital for the cases you did examine?—If you are dealing with paragraph 11—

5382. Yes, I am?— —we have not that average figure, because we were only able to look into some four firms. In the casting side of the thing, there are 43, and I have not got what the average of those four firms comes to, I am afraid. Taking them as they stand, the indication that they afford is that the general level of profits was not unreasonable.

5383. You cannot particularise on that to any greater extent, because, in order to form a conclusion that the general average of profits is not unreasonable, surely you must look at the return on capital or the profit on cost?—If I may take the four firms in question, I believe that in the year one of them, in fact, made a loss; one of them made 11.88 per cent.; another made 10.93 per cent., and the last 10.95 per cent.

Chairman.] Thank you very much. Are there any questions on paragraphs 10 and 11?

6 June, 1946.]

Mr. O. S. FRANKS, C.B.E., and
Mr. E. L. PICKLES, C.B., O.B.E.

[Continued.]

Mr. Hector Hughes.

5384. In paragraph 10, in the first line, reference is made to "arrangements for regulating the prices of certain fabricated products". Were those arrangements made by agreement with the firms concerned?—The arrangements were made by the Ministry after discussion with the firms concerned in 1941.

5385. The arrangements included an arrangement that 12½ per cent. was to be regarded as a reasonable profit, I think you said?—Yes.

Chairman.] That was the target, I think.

Mr. Hector Hughes.

5386. Yes. Where you found that the profit exceeded that, the firm (I want to understand the procedure) made a rebate of the difference; is that right?—In the case of the fabricating industry, I think that the position was that, in regard to any particular year—say, 1944, the year under reference—an estimate was made of the volume of production of the year, and the rebate was worked out in terms of what it was estimated would be produced, and what we were trying to leave the firms with, after the rebate had been paid, was some 12½ per cent. profit. In fact, as I informed the Chairman, they did rather better than that; they were rather more efficient than we expected them to be in that year. They improved on the previous year and actually made some 16 per cent.

Mr. Hector Hughes.] Where they made 16 per cent., did they make a rebate—

Chairman.] Mr. Franks explained that the 16.3 per cent. was after paying £7 millions in rebate.

Mr. Hector Hughes.] Thank you. I misunderstood that.

Sir Frank Sanderson.

5387. In regard to this percentage of profit to which you referred of 16 per cent., you intimated that you were aiming at 12½ per cent., and in fact it worked out at approximately 16 per cent. I take it that that, of course, is not a percentage upon the turnover, but is on the capital employed, and is per cent. per annum?—Yes; this is on the capital employed.

5388. Per cent. per annum?—Yes.

Chairman.

5389. We pass now to paragraph 12, which deals with the subject you wanted to take up a little earlier on, Sir Frank—the termination of contracts. We have been told, on a previous occasion, that the standard contract conditions of the principal purchasing Departments include a break clause giving them power to terminate contracts after a specified period of notice. Could we be told a few particulars about the ordinary break clause—what the period is and the terms?—Yes. The period

is normally three months for main contractors, with two months for sub-contracts.

5390. Does the ordinary break clause contain terms as to payment of losses, and so on?—It does not, of course, provide for compensation, but it does provide for the taking over at a reasonable price by the Ministry of surplus materials that have been worked upon but have not been embodied into final products taken up previous to the contract being cancelled.

5391. The Comptroller and Auditor-General, in his report, states: "When the contracts are so terminated, Departments are required to take over surplus materials"—that is the point you have just made—"and to indemnify the contractor against unavoidable loss by reason of the termination." Is that the phrase used in the break clause?—Yes; that is the phrase used.

5392. The question of what is or is not an unavoidable loss is settled by negotiation?—I think the firm, apart from these ordinary matters like surplus materials and the like, would put in a hardship claim. We have, in fact, dealt with some 13,000 cases so far, and there has been only one hardship claim. (Sir Gilbert Upcott.) I think "unavoidable loss" covers contractual commitments. (Mr. Franks.) Yes, I beg your pardon: if, for example, a firm had engaged a manager for a five-year period and only six months of it had run when the contract in question was cancelled.

5393. In the next sub-paragraph, the Comptroller and Auditor General tells us that the estimated value of the cancellations during the 16 months ended 31st December, 1945, totalled £490 millions. He goes on: "payments amounting to approximately £10,000,000 have been authorised in the remaining cases to meet claims for surplus materials taken over and for unavoidable loss." Can you give the Committee any sort of estimate of the payments which will fall to be made as regards cancellation?—It is not very easy. The cancellations have saved public funds nearly £500 millions. What you have to set against it is the money we have had to pay out in this way. The £10 millions was spent in the process of dealing with something like 9,500 cancelled contracts, but during the three months after the end of the calendar year we have dealt with another 3,300 settlements and have paid another £7 millions in that period.

5394. Another £7 millions over and above the £10 millions mentioned here?—Yes, so that we have settled some two-thirds of the contracts that have been cancelled, and have paid some £17 millions. On the other hand, the proportion of cases where payment has to be made in respect of surplus materials taken over may well go up in the 7,000 cases that remain; but it gives some idea of the order of magnitude involved.

6 June, 1946.]

Mr. O. S. FRANKS, C.B.E., and
Mr. E. L. PICKLES, C.B., O.B.E.

[Continued.]

Chairman.] I think we will take paragraph 13, which deals with dive-bombers in the United States, separately. Are there any questions on paragraph 12?

Mr. *Hector Hughes*.

5395. Does the break clause operate both ways, both in favour of the Crown and in favour of the contractor?—I am afraid it operates one way—that is, that the Government Department has the right to terminate the contract by operating the break clause, but not in reverse.

5396. Contracts to the value of £490 millions were cancelled, and settlements were agreed with contractors in nearly half of those cases. Can you tell us for what sum those settlements were arranged or agreed?—What would happen is, I suppose, that this sum of £490 millions represents substantially stores which the Department had ordered but which, because of the cancellation, were not merely not received by the Department, but never made. When you apply the break clause, what you do have to deal with is the material that has already been partly used up in the making of products, and there, as I was explaining to the Chairman, we do make payments to effect a reasonable settlement, and on some 13,000 settlements so far effected we have made payments totalling about £17 millions.

5397. In respect of the first one-half of the £490 millions?—No. It is something like two-thirds of the total number of cancelled contracts.

5398. May I put it like this: you say settlements have been agreed with contractors in nearly one-half of the cases—that is, one-half of £490 millions?—Yes; I beg your pardon, and, where I say two-thirds, what is happening is that I have been adding in a further three months beyond the period to which the Comptroller and Auditor General refers.

5399. It is stated that contracts were terminated by the Ministry under these arrangements, to the estimated value of £490 millions?—Yes.

5400. Settlements have been agreed with contractors in nearly one half of those cases?—Yes.

5401. That means approximately £245 millions worth?—No; I do not think that follows, if I may say so. "Half the cases" refers to the number of contracts cancelled, but I do not think it follows that big and small contracts will fall equally into the half that has been settled and the half that has not been settled.

5402. I see what you mean?—Probably, the more complicated and larger cases are in greater proportion, those still standing over to be settled and, therefore, very probably larger sums of money.

5403. That is what I wanted to get at—how much was still standing. I read this,

rightly or wrongly, as meaning that one half of the cases had been settled for a figure that we do not know and that approximately £10 millions have been paid in respect of the other half. Is that the meaning of the paragraph?—(Sir *Gilbert Upcott*.) You have left out the intervening words: "the majority being on the basis of payment for deliveries actually made"—that is, the majority of the settlements—"but payments amounting to approximately £10 millions have been authorised in the remaining cases." That is, of the half in number settled, the majority have been settled on the basis of payment for deliveries actually made.

5404. I read that to mean that the £10 millions has been paid in respect of the second half of the cases—the unsettled?—No. (Mr. *Franks*.) Might I put it in this way, that one half of the total number of cancelled contracts has not been settled at all; they remain to be dealt with. If you take the half that have been dealt with—

5405. And we do not know the cash value of those?—No—a large number of those cases have been settled without special payment being made for surplus materials taken over. They have been settled on the basis simply that what was produced in the way of final stores, finished work, in the three months period for which the contract runs on after the break clause has been applied—that has been taken over and paid for, and it was finished. In a certain number of other cases still within the first half, that has been done, but, in addition, a sum has been paid against the materials partially used but not yet made up into finished products.

5406. And that sum is?—£10 millions.

5407. What I want to find out is, what sum still remains to be paid in respect of these cancelled contracts?—That, I think, we cannot tell you with any certainty. All we can do is to report our experience in the first three months of this year in which we dealt with another rather over 3,000 settlements, and, in the course of making them, paid another £7 millions.

5408. The figure I am searching for, I take it, will come into next year's account?—I imagine so. yes.

Mr. *Wadsworth*.

5409. Making a guess, I suppose it would be between £20 and £25 millions?—I should not like to guess.

Mr. *Hector Hughes*

5410. I knew you would not like to guess. In the next subparagraph, it states: "I have no observations to make on the small number of these settlements." Why no observations on that?—(Sir *Gilbert Upcott*.) That is my observation. That is due to the fact that the

6 June, 1946.]

Mr. O. S. FRANKS, C.B.E., and
Mr. E. L. PICKLES, C.B., O.B.E.

[Continued.]

majority of the cancellations came late in the period, and, therefore, they have not yet come in an account which I am called upon to certify.

5411. May I take it you are not suggesting anything sinister there?—I am suggesting that, so far, I have not found anything wrong. I am not guessing about the future.

Sir Frank Sanderson.

5412. In regard to the cancellation of contracts and the break clause, and the compensation paid or to be paid, I have no quarrel with that at all, but what I am a little concerned about is this: Can you satisfy the Committee that notice to terminate the contracts was given in reasonable time? I think no Member of the Committee will not be aware of the fact that it is generally accepted—certainly reported—that many contracts continued to run after the cessation of hostilities, and that the munitions were made and sent direct from the factory to the break-down factory to revert again to scrap. What I would like to ask is this: Are you satisfied that the notice of the termination of war contracts was given in reasonable time for the break clause to operate?—(Mr. Franks.) That is a hard question to answer with a simple affirmative. I think that the Department did do all that it could to cancel outstanding contracts and apply the break clause, within the limits of the production programmes laid upon it by the major using Departments. I cannot say, of course, that, where you are dealing with these very large programmes, with their very massive break-down of different components and pieces that are required, in every single case action was taken on the earliest possible date on which it could be, but I think that, by and large, the Department did cancel contracts as rapidly as it could.

5413. I would submit that the question of volume of the contracts or the number of contracts really should not be in any way a stumbling block to putting into operation the break clause, and I think, quite frankly, there is reason to believe that many contracts were not closed as early as they should have been. Can we be informed whether contractors have now been advised of the cessation of the manufacture of war material, and that the break clauses are functioning?—No, because there is still a limited volume of production of warlike

stores continuing, a very limited quantity, but it continues, against the programmes laid upon us and approved by the using Departments—for example, the Air Ministry.

5414. Naturally, I fully appreciate that, war or no war, war material is made, but it is generally accepted that you have a large volume of contractors who normally would not be producing war material and who no longer today should be or are producing war material, and I only ask you if you can give an assurance to the Committee that all war contracts are being closed down, or have been closed down, as speedily as practicable?—I can give you an answer in terms of the intention and policy of the Department which I know to have been applied, but I should be going beyond my knowledge if I said that, in every particular case, all that you would have desired has necessarily happened. I hope it has, but I am not going to assure you, because it might not be true.

Chairman.

5415. In any event, I suppose your Department has to act on instructions in this matter from the Service Departments?—As regards the amount of production which we keep in being for the time being, yes.

Mr. Thurtle.

5416. One small point. As regards this obligation of the Department to take over surplus materials at a fair and reasonable price—I take it that that phrase is common form and there is never any serious argument as to what are fair and reasonable prices?—I think the phrase is common form, but there is quite often argument as to the application of that phrase to the particular questions at issue. But I am happy to say that those arguments have so far in all cases, I think, been resolved to the satisfaction of the parties.

5417. The Department has never thought it possible to put into the contract more precise terms than “fair and reasonable prices”?—I think, with a number of materials that have been worked upon, to a certain extent, but not more, it would be almost impossible to predict in advance what it was that you were going to have to take over as surplus and set a price against it. You have, so to speak, to job backwards and see what you are left with and then try to put a reasonable price on it.

Mr. A. C. BODDIS, C.M.G., called in and examined.

(The Committee decided that this evidence should not be reported.)

(Mr. Boddis withdrew.)

6 June, 1946.]

Mr. O. S. FRANKS, C.B.E.,
Mr. E. L. PICKLES, C.B., O.B.E., and Mr. H. P. BRUCKSHAW, O.B.E.

[Continued.]

Mr. H. P. BRUCKSHAW, O.B.E., called in and examined.

Chairman.

5445. Paragraph 15 is merely formal. The substance of paragraph 16 will arise on the Vote of Credit Appropriation Account, so we can pass that over. Paragraph 17 is formal. Paragraph 18 deals with what we know as Embodiment Loans. The only question I want to put on this paragraph is in regard to the deficiencies. A number of deficiencies have been revealed by stock-taking, some of which are noted in the Losses Statement on page 9. I take it probably more deficiencies will come to light as the result of a further examination of the Accounts?—(Mr. *Franks.*) Yes, because these losses are thrown up now as a result of the continuous stock-taking which has been taking place, and I think some more will be shown. It is, perhaps, worth saying that I think a very great many of them are paper losses. It has not been possible, for reasons of economy and staff, to balance it out against the surpluses which also exist on paper. I think the paper is worse than the facts, so to speak.

5446. Can you give us any indication in figures of the relationship between the deficiencies which have come to light and the total value of the stock loaned?—Might I ask Mr. Bruckshaw, the Accountant-General, if he can help on these figures at all?—(Mr. *Bruckshaw.*) We have very little knowledge of the total value of stock on loan at any one time. It runs into many millions of pounds, but we could not put a value on it.

5447. The deficiencies which have come to light so far represent a comparatively small amount, do they not?—They are comparatively small in amount, but I could not give you the percentage in relation to the total sum involved.

5448. Are there any questions? We turn to the Account which commences at page 7. I have only one question on the Account, and that is on page 9. In the Notes at the foot of the page, Note 3 on

page 9 says: "Subhead D includes a subscription of £250,000 as the share capital of a company formed to take over the assets of another company." This is Power Jets Limited, is it not?—Yes.

5449. "Receipts totalling £37,329 3s. 6d. arising from the liquidation of the original company have been transferred to the Exchequer." We were told, I think, some time ago by Sir Lindsay Scott that the total cost to the Ministry of taking over Power Jets Limited would be about £135,000. That does not seem quite to tally with these figures where there is a subscription of £250,000 share capital, against which there is £37,000 odd to be set from the liquidation of the old company?—The subscription was to the new company of this number of shares, and it was the new company that paid the sum Sir Lindsay Scott referred to, to the old company for the whole of their undertaking. The balance between the subscription and the amount they paid was retained by the new company as working capital.

Chairman.] Are there any questions on the Accounts?

Sir Frank Sanderson.

5450. On page 7, the amount of the grant was £68,000,110 and the expenditure was £901,000,000 odd, showing an excess expenditure compared with the grant of £833,000,000. I take it that the £68,000,000 is really a grant-in-aid; is that so?—(Mr. *Blunt.*) No. That £68 millions is related really to the receipts. You will see the receipts of about the same figure, and, in order to appropriate those receipts, we had to take a gross grant of £68 millions. It is a technical device. You cannot compare the £68 millions with the £900 millions.

Sir Frank Sanderson.] I quite follow. Thank you.

Chairman.] Are there any further questions on the Account? May I take it that the Account is approved? (*Agreed.*)

VOTE OF CREDIT APPROPRIATION ACCOUNT, 1944.

Ministry of Aircraft Production.

Chairman.

5451. Will Members turn to the Vote of Credit Appropriation Account 1944, paragraph 25 of the report of the Comptroller and Auditor General, which deals with the Raw Materials Branch of the Ministry of Aircraft Production. The Comptroller and Auditor General states: "In previous Reports I have referred to the arrangements under which the accounts for this service, which relates mainly to aluminium, are audited in the first instance by a selected firm of professional accountants," and he states: "I have not seen the professional auditor's final report for 1944 which has not yet been rendered to the Ministry"?—(Mr.

Franks.) I think the position is that we have had it and that the Comptroller and Auditor General has had a copy.

5452. It has now gone to the Comptroller and Auditor General?—Yes.

5453. Paragraph 26 deals with aluminium prices. From March 1st, 1945, the control selling price of aluminium was reduced from £110 per ton to £85 per ton. There has been some further reduction in price since that date?—Yes. It has been further reduced from £85 per ton to £67 per ton.

5454. Is that recently?—That was 10th April of the present year.

6 June, 1946.]

Mr. O. S. FRANKS, C.B.E.,
Mr. E. L. PICKLES, C.B., O.B.E., and Mr. H. P. BRUCKSHAW, O.B.E.

[Continued.]

5455. The Comptroller and Auditor General goes on to tell us: "The sale of aluminium at £85 per ton involves a loss to the Exchequer since it is less than the cost to the Ministry of stocks purchased under earlier arrangements and of that portion of current supplies purchased from British sources." *A priori*, I take it the loss is higher when the price is reduced to £67 per ton?—Yes.

5456. Can you tell us why it is considered good policy or good sense to make a heavy loss on aluminium?—I will try. The broad position is that this country and the world more generally came to an end of the war with very large stocks of aluminium accumulated. There is a surplus of the metal. What had to be determined, as far as the stocks which this country held were concerned, was when we would try to dispose of them. The price at which new aluminium could be obtained was falling once the war demand had begun to drop, and is reflected in the reduced prices at which we have been able to buy and ship new aluminium to this country. We therefore thought that we were more likely to get what we could for the accumulated stock of aluminium in this country by going in for an orderly liquidation early than by hanging on to it, with the probability of losing more later on. I think that, as it were, cutting our losses now rather than incurring probably still larger ones later on was the prime factor in our adopting this course with the approval of the Treasury.

5457. But this is something more than a mere loss on stocks acquired at very high prices during the war. You are selling the aluminium below the current producer's price?—We are not selling the stuff below the price of the material which we import, but we are selling it below the price at which it is produced in this country, and the position in regard to the home producers of aluminium is under active consideration at the present moment.

5458. Was the home production of aluminium started during the war or greatly increased during the war?—It existed here before the war.

5459. It was increased during the war?—There was some increase during the war, but the great increase of supplies of the metal came from Canada, from which we are drawing these supplies in peacetime as well as during the war.

5460. Was aluminium production protected or subsidised before the war here?—May I refer that question to Mr. Archer, who is in the room? Mr. Archer tells me there was a 10 per cent. duty on virgin aluminium.

5461. That was the only protection that the industry had?—I am told that was on the producers of virgin aluminium, 10 per cent. is all they had.

5462. Your present price is far below the cost of production in this country?—It is considerably below the present cost of production in this country, yes.

5463. If you are buying from the producers in this country at a price which gives them a profit, you are in fact subsidising them very heavily at the present time?—There is an element of subsidy in the present rates, and that is why the whole matter is under consideration.

Chairman.] Are there any questions on paragraphs 25 and 26?

Lieutenant-Colonel *Alan Dower*.

5464. I am not very happy about this. I presume we were forced to purchase this aluminium at these very high prices, were we?—During the war?

5465. Yes?—Yes; we had no option at all, and the price was not as high as the price of other aluminium which otherwise we should have had to purchase.

Lieutenant-Colonel *Alan Dower.*] It seems to me that really we are on what you might call a buyers' market. We are forced to sell at what price we can get for it. I cannot see what else can be done.

Chairman.] I have not criticised the arrangement at all. I only enquired as to what it was.

Lieutenant-Colonel *Alan Dower.*] It is not satisfactory.

Chairman.] I do not know.

Lieutenant-Colonel *Alan Dower.*] There is no alternative.

Chairman.

5466. The alternative might be much more unsatisfactory, as Mr. Franks pointed out. That is, to keep up very high prices and take a very great many years to get rid of your stocks, or not get rid of them at all?—Or even worse—go down a precipice suddenly in the end.

Sir *Frank Sanderson*.

5467. Are we receiving aluminium from Canada to-day?—Yes.

5468. We are still receiving it?—Yes.

5469. Is it required to-day?—Yes. We require to use and fabricate in this country considerably more than can be produced here, and the best source of supply and the most economical for us is Canada.

Mr. *Thurtle.*] Would it be in order, Mr. Chairman, arising out of this question of the disposal of aluminium stocks, if I were to ask whether it is the general policy of the Department to dispose of all its surplus metals in this way?

Chairman.] You will be in order in asking it. I do not know whether you will get an answer,

6 June, 1946.]

Mr. O. S. FRANKS, C.B.E., [Continued.
Mr. E. L. PICKLES, C.B., O.B.E., and Mr. H. P. BRUCKSHAW, O.B.E.Mr. *Thurtle*.

5470. I gather you are selling your aluminium against a falling market, as it were, because you think you can get better prices now than you may get later on?—Yes.

Mr. *Thurtle*.] What about your stocks of other metals, like copper, for instance?

Chairman.

5471. This is a question for Mr. Franks in his capacity as Accounting Officer to the Ministry of Supply?—It would be, yes.

5472. In which capacity he will be before us in about a fortnight's time. I do not suppose the Ministry of Aircraft Production have stocks of metals other than aluminium, have they?—I think they have small stocks of magnesium, but, broadly speaking, the other non-ferrous metals are with the Ministry of Supply—copper, tin, zinc and lead.

Mr. *Thurtle*.] My question then is deferred.

Chairman.

5473. Paragraph 27 deals with the settlement with, I think it is called, the (*name mentioned*)?—This is the Canadian company in question.

5474. The Comptroller and Auditor General tells us that in October, 1944, "the Ministry cancelled instructions given to a Canadian company earlier in the year for aluminium required for delivery in 1945." Why did the Ministry cancel the instructions?—Because at that time a different general direction was given to Departments about the working assumptions on the probable duration of the war. In the light of that general direction, we no longer required anything like the same quantity of aluminium as we should have done if we had had to assume that the war was going on longer at full cost. As we were entitled to assume we should not want the full quantity of aluminium, we did in this case what I was asked about just now—we cancelled the contract as soon as we could and avoided taking an extra quantity of aluminium which we did not want.

5475. I take it there was no break clause in this contract or, if there was, it provided for compensation?—I am afraid I do not know exactly the character of the contract. I do not think it did provide for compensation in the ordinary sense. What we did do was to make a payment in relation to supplies which the company had had to purchase in order to carry out this contract, those supplies becoming surplus because the contract was cancelled. As the record says, the amount happened to coincide with the loan outstanding, and the two

were played off against each other. (Sir *Gilbert Upcott*.) I think I am right in saying that the letter of instructions, which is what the company had originally, provided for re-imbusement of costs properly incurred in the event of the termination of the arrangements. (Mr. *Franks*.) Yes.

5476. At any rate, settlement was effected by the Ministry foregoing the right to be repaid this five million dollar loan?—In effect, that is what happened.

5477. In paragraph 28, the Comptroller and Auditor General tells us there were "other loans amounting to £12,500,000 (55,600,000 dollars) made to the company in connection with the extension of their manufacturing capacity". He goes on to say: "By 31st March, 1945, the greater part of the recoverable advances had been repaid, and the total of loans and advances outstanding on that date amounted to £13,727,238"?—(Sir *Gilbert Upcott*.) You distinguish between the recoverable advances and the other loans. The other loans are capital loans, and the recoverable advances are advance payments. What has been recovered is the advance payments, but not the other loans.

5478. Yes. Are there good prospects of recovering this outstanding amount of £13 millions odd?—(Mr. *Franks*.) Yes. According to an unaudited report, which we have had recently from Canada, the amount now outstanding has been reduced from £13,700,000 to £12,630,000, which means that very little beyond the loans themselves of £12,500,000 is now outstanding, and we believe that the advances will all have been repaid in fact by the middle of the present year, so that we shall be left with the loans only.

5479. As regards the loans, they will become repayable eventually, or are being repaid, I take it, over a number of years?—They are, I think, 20-year loans, and they fall to be repaid after that period. (Sir *Gilbert Upcott*.) Subject to a contingency, and that is if the company maintains its output. (Mr. *Franks*.) That is so. The arrangements are actually fairly complicated, but, very broadly, the interest and the capital will be paid in each of the 20 years, provided that in those years a certain level of output is maintained by the company. (That level of output is assured for the coming two years, but it depends on the general level of our demand and world demand what the general level of output will be after that.)

Chairman.] Are there any questions on paragraphs 27 and 28? We pass to the Account, which is at page 14. I have no questions on the Account. Have any Members of the Committee any questions on the Account? Thank you, Mr. Franks.

(The Witnesses withdrew.)

(Adjourned till Tuesday, 18th June, at 2.30 p.m.)

TUESDAY, 18TH JUNE, 1946.

Members present:

MR. PEAKE in the Chair.

Mr. Benson.

Mr. Thurtle.

Mr. Hector Hughes.

Five Members not being present, the Chairman adjourned the Committee till Thursday at half-past Two o'clock.

THURSDAY, 20TH JUNE, 1946.

Members present:

MR. PEAKE in the Chair.

Mr. Benson.

Mr. Wadsworth.

Mr. Thurtle.

Five Members not being present, the Chairman adjourned the Committee till Tuesday next at half-past Two o'clock.

TUESDAY, 25TH JUNE, 1946.

Members present:

MR. PEAKE in the Chair.

Mr. Benson.

Mr. Lever.

Lieut.-Colonel Alan Dower.

Sir John Mellor.

Mr. Hamilton.

Sir Frank Sanderson.

Mr. Holmes.

Mr. Thurtle.

MR. F. N. HARBY, C.B.E., MR. D. F. C. BLUNT and MR. C. E. I. JONES called in and examined.

TREASURY MINUTE ON PARAGRAPHS 4 TO 6 OF THE FIRST REPORT OF THE COMMITTEE OF PUBLIC ACCOUNTS, 1945-1946.

SIR OLIVER FRANKS, K.C.B., C.B.E., and MR. L. B. HUTCHINSON called in and examined.

Chairman.

5480. Will Members turn to the Treasury Minute on paragraphs 4 to 6 of the First Report of the Committee of Public Accounts, 1945-56? Paragraphs 4 to 6 of the Committee's First Report refer to the control of traders' margins on the disposal of surplus stores. Sir Oliver, would you tell us, first of all, have you furnished the Treasury, in accordance with their request in the second paragraph of their Minute, "with the actual results of the revised Order fixing the price of cotton cloths"?

—(Sir *Oliver Franks.*) No. The position there is that the revised Order came into operation in June of last year, and we are not in a position to know what the results of the working of the Order are until it has been possible to examine the returns of the trade. Those returns are not yet available, and we shall not, therefore, be in a position to inform the Treasury until towards the end of this year.

5481. But you will keep the point in mind?—Certainly.

25 June, 1946.]

Sir OLIVER FRANKS, K.C.B., C.B.E., and
Mr. L. B. HUTCHINSON.

[Continued.]

5482. In the third paragraph of their Minute the Treasury state: "My Lords are aware that since Their Minute of 15th February, 1945, on the Reports of the Committee of Public Accounts for 1944, the need to expedite disposals in order to release storage space is likely to result in an increasing proportion of disposals being made by auction or tender, with the result that the field for the review of the various margins for disposals at negotiated prices may be somewhat smaller than was originally contemplated." That is proving to be so?—Yes, it is proving to be so, and very much so. If one takes the total field of disposals, apart from special schemes in the case of motor vehicles and certain textile stores, rather less than one per cent. of the total volume is being disposed of in that way.

5483. At negotiated prices?—Yes, with margins to traders. All the rest is going either by competitive tender or by auction. The swing-over has been very much accelerated in the past six months.

5484. Leaving out of account the motor vehicles and the cotton textiles—?—Those would increase the proportion, but we could not give a figure to show exactly what it would come to, but in total it is very small.

5485. Mr. Blunt, may I ask the Treasury whether the Treasury Disposals Committee still exists?—(Mr. Blunt.) No, it does not.

5486. And if not, why not?—It was set up with the Treasury in the Chair because at that time it was thought that financial questions would be predominant, and it was thought convenient for the Treasury to be in the Chair. But after a good deal of experience, when the first few schemes had been looked at, the financial questions began to subside, and it became more and more a matter of administration. Concurrently, the need to expedite disposals in order to free storage became the predominant consideration, and, as it was the Board of Trade who are responsible both for the general policy of disposals and also for storage in particular it was thought that it ought now to be under the Board of Trade. There is now an official Disposals Committee under General Lindsell, who is also the Chairman of the official Storage Committee; and the two things link up in that way. That was the reason for the change.

5487. The Board of Trade always have been in charge of policy?—Yes, of policy. Of course, they were strongly represented on the Treasury Disposals Committee and spoke on policy questions then.

5488. What happens in regard to disposals by Government Departments other than the Board of Trade—the Ministry of Works, for example?—The Board of Trade, I think, is generally responsible for disposals policy as a whole; they are not responsible for the application of the policy in particular.

5489. The actual disposals are carried out by the individual Departments?—Yes, certainly.

5490. But they are guided on policy by the Board of Trade?—The Board of Trade, shall we say, are responsible for the White Paper policy.

Chairman.] Are there any questions on the Treasury Minute on paragraphs 4 to 6 of our First Report of 1945-46?

Mr. Benson.

5491. Can you say whether there is any great discrepancy between the prices you got from the disposal by auction or tender and the prices when disposed of at negotiated prices, with traders' margins?—(Sir Oliver Franks.) I am afraid I cannot in general. If I may, I will ask Mr. Hutchinson whether he can give any greater detail on that. My impression is that you cannot readily make comparisons, because the fields in which the different methods are adopted are different, and the types of material or thing dealt with are themselves so different one from another.

5492. Could you give any impression as to which you think is the more satisfactory, from a purely financial point of view? I do not want to tie you down to facts. If you cannot give facts, perhaps you could give impressions?—(Mr. Hutchinson.) It must depend so much on circumstances. I am sorry to have to answer in that way. You may have a case in which it is a very economical proposition to put your stores back through the trade—say, through wholesalers, to put them into the right level of the distributive machine. You may have another case in which there is not that same need. I do not think you could really say that one method gives you a better return than another. If you had in mind that you have a sellers' market and sale by tender might give the Exchequer a better return because of that sellers' market, well then, the answer is, I think, that there is an obligation on the Department to protect the consumer, the ultimate buyer, from paying more than a reasonable price for his goods.

5493. You fix the retail price when you dispose of them?—When it is necessary.

Chairman.] Are there any further questions on the Treasury Minute on paragraphs 4 to 6 of the Committee's First Report of 1945-46?

(*Mr. Hutchinson withdrew.*)

25 June, 1946.]

Sir OLIVER FRANKS, K.C.B., C.B.E.

[Continued.]

TREASURY MINUTE ON PARAGRAPH 10 OF THE FIRST REPORT OF THE COMMITTEE OF PUBLIC ACCOUNTS, 1945-1946.

Chairman.] Will Members turn to the Treasury Minute on paragraph 10 of the First Report of the Committee of Public Accounts, 1945-46? I do not think it calls for any comment or inquiry by the Committee. It deals with a very technical matter of accounting, and we will leave that, unless there are any questions on it.

CIVIL APPROPRIATION ACCOUNTS (WAR SERVICES), 1944.

CLASS X.

VOTE 12.

MINISTRY OF SUPPLY.

Mr. E. L. PICKLES, C.B., O.B.E., called in and examined.

Chairman.

5494. Will Members turn to the Civil Appropriation Accounts (War Services) 1944, page xii, paragraph 31 of the Report of the Comptroller and Auditor General. Paragraphs 31 and 32 deal with arrangements for the production and distribution of penicillin. I have only two questions on that matter. In paragraph 32 we are told that the Ministry pay for the whole of the production of penicillin in this country. Could you tell us on what terms? Is it a negotiated contract?—(Sir *Oliver Franks.*) The position until recently, you mean, when we were taking over all penicillin manufactured and distributing it as a free issue, or do you mean at the present moment?

5495. The Comptroller and Auditor General states in paragraph 32: "The Ministry pay for the whole of the United Kingdom production of penicillin, including that from plant owned by the manufacturers, and at one time it was necessary to supplement this by lend-lease supplies from America to meet the needs of the Forces," and then we are told a little lower down: "The Treasury have sanctioned the continuance of these free issues until 31 May, 1946, on the understanding that arrangements would be initiated to put a scheme for commercial distribution through normal trade channels into effect from 1 June, 1946."—Yes.

5496. I wanted to know what were the arrangements for settling the price until this scheme for commercial distribution was operated?—The previous arrangements really were that we took over all the penicillin. The costs varied enormously from the early stages, when probably the cost was of the order of £10 per mega unit, to later on, when probably it came down to £2 or £3 per mega unit. As from the beginning of this month the position has changed, because we are taking over the production of the firms at a price which has to be negotiated with them, and then disposing of it through normal channels, so that the public may have it at a fixed price.

5497. Of course, a great deal of the penicillin was distributed free up till the 1st June last?—All of it, either for the Armed Forces or through approved channels to hospitals for medical use.

5498. You told us that the manufacturers' cost varied very much?—Yes.

5499. I wondered on what basis the manufacturers were remunerated?—Some were operating on an agency basis for us.

5500. That is to say, they were paid some sort of commission upon their production?—I think they were paid by fee. Might I ask Mr. Pickles whether what I have said is correct on that point? The question, Mr. Pickles, is: Before the present distribution scheme came into operation on the 1st June there were some half-dozen manufacturers of penicillin; we took the product and distributed it to certain sources as a free issue, but what were our arrangements with the manufacturers? (Mr. *Pickles.*) We paid them their costs.

5501. Plus something for profit?—Yes.

5502. That is continuing, I take it, under the new scheme, is it?—The factories are changing over now and we shall be buying from the trade where it is necessary.

5503. When the Comptroller and Auditor General speaks of a "scheme for commercial distribution through normal trade channels," does that mean that the product will pass direct from the manufacturers?—To the trade—to the distributors and to the retailers.

5504. Will they be free to fix their own prices between themselves or are you controlling the price?—(Sir *Oliver Franks.*) We are controlling the price.

5505. You will continue to control the price?—Yes.

5506. On some arrangement that gives the manufacturers only a fair and reasonable profit?—Yes. We are fixing the retail price at which penicillin will reach the consumers, and we shall allow, within that, normal and reasonable distributive

25 June, 1946.]

Sir OLIVER FRANKS, K.C.B., C.B.E., and
Mr. E. L. PICKLES, C.B., O.B.E.

[Continued.]

margins, and behind that again a fair cost plus a margin of profit to the actual manufacturer.

Chairman. Are there any questions on paragraphs 31 and 32?

Mr. Benson.

5507. Is there any difference in cost between the surface and the deep culture?—There is a very great deal of difference between the two methods of manufacture. The surface or bottle culture method is relatively expensive and obsolescent, whereas the deep culture method is relatively inexpensive and the right thing to do at the present time.

5508. What is the relative cost of English and American penicillin?—On the basis of the new scheme I understand that the price at which penicillin will be distributed to the public in this country is some 40 per cent. or 50 per cent. less than the price prevailing in America.

Mr. Holmes.

5509. Is it still coming from America?—No.

5510. It ended with lend-lease?—The position was that until fairly recently the two deep culture plants in this country were not in operation, and we were very short, and we had to obtain additional penicillin for urgent priority needs. Since the two deep culture plants came into operation—they began about six months ago—the home production of penicillin has gone up enormously, so that we are in a position to supply our own needs and possibly also to export.

Lieut.-Colonel Hamilton.

5511. I want to clear my mind on one matter. Is the only part that the Government takes in this now the control of price, just as the prices of other commodities are controlled? Does it otherwise leave it entirely to the free play of the enterprises concerned, to manufacture, sell, distribute, and so on? Hitherto, the Treasury has played a large part in it. Now, is it leaving the whole thing alone, apart from restriction of price?—I think the impression was given in evidence just now that penicillin passed direct from the manufacturer to the main distributors, and then through the distributive chain. I believe that not to have been quite correct. The present position I think is (Mr. Pickles will confirm me) that the Ministry continues to purchase penicillin from the makers, and then makes it available to the distributors. The Ministry therefore, at present and for the time being comes into ownership of penicillin before disposing of it, so that it is not the case that there is in all sense a free market, apart from the control of the price. (Mr. *Blunt.*) I think it is true to say that some of it is under Government manufacture itself, through its own factories. That I imagine will still persist, (Sir *Oliver*

Franks.) That is still the case. Of the two deep culture plants which are the big producers, one is a Government factory operated by an agent on behalf of the Government, whereas the other is not a Government factory, although there is a Government interest in it.

Mr. Thurtle.

5512. You spoke of the wide differences in the cost of penicillin before the present arrangement came into operation. Were those wide differences due to different methods or to different degrees of efficiency on the part of the firms?—There were, no doubt, some differences of degree as between individual firms, but the big differences in cost of manufacture were due to differences of method. The surface or bottle culture method is a very great deal more expensive than the deep culture method of production.

5513. In regard to the two deep culture plants which you have at the present time, one which is Government owned and the other which is not, are there any differences in the cost of production as between these two plants?—I am afraid I do not know the exact answer to that. I think it would be difficult to give a definitive answer at present, because both of them are, in a way, still running in. One of them began to produce, I think, last December, the other some two or three months later, and they are both, therefore, still in the initial stages of getting used to full production.

5514. There is one other point. I gather that you paid these producers a certain percentage on their costs. Could we know what that percentage was?—Might I refer that question to Mr. Pickles? (Mr. *Pickles.*) The cost to the Department was the cost to the firm plus a reasonable profit which was based on the capital employed by the company.

5515. It is just what the figure of that reasonable profit was that I wanted to get at—what percentage it was?—It would be of the order of 10 per cent. on the capital employed by the company.

Chairman.

5516. Are there any further questions on paragraphs 31 and 32? We pass to paragraphs 33, 34 and 35, which deal with the arrangements with the British Electrical and Allied Manufacturers Association. This is a trade association which exercises a good deal of control over the price of various electrical products, I gather?—(Sir *Oliver Franks.*) Yes.

5517. What are the types of products, in the main?—There are a good many different types of product, but they fall within the general fields of motors, generators, switch gear, and the like.

5518. The Comptroller and Auditor General tells us: "In July, 1943, after sample investigations of costs of produc-

25 June, 1946.]

Sir OLIVER FRANKS, K.C.B., C.B.E., and
Mr. E. L. PICKLES, C.B., O.B.E.

[Continued.]

tion in 1942 by eight firms for a total of 26 types of these machines, the Ministry concluded an agreement with the Association covering the supply of certain standard types of motors and generators. . . . Under this agreement prices of those types are to be the 1939 list prices plus the percentages estimated by the Association to be equivalent to the increases in costs at various dates, less discounts varying according to the type of products and date of supply." If I understand it aright, the agreement was to pay the manufacturers their 1939 price plus additions which the manufacturers estimated they had incurred in costs. Is that right?—Yes, less certain discounts.

5519. Can you tell us a little more about the discounts? What was the idea underlying the discount? Did it vary on different types of goods? How was it arrived at?—It was arrived at by negotiation, the point being that the Ministry was taking in all quite considerable quantities of these different motors and generators from 100 to 250 horse power, though very often by a series of small orders placed at different times rather than by large orders. It was desired to get a price at which these several types of motors and generators could be supplied, and at the same time to assure ourselves that the profit margin within that price was fair and reasonable. The discount was designed to reduce the profit margin on any orders that the Ministry might place within this range of motors and generators to what was fair and reasonable—that is to say, a profit of the normal order on fixed price contracts.

5520. Was the discount the type of discount which a large purchaser would normally expect to get on placing a large order?—It was a discount arrived at after this sample investigation of some 26 types of product from eight firms by our cost investigators, in order that we might have a basis for agreeing that these prices were, in our judgment, fair and reasonable and proper ones to take.

5521. The purpose of the discount was to reduce the manufacturer's profit to a figure which you thought was fair and reasonable?—Yes.

5522. It was not just the ordinary sort of discount which a big purchaser would normally expect to get in placing a big order?—No, it was a fixed price, including a fair and reasonable margin of profit.

5523. Over the page the Comptroller and Auditor General tells us that "on the basis of these costs the prices payable under the agreement during 1942 would yield profits on cost at widely different rates for some two-thirds of the types costed and losses varying within a more limited range for the remainder." I am not quite clear whether that is a statement of fact, that they did in fact yield profits on cost at widely different rates, or whether it is simply an

estimate of what these figures would be.—I think the position there is that the different firms concerned specialise and have large quantities of production only in certain of the lines between 100 horse power and 250 horse power, though most of them actually can and do make all the varieties. Therefore, the actual cost of manufacture of a particular item may be much greater at one firm or smaller at another; and that is why that statement is made there. The basis of the statement is the fact revealed in the sample investigation which the Ministry carried out, and on the basis of that investigation those would be the results which happened during the period at which we bought at the negotiated prices.

5524. What would be the range of the profits referred to here? I suppose they would vary from nothing (it says "at widely different rates") up to something very substantial?—Yes. I think as far as profits are concerned the range might be from 1 per cent. to 81 per cent. on particular items within the whole range at a particular firm.

5525. Those percentages which you have just given me are on cost?—Yes.

5526. With regard to the range of the losses, can you give me the corresponding figure there?—Yes. I understand the losses would range from 3.4 per cent. to some 19.8 per cent.

5527. In the next paragraph the Comptroller and Auditor General says: "In view of the elements of estimate in prices fixed on this basis I asked the Ministry whether they had ascertained the results of any of those prices. They informed me in April, 1945, that, because of the costings systems operated by the member firms, some measure of estimating is necessary when costing, but they considered present prices to be fair and reasonable as they had been based on test costings at the beginning of the agreement." That is what you have been telling me just now?—Yes, as regards the basis on which the prices were initially fixed.

5528. The Comptroller and Auditor General adds: "No information as to the results of any of the prices was furnished"—but you have had some results ascertained since that was written, have you not?—No.

5529. So that it is all guesswork as to whether the profits of the individual firm are fair and reasonable?—I think when we look back on this now there is room for opinion about whether it would have been wise at a later stage to check back and test what the costs, and, therefore, the profits, had actually been, but I think one has also to remember the state of affairs in the Department at that time when these negotiations took place. At that time we were placing some hundred thousand contracts a year. The majority of them were

25 June, 1946.]

Sir OLIVER FRANKS, K.C.B., C.B.E., and
Mr. E. L. PICKLES, C.B., O.B.E.

[Continued.]

costed contracts, and the arrears of costed contracts uncosted were piling up by many thousands a year. I think the Department felt that this offered a way of obtaining what in effect was a fixed-price contract, and it believed that the investigations into the 26 items of the eight firms, supplemented by the actual negotiations by officers of the Department with the Association in the light of that investigation, did fix prices which were in fact, as fixed, fair and reasonable. The agreement carried us through the years 1942 and 1943, so far as the placing of orders was concerned, and therefore carried us into most of the 1944 production, because that would be based on orders placed towards the end of 1943. If, therefore, there had been an investigation into costs, it would have been with a view to seeing whether the prices were right for any orders that might be placed subsequently to that time. At that time (that is to say, as 1944 wore on) the volume of production which was required in these items by the Ministry had fallen off and was continuing to fall off, and it was decided that on balance the rather scarce array of cost accountants had better be employed on other work which was more pressing.

5530. This collective arrangement was entered into really in order to save work during a period of great pressure?—Yes.

Chairman.] Are there any questions on paragraphs 33, 34 and 35?

Mr. Thurtle.

5531. I wanted to get this clear: I take it that your final general assumption that this arrangement had resulted in reasonably fair prices never was anything more than assumption? It was never actually tested by any actual investigation?—In the sense that there was no subsequent investigation which tested the basis on which the prices had been fixed and negotiated, that is so; but we should not feel that the actual prices which were negotiated were, so to say, mere matters of assumption. The opinion of the Department was that in the light of the test investigation, even though the costs investigated necessarily included certain elements of estimate, they were safe enough in thinking that the profit margin would in fact turn out to be reasonable. That was the reasonable basis, though not demonstrative at all; it could not be in the nature of the case.

Chairman.

5532. Are there any further questions on paragraphs 33, 34 or 35? We pass to paragraph 36, which deals with the purchase of proprietary spare parts for motor vehicles through motor vehicle manufacturers. In the middle of the second sub-paragraph the Comptroller and Auditor General says that the Ministry "referred to arrangements for settling prices for all spares supplied by one

vehicle manufacturer under which his extra profit on the proprietary spares would eventually be reflected in reduced prices for other spares supplied to the Ministry." I think we might know the name of that manufacturer with whom that arrangement was made?—Yes. The manufacturer to whom reference is made there is [*name given*].

5533. This arrangement is unique, is it—or is it general?—Here we owe an apology to the Comptroller and Auditor General. The reply which was sent by the Department to a query of his might naturally lead to the assumption that an arrangement of this type obtained only with one motor vehicle manufacturer. That is not the case. Arrangements of this type exist with all the main motor vehicle manufacturers as regards spare parts. Therefore what is referred to in the second sentence of the second sub-paragraph holds generally as regards the motor vehicle manufacturers.

5534. That is very satisfactory, because, if there had not been similar arrangements last year, then it would appear that the high profits referred to in the first part of this paragraph would be quite unjustifiable?—There have been some difficulties. (*Mr. Harby.*) While not disputing Sir Oliver's reply, I should like to reserve our right to investigate this statement, because the firm mentioned is the only case where we have seen any periodical revisions of prices for spare parts. In the case of none of the other vehicle manufacturers have we seen any periodical revisions for spare parts. So we would like to look into that.

5535. You want to reserve your position in this matter, do you, Mr. Harby?—Yes.

Chairman.] Are there any questions on paragraph 36?

Mr. Benson.

5536. Did you investigate why the costs were so much higher in the case of spares than in the case of direct supplies? The cost is 2½ times as high. It is rather a lot.—(*Sir Oliver Franks.*) I think the reason was not in fact investigated. Those were the normal trade prices. The reason why they were not subjected to special investigation was that they were taken up into this general agreement for spare parts with the particular motor manufacturers, and, therefore, in so far as the margins might be excessive, they were taken back by the Ministry as a part of that pool. (*Mr. Harby.*) It is the same thing we have had since the beginning of the war. The manufacturers claim that there is a lot of obsolescence, that there is the cost of storage, and the capital used while they are holding these parts, for which they have to get the extra money.

Chairman.] Are there any questions on paragraph 36? We pass to paragraph 37. I have no questions on that paragraph. Has

25 June, 1946.]

Sir OLIVER FRANKS, K.C.B., C.B.E., and
Mr. E. L. PICKLES, C.B., O.B.E.

[Continued.]

any Member of the Committee any questions on that paragraph? We pass to paragraph 38. We have a long way to go to-day. I

have no questions on paragraph 38. Has any Member of the Committee any questions on that paragraph?

(*Mr. Pickles withdrew.*)

Mr. H. C. GORDON, C.B., called in and examined.

Chairman.

5537. We pass to paragraph 39: "Sale of Capital Assets." In paragraph 39 the Comptroller and Auditor General states that the receipts from the sale of capital assets include the proceeds of sale of shares in one of the companies which the Ministry acquired during the war under a Defence Regulation. Could you tell me how many companies the Ministry acquired the shares of?—(*Sir Oliver Franks.*) Nine.

5538. The Comptroller and Auditor General states in the second sub-paragraph: "In November, 1944, the Ministry announced that with the changing programme of war production the necessity to retain control of some of these companies had passed, and it had therefore been decided to make the shares available for purchase by approved buyers. It was stated that the criteria to be used in selecting the buyer would be those adopted by the Board of Trade in selecting occupants for Government factories." This marks a departure from what has been hitherto the practice, which is to put Government property or shares owned by the Government up to public auction by tender?—Yes. This was a part of a general policy by Government. The criteria to be used in selecting a buyer were laid down by the Board of Trade for industry generally, and we, of course, adopted and applied them in those cases where we had to deal with the matter.

5539. They were the same criteria, I take it, here as those which applied in the case of the disposal of Government surplus stores and factories?—Not quite. As far as the shares went, the criteria were in fact the establishment of a balanced distribution of industry, the re-establishment and expansion of the export trade, the maintenance of war potential, the requirements of town and country planning, the ability of buyers to make efficient use of the factory with a minimum of reconstruction, and a due regard to the claim in equity of firms whose factories had been in fact destroyed or requisitioned. Those were the factors to take into account.

5540. In the last sub-paragraph of paragraph 39, at the foot of the page, the Comptroller and Auditor General says: "Following this announcement the shares of this particular company were sold in February, 1945, to the highest bidder." I imagine the highest bidder was qualified and complied with the criteria which you have just been describing to us?—Yes, that is the case.

5541. The Comptroller and Auditor General states that he is "unable to say how the sale price of £90,500 compares with the cost to the Ministry." Can you tell us what was the price at which you bought the shares?—I am afraid not, because the results of the arbitration are not yet known.

5542. You have already sold the shares at a price of £90,000, but you do not yet know what you ought to pay for them. Is that it?—That is so.

5543. Was the company profitable during the Ministry's holding of the shares?—(*Mr. Gordon.*) Yes. (*Sir Oliver Franks.*) It was.

5544. Did it pay any dividends?—(*Mr. Gordon.*) No, it held dividends. The back money is still there.

5545. The dividends were retained in the business?—Yes.

5545A. What is this company? We do not want its name, but what does it do?—It makes machine tools.

Chairman.] Are there any questions on paragraph 39?

Mr. Thurtle.

5546. I want to raise this one point. Sir Oliver said there were about ten different criteria by which the relative claims of firms to factories were determined. Do I understand that in one case, after applying all these complicated factors, you arrived at a decision that a number of firms had dead heated, so to speak, and therefore you determined who should get the factory by means of who would bid the highest price for it?—(*Sir Oliver Franks.*) No. The position is that it so happened that the old criteria and the new set of criteria coincided, in that one firm satisfied both. The firm which we thought best fitted on the present criteria of Government policy to acquire the shares happened to bid the highest sum for them.

5547. That was just a coincidence?—Yes.

5548. If it had bid even lower it would probably have got the factory, would it?—That would obviously depend on the degree of disparity in the sum bid, but the fact that these different factors are taken into account does mean that a factory is not necessarily allocated to the highest bidder.

Mr. Thurtle.] If I may say so, Mr. Chairman, there must have been almost the wisdom of Solomon exercised in determining the relative values of these people with all these different criteria! I leave it at that.

Chairman.

5549. I think Mr. Thurtle is on the point that a buyer may qualify for a number of the criteria, but fail in others, and do you

25 June, 1946.]

Sir OLIVER FRANKS, K.C.B., C.B.E., and
Mr. H. C. GORDON, C.B.

[Continued.]

attribute the same amount of weight to each of the criteria mentioned?—I think we have to say on that that it would be artificial, and, in the end unreal, to try to give quantitative values to each of the several criteria, and then try to solve your problem by arithmetic. You would really be shirking the decision which Government policy requires. You have to try to make a decision on what admittedly are imponderables, where you cannot exactly calculate the answer, and it is, therefore, in the end a matter of the best judgment which the Department can bring to bear in the light of the criteria which it is required to observe.

Mr. Thurtle.

5550. You do not offer it really as a scientific solution of all the various factors in the problem?—If a scientific solution is necessarily quantitatively expressed, this is not scientific.

Mr. Benson.

5551. Your receipts for the sale of capital assets were not entirely for shares. They were for other things as well as for shares, were they?—Yes.

5552. Have you any idea how you came out? You purchased the shares and took over the companies at a valuation and sold the assets. Have you any idea whether you came out on the right side?—There are four cases, including this one, in which we sold, and the general results have been satisfactory.

Chairman.

5553. Are there any further questions on paragraph 39? We pass to paragraph 40. I have no questions on that paragraph. Has any Member of the Committee any ques-

(Mr. Gordon withdrew.)

TREASURY MINUTE ON PARAGRAPHS 15 TO 17 OF THE FIRST REPORT
OF THE COMMITTEE OF PUBLIC ACCOUNTS, 1945-1946.

Mr. A. W. MCKENZIE called in and examined.

Chairman.

5556. Will Members turn to the Treasury Minute on paragraphs 15 to 17 of the First Report of the Committee of Public Accounts, 1945-46. This is with regard to the timber merchants' remuneration. This is a matter which we investigated earlier in the year, Sir Oliver, I think?—(Sir Oliver Franks.) Yes.

5557. The Treasury in their Minute state: "Their Lordships have already approved the rate of remuneration of the softwood merchants for the first nine months of the peace-time scheme, on a basis which, it is thought, is likely to be found reasonable in the light of actual costs, information on which is meanwhile being obtained." Mr. Blunt, this is a Treasury Minute, but it all seems a little hazy. The Treasury seem to

tions on paragraph 40? We turn to the Account which is at pages 37 to 43. I think we might be given the main heads under Subhead J on page 37. A figure of £17,668,000 seems a rather large miscellaneous item?—Apart from travelling and subsistence which, as is mentioned, is nearly £5,000,000, that includes such items as light and power, water, telephones, research fees, supplies to canteens and the management charges of storage depots.

5554. In the losses statement on page 39 at the foot of the page some losses are set out. Under No. III "Claims abandoned," (3) is: "Rental of Ministry plant not effectively used waived on termination of an assisted production scheme"?—May I ask Mr. Gordon to deal with that? (Mr. Gordon.) This is a case of an individual firm who are carpet manufacturers and who were assisted by the Ministry in a scheme for making certain very much needed machine tools called milling cutters. The Ministry provided £100,000 worth of plant which was rented to the contractor, but by the time the firm reached full production with these machines the demand for milling cutters had fallen off, and no more orders could be given. It was agreed in the end to make them an *ex gratia* payment towards their losses, and, as an element in that, to waive the rental of this plant which came to £12,000.

5555. We shall come across that same figure, shall we not, when we turn to the Vote of Credit Appropriation Account?—You will come across the figure of the *ex gratia* payment made to them there.

Chairman.] Are there any questions on the Account? May I take it that the Account is approved? (Agreed.)

have approved the rate of remuneration with very little information upon which to proceed?—(Mr. Blunt.) No, that is not what we intended to convey.

5558. Perhaps you are unusually cautious in this Minute?—There was a basis of knowledge partly of costing, but here, again, of course, it is always a case of finding out whether costs have changed or any estimates are well founded, and that can only be experienced in the light of actual costing out after the thing has proceeded for a certain time. In this case you will see this particular scheme is only for nine months, and on the information given to us by the Ministry of Supply as to the basis of the likely turnover and so on, and of the actual costs so far investigated, it certainly seemed to us that the rate of profit was likely to be rather on the tight side than

25 June, 1946.]

Sir OLIVER FRANKS, K.C.B., C.B.E., and
Mr. A. W. MCKENZIE.

[Continued.]

otherwise. It depends very much, of course, on what the rate of the turnover was likely to be, and the evidence was that the turnover was, if anything, going to be less than that on which the calculations were founded, in which case, of course, the profit would be tighter still. We were also anxious at that time to see that preparations were made to get costs at the right time, so that when it came to fixing a new scheme at the end of the nine months those costs would be fully available, and I know the Ministry have it well in mind to do that and have, I believe, issued a questionnaire, the answers to which should supply those costs.

5559. There is only one question I want to put to Sir Oliver. You see in paragraph 17 of our Report to which we are referring here we stated: "The new system of distribution is not yet in operation, and Your Committee understand that it will not apply to the distribution of national stock in hand at the date of the changeover." Has the new system of distribution come into operation now?—(Sir *Oliver Franks*.) Might I make one preliminary remark for the information of the Committee before replying to your question, and that is that in the case of timber, cotton and wool, the Committee may be aware that responsibility for policy and administration of these matters passed to the Board of Trade last September, though the responsibility for the accounts remained with the Ministry of Supply until the close of the accounting year. I have, therefore, an officer of the

Board of Trade with me in case any questions about the immediate past or future crop up which concern his responsibility. Coming to the question which you asked, I think that refers not to softwood but to hardwood, and the situation there is that the new scheme has not come into operation. The reason why it has not come into operation is that the situation became tremendously more difficult on hardwood. Supplies became tighter and tighter, and the Departments felt it impossible to put the new scheme into operation because it involved a looser scheme of control, and, therefore, it would not have been possible to secure that hardwood went where it was intended to go as surely under the new scheme as under the old. It so happened that on the other side of the same penny, because the situation was difficult owing to tighter supplies, the volume of supply in the period was considerably less than had been expected, and, therefore, the total remuneration of the merchants was very considerably less, and in fact was almost exactly what it was designed to be instead of being considerably above it. But that is as it happened. The reason for the delay is a supply reason. It is hoped (the Board of Trade will confirm me) to bring the scheme into operation in October. (Mr. *McKenzie*.) Yes.

Chairman.] Are there any questions on the Treasury Minute on paragraphs 15 to 17 of the First Report of the Committee of Public Accounts, 1945-46?

VOTE OF CREDIT APPROPRIATION ACCOUNT, 1944.

MINISTRY OF SUPPLY.

Chairman.

5560. Will Members turn to the Vote of Credit Appropriation Account, page xv, paragraph 45. This paragraph deals with the agreement between ourselves and the Dominion Governments regarding the disposal of the large stocks of wool accumulated during the war. Can you tell me whether the agreement has yet been signed?—(Sir *Oliver Franks*.) The principal agreement between the participating Governments has been signed, but there are certain consequential agreements on administration and the like which are still being worked out, but will very shortly be concluded.

5561. Paragraph 46 is narrativial. It says that the Ministry continue to regard the excess in wool prices beyond 49½ per cent. over a pre-war level as representing an element of subsidy?—Yes.

5562. Are there any questions on paragraphs 45 or 46? We pass to paragraphs 47, 48, 49 and 50, which we might take together. They all deal with iron and steel. The Comptroller and Auditor General tells us that a group of firms in one of the lighter sections paid to the Ministry a further

voluntary rebate of £900,000 in respect of the year ended July, 1944. Then subsequently further price reductions seem to have been made, and I wondered whether, after those further price reductions, there would still be the necessity of asking the group for a voluntary rebate?—The position is that in addition to the price reductions there has been a fall in turnover and increased costs, and the situation is not clear. We shall have to look at it later on, but whether or not there will be a situation which calls for a rebate we shall find out at a later stage.

5563. Are there any questions on paragraphs 47 to 50? Paragraph 51 deals with contracts for Nigerian tin. The Comptroller and Auditor General states that in January, 1942, the Ministry "called on the mining companies to increase production to the fullest possible extent. After prolonged discussions agreements were signed in 1944 with effect from 9th December, 1941, providing for payment for concentrates at current cost, plus the profit per ton realised in the period 1937 to 1939. The Ministry regarded this profit as a not unreasonable return in a speculative industry. To compensate the producers for the

25 June, 1946.]

Sir OLIVER FRANKS, K.C.B., C.B.E., and
Mr. A. W. MCKENZIE.

[Continued.]

effect on their mines of the special methods employed to secure the maximum output, supplemental agreements provided for a notional addition to the costs payable under the main agreements." Would you explain the basis of these supplemental agreements and how they were to work?

—Yes. The provisions of the Finance Acts of 1940 and 1941 gave certain advantages to mine producers in relation to the excess profits tax if they were picking the eyes out of their mines. In effect they were allowed to increase the costs which were chargeable before excess profits tax was levied. What we did by the supplemental agreement was to allow for these additional costs.

5564. The Comptroller and Auditor General says: "Early in 1945 the Ministry reviewed the tin position in relation to the steep increase in costs and the fact that the supplemental agreements were more favourable to the producers than the Ministry had intended." Had some error crept into the wording of the supplemental agreement?—There had been a mistake. The mistake was that whereas it was intended that the costs should only be the immediate costs of production, the supplemental agreement had become related in the form of document agreed to the main agreements with the firms concerned, and, as so construed, enabled them to include in their costs their overhead and administrative charges. That was due to an oversight—an oversight in which the several departments and branches of the Ministry concerned were all at fault, in that none of them at the time spotted it.

5565. It was intended to make supplemental agreements based upon certain provisions in the Finance Act, 1940 or 1941, and in fact the agreements went beyond the provisions in those Acts?—Yes.

5566. And gave the producer something in excess of what those Acts did?—Yes. It enabled him to charge certain additional costs.

5567. What has this error cost the country, do you think?—I think it is of the order of £200,000.

5568. But some of that will come back in other forms of taxation to the Treasury, will it not?—(Mr. Blunt.) It depends. It is liable to income tax. It will not, I believe, come back in excess profits tax in this case.

Chairman.] Are there any questions on paragraph 51?

Lieut.-Colonel Hamilton.] I do not know whether I am out of order, but I am comparing the attitude with regard to these contracts with, for instance, the attitude with regard to the wool contracts. I take it that in each case an effort is made to give a fair price. I am not quite clear why they say in one case that there is an element of subsidy involved and not in the

other cases. They say there is an element of subsidy to the farmers estimated at £1,000,000. What exactly is the meaning of that expression?

Chairman.

5569. Perhaps you can explain that, Sir Oliver?—I think the difference, perhaps, is this that as regards the wool, we could obtain wool from other sources at a less price than that which in fact is paid to the home farmers. As regards this particular subject under discussion, namely, tin, during the whole of the period under discussion, namely, from Pearl Harbour onwards, we could not have got tin at a less price from any other source. Any other source still available to us would have been dearer tin.

Lieut.-Colonel Hamilton.

5570. But definitely in the other cases there were other sources?—Yes.

5571. And we chose to buy from these sources, with a view to encouraging those particular farmers?—It was a matter of home agricultural policy to take the home grown clip.

Chairman.

5572. It is one of the measures by the Government to try to keep the hill sheep farmer in existence, by maintaining his flocks?—Yes.

Mr. Thurtle.

5573. I take it in this new agreement, after the end of December, 1945, there will be taken into account the fact that in due time the Malayan Tin Industry will be able to compete with this Nigerian Industry, and you may not be so disposed to give the Nigerian tin producers special terms?—We are aware that in course of time there will be more tin in the world. We shall bear that in mind in all our negotiations.

Chairman.

5574. This somewhat improvident or unfortunate agreement with the Nigerian tin producing company has now been terminated?—Yes.

5575. We pass to paragraph 52: "Prices of Technical Veneers and Plywood." I am not quite clear what the difference is between technical veneers and plywood, or to what extent one goes to make up the other?—Might I refer to Mr. McKenzie on that point? (Mr. McKenzie.) Veneers are glued together to make plywood. Technical veneers differ from the ordinary kind of veneers and plywood by being made to a very exact and precise specification. They must not break under great pressure.

5576. The whole thing when complete is used in aircraft manufacture?—It is used in aircraft manufacture and for bridges and boats, and other such things.

25 June, 1946.]

Sir OLIVER FRANKS, K.C.B., C.B.E., and
Mr. A. W. MCKENZIE.

[Continued.]

5577. Arrangements for its production during the war have been left to the Ministry of Supply and not to the Ministry of Aircraft Production?—Yes, it has been produced by the Ministry of Supply as being allied to timber.

5578. If you will look at the foot of paragraph 52, you will see that "Prices of veneers were reduced in March, 1943 by about 25 per cent., with a consequential reduction in plywood prices, but in March, 1944, the costing branch reported that the 1942 profits of representative producers had ranged from 70 to 133 per cent. on capital employed for veneers and from 43 to 119 per cent. for plywood." Those are rather appalling figures?—(Sir Oliver Franks.) Yes. They are large figures and they were due to the immense increase in the volume of work going through these factories.

5579. How many main firms are engaged here?—(Mr. McKenzie.) Forty-four in all, some making both plywood and veneer, some making veneer and some making plywood.

5580. What sort of figure is the capital employed upon which these percentages have been calculated?—I do not know the answer to that question offhand.

5581. Can you give us the extent of the Ministry's purchases of plywood in the year 1942 or 1943?—The Ministry did not, in most cases, purchase this plywood. It was sold directly by the makers to users of it, who were partly contractors of the Ministry of Aircraft Production and partly of other Service Ministries.

5582. I wanted to get some idea of what was the scale of this business in connection with plywood and veneers. We have this report, which shows grotesquely large profits were being earned, and I should like to see if I can get any information as to what was the amount of money involved?—(Sir Oliver Franks.) I think we do not know, in relation to the year in which those profits were made, namely, 1942, because I believe that then the number of firms that we had looked at and knew something about, and therefore could give an opinion as to the volume of capital employed, was relatively small, and we were trying to bring a larger number of firms into production in this field, and we just had not at that time a general picture of the field. The only figure which I have, which may be of some use, is that in the second paragraph there is a period of some six months to which reference is made, during which the final reduction in prices was postponed. That figure is of the order of £50,000: the difference, that is to say, between the revised prices and the final prices over a six-months period.

5583. I am not quite sure that I have followed it. In March, 1944, the costings branch reported on the 1942 profit?—Yes.

The position is, is it not, that in March, 1944, we had this report about 1942? In 1943 we had already made a reduction in prices. We then forthwith made a further reduction in prices.

5584. That is the first sentence of paragraph 53: "Interim price reductions were immediately made but further reductions indicated by the investigation were deferred until the autumn of 1944."—Yes.

5585. You say that as between March and November, 1944, the postponement of the further reductions cost you £50,000?—Yes.

5586. Could you give us the extent of the reductions made in the autumn of 1944? Was it on a percentage basis?—In the spring of 1944 on birch veneers an 11 per cent. cut had been applied. A further 4 per cent. was applied in October.

5587. It was the postponement of the 4 per cent. cut which cost £50,000?—Yes, except that you ought to take into account also that there are gaboon veneers as well as birch veneers. There are two items. (Mr. Harby.) The total turnover for 1942 was about £8,250,000.

5588. In paragraph 53 the Comptroller and Auditor General states: "The Ministry informed me in February, 1945, that it was considered impracticable to arrange for a retrospective adjustment of prices." Does that mean that you approached the manufacturers or you did not approach the manufacturers?—The manufacturers were not approached.

5589. Why?—I think that the position comes to this, that the investigation of some 44 firms, when any rebate that could have been arranged would have been a voluntary matter and not compulsory, and when the prices in question were controlled prices, was a thing that would have entailed a very great deal of work and would have had very doubtful prospects of success. As the amount involved, though substantial, was not very great, it was felt that in the circumstances it was not worth going to the effort involved.

5590. Assuming Mr. Harby is right in giving us the turnover in one of these years—I think it was 1943?—(Mr. Harby.) 1942.

5591. —of £8,250,000, then if the profits of representative producers were in the 100 per cent. range for veneers and in the 70 or 80 per cent. range for plywood, it does seem that there was a lot of money which might have been recovered.—(Sir Oliver Franks.) I was speaking with reference to the period of postponement, the six months.

5592. I quite agree; but I should have thought the producers might have been approached in regard to the exceedingly high profits of the previous periods. I quite agree it was not much good trying to chase this £50,000, but it does look as if

25 June, 1946.]

Sir OLIVER FRANKS, K.C.B., C.B.E., and
Mr. A. W. MCKENZIE.

[Continued.]

many millions had been allowed to the manufacturers in excess of fair and reasonable profits in the earlier years.—I am afraid that I cannot give figures on that, but I do not think it is a matter of many millions, is it, because the total turnover was apparently of the order of some £8,250,000, but by March, 1943, there had been a 25 per cent. cut in prices. In March, 1944, there was a further substantial cut by some 11 per cent. in the case of birch veneers. The prices were being brought down all the time, though admittedly they were not brought down fast enough to bring the profit to a reasonable rate.

5593. Let us suppose that the 1942 profits, instead of being in the 100 per cent. range, had been in the 20 per cent. range, even there, on a turnover of £8,250,000 there would have been an enormous sum to recover, would there not?—(Mr. Harby.) The nearest we can get to it is on the veneer cutters. There we estimate that on a turnover of £1,250,000 they made 30 per cent. profit.

5594. On what?—Veneer cutters. Three firms with a turnover of approximately £800,000 made £273,000 profit.

5595. Would you say that again?—The three main firms of veneer cutters who are responsible for the bulk of the output made £273,000 profit on an estimated turnover of £800,000.

5596. That is to say their profit was about one-third of their turnover?—Yes. That is from the costing report of 1944.

5597. In the last sentence of paragraph 53 the Comptroller and Auditor General tells us: "I recently inquired whether any adjustment of these firms' prices had been effected." I take it that the demand for this class of article has fallen off very much with the ending the war?—(Sir Oliver Franks.) It ceased altogether in the autumn of 1945, and the firms are now engaged on the manufacture of commercial plywood for which controlled prices will be negotiated after an investigation of costs.

Chairman.] Are there any questions on paragraphs 52 and 53?

Mr. Benson.

5598. What was the capital of these firms?—I am sorry, but I am unable to answer that question. I do not know.

5599. Perhaps Mr. Harby can give the capital. He gave a figure of £273,000?—(Mr. Harby.) That is the capital of three firms. The capital was £227,000, the three firms of veneer cutters. We have those. That is where we get the 70 to 133 per cent. on those three firms.

Mr. Benson.] They were making about 30 per cent. on turnover and over 100 per cent. on capital.

Sir Frank Sanderson.] I understood you to say that the total turnover was £8,250,000 for the year 1942, was it not?

Chairman.] Mr. Harby gave us that figure.

Sir Frank Sanderson.

5600. Yes. I understood the total turnover was £8,250,000. Can you state the total profit earned on that turnover?—(Sir Oliver Franks.) I am afraid I do not know. All I can do is to repeat what was given us by the Comptroller and Auditor General. In the case of three firms it seems as though the profit earned was of the order of 30 per cent. on their turnover, and their turnover, if I remember, was about £800,000, and they made some £230,000 or £240,000 profit out of that. If, therefore, the figures were anything comparable for the whole range the order of profit would be something like 30 per cent. of £8,250,000.

5601. It would be something approximating to £2,000,000 to £2,500,000, would it not? Is it not possible to get that figure? It does seem to me to be rather important that that figure should be available so as to enable one to ascertain what is the average profit earned upon this turnover?—I am afraid I have not the figure here at the moment, and I should be very glad to supply it if it is available within the Department. I am not sure that it is so available. I think it may be found that for the year in question there are only figures for certain firms, and that there are not figures for all the firms in the industry. The Comptroller and Auditor General may be able to confirm that. (Mr. Harby.) I am afraid on plywood makers there is information about only three out of 35 firms.

5602. Would you agree that we ask for that information, if it is available, Mr. Chairman?—It is not available, I am afraid.

5603. It is not available?—No, only in the case of three out of 35 firms in the case of plywood makers, and in the case of only two out of four of the self-contained firms.

5604. Those figures represent only 10 per cent. of the total turnover?—They represent more than that. They represent about 40 per cent. of the turnover. They took the largest firms. Three out of 35 represent nearly 40 per cent. of the turnover.

Chairman.] It apparently would not be any good pursuing that, Sir Frank.

Sir Frank Sanderson.] No, I agree.

Mr. Thurtle.

5605. The trouble has apparently risen in this case by the nature of the prices fixed originally in 1941. It would be interesting to know who were the people who advised the Ministry of Supply at that time as to what were reasonable prices. Would

25 June, 1946.]

Sir OLIVER FRANKS, K.C.B., C.B.E., and
Mr. A. W. MCKENZIE.

[Continued.]

they be people connected with the plywood and veneer industry or not?—(Sir *Oliver Franks*.) The people who would take responsibility for fixing prices would in all cases be members of the Ministry staff, and in this case they would in fact have been members of the Raw Materials Department.

5606. May those people not have been people who had been brought into the Ministry from the plywood and veneer industry?—While in this particular case I cannot speak from memory because I was not there at the time, I do know that when I was associated with the Raw Materials Department (and I think you would find it has held all through its history) decisions about prices were taken by persons like myself—that is to say, persons not immediately connected with the particular trade about which the decision was taken.

5607. But you would be dependent, I take it, upon certain people connected with the industry for advice as to prevailing trade customs, and so forth?—Certainly, I should seek that advice because I should require expert information before I could try to make a good decision.

5608. I think it is common knowledge that in the Timber Control, for instance, the people who were effective in that Control during the war were people who had been drawn from the leading figures in the timber industry?—Yes. That is the case, as it has been the case with the great majority of the Raw Materials Controls.

5609. May it not be the same position in this case of plywood and veneers, that the people who have really been giving you the advice which determined these prices were people drawn from that particular industry?—At this length of time, whether they came from this particular branch of the timber trade or not, I am simply not in a position to say. I do not know.

5610. I was just pursuing this point, because it did seem to me that this Committee ought not to make fish of one industry and fowl of another, as it were. We did make a strong case against one company which made profits amounting to something like 30 per cent., which we considered to be very excessive. There does seem to be evidence that among the leading producers of plywood and veneers, there have been profits far in excess of that?—If I may make one reply to what you have just said, I think it would be found that when the prices were originally fixed, the Department was under the necessity of trying to expand production in plywood very considerably and to bring a considerable number of firms which had not previously manufactured it into that manufacture. It is, therefore, likely that the original prices which were fixed were fixed deliberately on the easy rather than the

hard side for reasons of production, and not for reasons of any particular interest.

5611. Of course, that urge has been present all through the war—the need to get production, but if it were established, for the sake of argument, that four or six of the leading plywood and veneer manufacturing firms had made profits well exceeding 30 per cent., would there not be a case for asking those firms to make some sort of repayment to the Government?—I think at this remove of time it would be likely, would it not, that those or other firms would say that the matter had been dealt with in another way by the excess profits tax.

5612. That was not accepted as a satisfactory argument in the other case?—I am not suggesting that it is a satisfactory argument. I was just suggesting that that is what in fact might be said.

Mr. *Thurtle*.] I wonder, Mr. Chairman, if we might ask (I do not know whether this information is procurable or not) that steps should be taken to obtain for us the profits made by the first four suppliers in this industry during the years 1942 and 1943, in order that we might satisfy ourselves as to whether or not these profits were really abnormal and out of all proportion?

Chairman.] When you speak of the first four, you mean the four largest producers?

Mr. *Thurtle*.

5613. The four largest producers, yes?—We shall be glad to furnish such a note if you wish.

Mr. *Benson*.

5614. Was there any difficulty in obtaining your data for costings from these firms?—(Mr. *McKenzie*.) It was an extremely complicated investigation, and my recollection of it is that our investigators received every facility from the firms concerned, and it was the inherent difficulty of the subject matter that made the investigation last for something of the order of 12 months.

5615. Did you have any hard negotiations, or once the figures were arrived at, what was the reaction of the firms?—When we told the firms that prices had to be reduced by an additional 5 per cent. over and above the 11 per cent. reduction which had previously been imposed, they proved to our satisfaction that that was an unduly severe reduction, and we were satisfied that the figure should be reduced from 5 per cent. to 4 per cent.

Chairman.

5616. That reduction would affect their profits as from October, 1944 onwards?—(Sir *Oliver Franks*.) Yes; that particular reduction operated from then.

25 June, 1946.]

Sir OLIVER FRANKS, K.C.B., C.B.E.,
Mr. A. W. MCKENZIE, and Mr. H. C. GORDON, C.B.

[Continued.]

5617. I am not sure that we shall get much further, Mr. Thurtle, by pursuing this matter of the 1942 profits. It is a long time ago, and price reductions have been made since then on two or three occasions, have they not? You could give us, I take it (not necessarily for publication) the details, giving the names of the representative producers whose costs were examined?—Yes.

5618. And the results in the case of each one, comparing their profit to their capital employed?—Yes.

5619. For the year 1942. You have not any figures for a more recent period, have you?—(Mr. McKenzie.) Not as yet. We are in process of getting them.

5620. Could you furnish some statement to the Committee on those lines?—(Sir Oliver Franks.) Yes.*

* See Appendix No. 10.

(Mr. McKenzie withdrew.)

(Mr. H. C. Gordon, C.B., recalled and further examined.)

Chairman.

5623. We will turn to the Account, which is at page 15. Amongst the losses, in the *ex gratia* payments there is a figure of £12,170. That appeared amongst the losses in the Civil Appropriation Accounts also, did it not?—(Mr. Gordon.) The waiver of rent appeared in the Appropriation Accounts, and this is the *ex gratia* payment.

5624. But they are in fact the same thing, are they not?—Exactly the same case. One is a payment: this is an *ex gratia* payment towards their losses. The other is assistance by waiving their rent which they ought to have paid for the plant.

5625. And it is a mere coincidence that the two figures happen to come out at exactly the same amount of £12,170?—(Mr. Harby.) The reason for it being in two different accounts is that the capital comes out of the War Services Vote and purchases come out of the Vote of Credit, so the rental was due to the War Services Vote and was waived there. The purchases on which *ex gratia* payment has been made were made out of the Vote of Credit. It is just a question of accounting.

5626. But can anybody answer me the very simple question: Has the company in question received £12,170 or twice that

Sir Frank Sanderson.

5621. I would like to ask one question in relation to a point raised by Mr. Thurtle. He asked whether it was not a fact that the Ministry called upon those engaged in the industry for advice. Is it not a fact that before any such person is engaged by the Ministry that person breaks off all relationship with the industry in which he may have been engaged, in order that his opinions should be unbiased from every point of view?—Yes. They break off active relationship with any industry or trade in which they may have been engaged.

Mr. Thurtle.

5622. You did say "active" relations, did you not?—Yes.

Chairman.] I do not think we can carry that any further at the moment. Are there any questions on paragraph 54? Are there any questions on paragraph 55?

amount?—No, it has not paid £12,170. It was due to pay £12,170 and it has not paid it. (Mr. Blunt.) I think this is only put in there to complete the picture on this particular Vote standing by itself. That is all.

5627. I am much obliged. At the top of page 16, in the charges waived by the Departments, under the Sulphate of Ammonia (Charges) No. 1 Order, 1940, there was a waiver of £202,693 in respect of certain shipments. Could you explain this matter to the Committee, Sir Oliver, or Mr. Gordon?—(Mr. Gordon.) There was an Order under which producers of sulphate of ammonia sold for delivery in this country had to pay a levy to the Ministry. These particular sales of sulphate of ammonia were exports, and it was only through an accident of the shipping situation that the stuff had to be delivered alongside ship. The levy was not intended to apply to those cases. They only came under the wording by a technicality, and the Treasury agreed that the levy should not be pressed.

Chairman.

5628. Thank you. Are there any further questions on the Account? That concludes today's business, Sir Oliver, thank you. I gather this will be your positively last appearance before the Public Accounts Committee?—I think so.

(The Witnesses withdrew.)

(Adjourned till Thursday next at 2.30.)

THURSDAY, 27TH JUNE, 1946.

Members present:

Mr. Benson.
Mr. Cuthbert.
Lieut.-Colonel Hamilton.

Mr. Holmes.
Sir Frank Sanderson.
Mr. Thurtle.

In the absence of the Chairman, MR. BENSON was called to the Chair.

MR. F. N. HARBY, C.B.E., SIR HERBERT BRITAIN, K.B.E., C.B., and MR. C. E. I. JONES called in and examined.

TREASURY MINUTE ON PARAGRAPHS 19-20 OF THE FIRST REPORT OF THE COMMITTEE OF PUBLIC ACCOUNTS, 1945-46.

SIR WILFRID EADY, K.C.B., K.B.E., C.M.G., SIR FRANCIS L'E. JOSEPH, Bt., K.B.E., J.P., D.L., and SIR LEONARD PATON, C.B.E., M.C., called in and examined.

Mr. Benson.

5629. Sir Wilfrid, I take it you will answer for the Treasury, and Sir Francis Joseph and Sir Leonard Paton will answer for the United Kingdom Commercial Corporation? (Sir Wilfrid Eady.) If that is pleasing to the Committee, yes.

5630. Will Members turn to the Treasury Minute on paragraphs 19 and 20 of the First Report of the Committee of Public Accounts, 1945-46. Sir Wilfrid, could you say whether you have made arrangements with the Board of Inland Revenue with regard to taxation?—With the United Kingdom Commercial Corporation?

5631. In relation to the United Kingdom Commercial Corporation?—I would like that to be dealt with by Sir Francis. I did not know you were going straight to that item.

5632. Yes; that is the first item on the agenda. The question I asked is about the taxation arrangements. It was actually a very formal question, in that any surplus goes back to the Revenue in any case, I think?—That is so.

5633. Have the terms been agreed? (Sir Leonard Paton.) We had consulted the Revenue to see whether there was any more simplified form they would like. They said not, that the thing was working quite smoothly and it suited them to do it in that way, and what we have done now is that, as we get the assessment, our auditor looks at it and we pay it.

5634. The actual amount of taxation more or less equals your surplus, does it not?—We have a certain amount we are allowed to retain under the Excess Profits Tax arrangements. The rest goes back to the Revenue.

5635. It will be eventually handed back to the Treasury?—Yes.

5636. So that it goes back to the Treasury, either in taxation or in surrender?—That is correct.

Mr. Benson.] Are there any questions on the Treasury Minute on paragraphs 19-20 of the First Report of the Committee of Public Accounts, 1945-46?

TREASURY MINUTE ON PARAGRAPH 21 OF THE FIRST REPORT OF THE COMMITTEE OF PUBLIC ACCOUNTS, 1945-46.

Mr. Benson.

5637. Will Members turn now to the Treasury Minute on paragraph 21, which deals with the Iskanderun Port Development. Certain negotiations have been in progress there. Would you tell us how those are proceeding? (Sir Leonard Paton.) We have completed these negotiations and we have reached a settlement. You will remember that the contract was made in Turkey, and there was a provision that the contractors got 15 per cent. for overheads and 5 per cent. for profit. That was on the original figure of the contract. The contract, as it was finally concluded, was very much greater, and we thought that there was a case for adjustment with the contractor. Actually, the Committee were of help to us last year, because we

were able to show the contractor the views of the Committee, and we have reached a settlement with them in this form. Their overheads have been scaled down very considerably, in line with certain other Government contracts they have got. Instead of the 15 per cent., they have put through certain direct charges, and then they have charged 4 per cent. for overheads. If you add those direct charges and the overheads, they have really charged us roughly 7 per cent. instead of 15 per cent. for the overheads. Then, so far as the profit was concerned, we thought it only fair to them that they should get their 5 per cent. on the original contract, but we thought we should be entitled to an abatement on the balance, and, after a good deal of negotiation, we have arranged with them that

27 June, 1946.] Sir WILFRID EADY, K.C.B., K.B.E., C.M.G.,
Sir FRANCIS L'E. JOSEPH, Bt., K.B.E., J.P., D.L.,
and Sir LEONARD PATON, C.B.E., M.C.

[Continued.]

they get only $2\frac{1}{2}$ per cent. on the balance, so that, in effect, over the whole contract, as profit they are getting a fraction over 3 per cent. The saving to the Government on that settlement is something over £204,000.

5638. Could you give us the actual figure of cost as against the estimate of £2,500,000?—Yes; the total is about £2,200,000. The total, including the remuneration, including overheads and including everything, is £2,200,000.

Mr. Benson.] Are there any questions on the Treasury Minute on paragraph 21?

Sir Frank Sanderson.

5639. May I put one question, really to refresh my memory. Could you give us the name of the President or Chairman of the United Kingdom Commercial Corporation?—(Sir Francis Joseph.) I am the Chairman.

5640. The only other question I want to ask is this. It is, of course, not a company, in the strict sense of the word, I understand? Its shares are not held by the public, are they?—(Sir Wilfrid Eady.) No; they are held by the Treasury.

5641. Entirely by the Treasury?—(Sir Francis Joseph.) Yes, entirely.

5642. So that the profits, whatever the profits may be, come back to the Treasury?—Yes.

Mr. Benson.] We shall be considering the balance sheet of the United Kingdom Commercial Corporation and of the English and Scottish Commercial Corporation later. Are there any further questions on the Treasury Minute on paragraph 21?

Mr. Thurle.

5643. I see the Committee, in paragraph 21 of their first report, stated that, although practically the whole cost of this is to fall upon public funds, the works remain the property of the Turkish Government. Was it always understood, right from the outset, that those works would be the property of the Turkish Government?—(Sir Wilfrid Eady.) Yes. They were originally designed as part of military works.

Lieut.-Colonel Hamilton.] It goes over to the Turkish Government without any financial transaction? They just take it over?

Mr. Benson.] The Turkish Government made a payment of £175,000.

VOTE OF CREDIT APPROPRIATION ACCOUNT, 1944.

TREASURY.

(Memorandum on the United Kingdom Commercial Corporation submitted by the Comptroller and Auditor General.)

(Accounts of the United Kingdom Commercial Corporation Limited, and the English and Scottish Commercial Corporation Limited, for the year ended 31st March, 1945.)

Mr. Benson.

5644. Will Members turn to the Vote of Credit Appropriation Account, 1944, page v, paragraph 8, of the report of the Comptroller and Auditor General. That is purely formal. Are there any questions on that paragraph? The Account is on page 8, Service 13. This also is purely formal. Are there any questions on the Account? We will take the memorandum of the United Kingdom Commercial Corporation, submitted by the Comptroller and Auditor General. Paragraphs 1 and 2 we will take first with the accounts of the United Kingdom Commercial Corporation. The remaining paragraphs deal with the English and Scottish Commercial Corporation. Could you tell us what progress has been made with the realisation of stocks?—(Sir Leonard Paton.) Yes. We have taken out very provisional figures to March this year. They have not yet been audited, but we think that they will be found fairly near the mark. I have put them down in the balance sheet. In the balance sheet, the stock in the year you are examining was £9,648,000. We have now got it down to

£197,000. We have practically wiped that out, and to-day the stock is not more than £4,000. So that we are practically on our last legs.

5645. So that you are within measurable distance of liquidation?—Yes, we are.

5646. Do you propose formally to liquidate and wind up or do you propose just to let the Company lapse?—No; we propose formally to liquidate. We have already put into liquidation every one of the subsidiaries except one, which will be in liquidation in a month. Then we propose to liquidate the United Kingdom Commercial Corporation. That will depend on our progress with the English and Scottish Commercial Corporation, because all the actual operations of the English and Scottish Commercial Corporation are carried out by the United Kingdom Commercial Corporation, so we must see our way through the English and Scottish Commercial Corporation before we can liquidate the United Kingdom Commercial Corporation.

5647. That involves very considerable costs, does it not, as against the process of just letting the Company lapse?—No, I

27 June, 1946.] Sir WILFRID EADY, K.C.B., K.B.E., C.M.G.,
Sir FRANCIS L'E. JOSEPH, Bt., (K.B.E., J.P., D.L.),
and Sir LEONARD PATON, C.B.E., M.C.

[Continued.]

should not think so. I should not think there is very much difference in cost at all. The costs of liquidation are not high, and the costs of the liquidator will not be much different from the costs of running the business down ourselves; and we shall know that it is formally run off and legally tied up, which is really better than having any loose ends. Our debtors were £20,250,000 last year. They are now £1,250,000. So that again we have nearly eliminated our debtors.

5648. Sundry debtors are down to £1,250,000?—Yes.

5649. The debts owing by the U.S.S.R. and the United States of America are to the English and Scottish Commercial Corporation, are they not?—Yes, they are.

5650. What type of debt is left in that £1,250,000, and how far are we likely to collect it?—We shall collect it in full. The debtors are mainly the Departments in the East or other Governments in the Middle East. As far as we are concerned, we look on our debts as good. We have made provision for any bad debts, and we think that provision is adequate.

Mr. Benson.

5651. I have no further questions. Has any Member of the Committee any questions on paragraphs 1 and 2? We will now take paragraphs 3 and onwards, and the accounts of the English and Scottish Commercial Corporation. Here, there are debts which are perhaps not quite so easily collectable as those of the United Kingdom Commercial Corporation. Could you give us any indication as to the prospects of recovery of the debts referred to in paragraph 5? I believe some £17 million is owing by the U.S.S.R. as well as the £4 million owing by the United States of America. Are negotiations in progress there?—Yes. Negotiations are in progress. In the case of the U.S.A. account there are debits, as you will see in the report, of £4 million, and there is a joint account of £8,600,000, so that that would normally be 50-50 to the United States Commercial Corporation and the English and Scottish Commercial Corporation, also they are really accountable for a total £8 million, not for the combined total of the two. It does not really follow that we shall recover all that amount. You are, I understand, speaking about America?

5652. There is the American debt and there is also the Russian debt?—If I may take the American one first, there is £8 million for which they are accountable. The Americans have had their own auditors in our office for the best part of a year, and they are making a very thorough scrutiny of the accounts. What I wanted to explain to the Committee was that it does not automatically follow that we shall

recover our full 50 per cent., because some of the costs have been provided in dollars by the Americans, and some of the purchases have actually been sold in America, so that there is the American half of the account to come in, and it is only when the American part of the account comes in that we shall know the full picture. The Americans are fully admitting their liability and they have paid us £3 million on account.

5653. One other point on these accounts. You had, I see from the balance sheet, stocks to the tune of £1,750,000. What is the position now?—They have been sold to the extent of £1,600,000. Our total outstanding on stock today is £160,000 on English and Scottish Commercial Corporation account.

Sir Frank Sanderson.

5654. In the third sub-paragraph of paragraph 3 of this memorandum, the Comptroller and Auditor General states that the net profit was £586,000 odd, but that profit was determined after providing £13,295,000 for Excess Profits Tax and Income Tax. That is so, is it not?—(Sir Leonard Paton.) Yes, but that is from the beginning of operations. That is not in respect of that year. The profit for the year was £4,700,000, and the Income Tax and Excess Profits Tax on that was £4,100,000, leaving £586,000 as profit for the year.

5655. There are two points I would like to put on that. The first is this: Do I understand that the United Kingdom Commercial Corporation is, for Income Tax purposes and Excess Profits Tax purposes, on the same basis as an ordinary business?—Yes. (Sir Wilfrid Eady.) Exactly the same.

5656. That tax accrues, of course, to the Treasury?—(Sir Leonard Paton.) Yes, and we have paid £10 million to date in cash.

5657. One point which presents itself to me is this: Since the total amount paid in Excess Profits Tax is a figure of substantial importance, does it not rather look as though prices in excess of what might normally have been regarded as reasonable have been charged?—I think you have to have regard to the turnover of the United Kingdom Commercial Corporation. Since the commencement of operations, our turnover is between £400 million and £500 million sterling.

5658. Your turnover?—Yes.

Mr. Benson.

5659. And you have a substitute standard?—We have no Excess Profits Tax standard. We are allowed to retain only a very small interest on our capital.

27 June, 1946.]

Sir WILFRID EADY, K.C.B., K.B.E., C.M.G.,
 Sir FRANCIS L'E. JOSEPH, Bt., K.B.E., J.P., D.L.,
 and Sir LEONARD PATON, C.B.E., M.C.

[Continued.]

Sir Frank Sanderson.

5660. I understand that the Corporation is gradually going into liquidation together with its subsidiaries. That is so, is it not?—Yes.

5661. And the whole of the net assets plus profits which have accrued after taxation has been paid will accrue to the Treasury?—Yes. We hope there will be nothing but cash to go back to the Treasury.

5662. Can you tell the Committee this: Do you anticipate that the amount which will be repaid to the Treasury in the form of capital and profit will be equal to or in excess of the amount which has been found by the Treasury for financing the United Kingdom Commercial Corporation?—Could I divide that in two? So far as the United Kingdom Commercial Corporation's own operations are concerned, there will definitely be a surplus, which will go to the Treasury, but, so far as the English and Scottish Commercial Corporation is concerned, which has handled all the pre-emptive and political purchases, there will be a substantial loss, and, if you ask me how they compare, I have to say that the profit made by the United Kingdom Commercial Corporation will not by any means extinguish the losses which have been made by the English and Scottish Commercial Corporation. (Sir Francis Joseph.) The political losses.

(Sir Francis Joseph and Sir Leonard Paton withdrew.)

TREASURY MINUTE ON PARAGRAPH 11 OF THE FIRST REPORT OF THE COMMITTEE OF PUBLIC ACCOUNTS, 1945-46.

Mr. Benson.

5666. Will Members turn to the Treasury Minute on paragraph 11 of our First Report of last year? This is a rather formal and somewhat complicated business. There was failure to surrender the unspent balance on Votes of Credit for 1942 within the usual time, owing to war conditions,

and I notice that the Treasury say that they propose to get back to normality as soon as possible. Have you anything to add to that?—(Sir Wilfrid Eady.) Yes. The whole of the balance of the saving for 1942 has been surrendered, and the whole of the saving both in the years 1943 and 1944, so we are now completely up to date.

TREASURY MINUTE ON PARAGRAPHS 12 AND 13 OF THE FIRST REPORT OF THE COMMITTEE OF PUBLIC ACCOUNTS, 1945-46.

Mr. Benson.

5667. Are there any questions on the Treasury Minute on paragraph 11?

Mr. Benson.

5668. Will Members turn to the Treasury Minute on paragraphs 12 and 13 of the Committee's First Report of last year? This deals with the Currency Deposit Account. Has surrender been made of the balances which remained in the Account after the liabilities had been met?—(Sir Wilfrid Eady.) On the Currency Deposit Account, the situation is very much better than it was at the time the Committee had this before them. £103 millions has been reduced to £15 millions. It is running, it-

self straight down, in accordance with what was undertaken at the time.

5669. Our receipts here are payments made by the countries that we occupy, I think?—Yes.

Mr. Benson.] Are there any questions on the Treasury Minute on paragraphs 12 and 13?

Sir Frank Sanderson.

5670. In the second sub-paragraph of paragraph 13 of their report, the Committee states: "In the exceptional circumstances and on the understanding that it will not be regarded as a precedent for normal times, your Committee raise no objection to the procedure adopted." May we feel that

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49852.

27 June, 1946.]

Sir WILFRED EADY, K.C.B., K.B.E., C.M.G.

[Continued.]

that has been carried out?—I can only repeat the assurance that was given to you previously, and the terms of the Treasury Minute.

Mr. Benson.

5671. The whole position is really an abnormal war position?—I think one safeguard against abuse of the permission of the Committee to continue the procedure is illustrated from what has happened to the Currency Deposit Account. We are working it off. We have worked it off from

£103 millions to £15 millions. That means that in a reasonably short time it will disappear altogether.

Sir Frank Sanderson.

5672. Could you tell the Committee that you are satisfied with the progress which has been made in that direction?—Yes, and I am willing to repeat the assurance that we are treating this as a purely exceptional procedure by permission of the Committee, and not as a precedent.

TREASURY MINUTE ON PARAGRAPH 14 OF THE FIRST REPORT OF THE COMMITTEE OF PUBLIC ACCOUNTS, 1945-46.

Mr. Benson.] This is purely formal. It is an expression by the Committee of its satisfaction of the help we received from

Canada. Are there any questions on the Treasury Minute on paragraph 14?

VOTE OF CREDIT APPROPRIATION ACCOUNT, 1944.

TREASURY.

Mr. Benson.

5673. Will Members turn to the Vote of Credit Appropriation Account, 1944, to pages iii and iv, paragraphs 1-7 of the report of the Comptroller and Auditor-General. The first four paragraphs are practically formal, and on those I have no questions to ask. Has any Member of the Committee any questions to ask on those paragraphs? We turn to paragraphs 5 and 6: "Insurance of Foodstuffs and Raw Materials against Marine Risk." I understand, Sir Wilfrid, that the purpose of the arrangement which you made with regard to Marine Insurance was to maintain the machinery of Marine Insurance to enable the underwriters to pay their overheads, but not to make any profit; I think that is correct?—That is right.

5674. At first, there was a loss to the underwriters on their activities. Then, as the result of an increased rate of premium, there was a rather high profit. Since then, you have been negotiating for a reduction of that profit over a period. Could you tell us what the position is now?—This is rather an unhappy story and, if the Committee will permit me, I should like to take them through what has happened.

5675. If you would?—This relates, first of all, to marine risks and not to war risks, and it relates to the Government cargoes, and that means substantially the cargoes coming inwards. The relevance of that I will show you in a minute or two. It is quite true that one purpose of the arrangement was to keep the enormously important marine insurance business of the country alive under conditions when any ordinary marine insurance was almost impossible. We aimed at giving the insurance market for this type of risk something like a 10 per cent. excess of premium income over expected claims, to cover all their overheads and their expenses. In the early years that came out well; that is to say, the market

did not profit appreciably on that basis. But, when we looked last December over the five years 1940 to 1944, we found that, in fact, the premium income had been very much greater than we had expected or than we had wished to provide for. The process is that in December of each year, a rate for the next calendar year is fixed; but it is fixed on what is really rather inadequate data. The outturn for the previous year is not known, and, although some forecast may be made of what the expected claims are likely to be, that is merely a sort of general conjecture about the general safety of navigation. So that one is really working on the basis of a full year in arrears when calculating the premium rate for the next year—a full year in arrears of actual results. At the end of 1943, which, as I say, was calculated on the basis of what we knew about the year ended December, 1942, we came to the conclusion that the rates were proving too profitable, and, after some discussion and a good deal of insistence on the part of the Treasury, a reduction of 20 per cent. on the premium rates that had been agreed upon was insisted upon. The underwriters took the view at that time that we had cut the rate very fine and that there probably would not be very much profit in it; but in May, 1944, the War Risk Office, who act as our advisers in fixing the rate for the underwriters, suggested another 12½ per cent. cut was probably justified. But, curiously, at the end of 1944, the view was taken by the underwriters that the cuts had gone so far that there was no profit in the business at all. Now, that turned out to be completely wrong. In point of fact, the profits at the end of 1944 were very high indeed. Because of that information, that there was no profit expected at the end of 1944, we continued for 1945 the cut rates, that is to say, the original rate less 20 per cent., less 12½ per cent., and we operated on that rate for 1945. The Treasury works with

27 June, 1946.]

Sir WILFRED EADY, K.C.B., K.B.E., C.M.G.

[Continued.]

the Ministry of War Transport and the Ministries of Food and Supply, but the final responsibility on this rests on the Treasury, and therefore I must make it plain that, looking back upon what has happened (I will give an explanation of what has happened in a minute), we made a serious error of judgment. I think it is excusable. When we found that a 20 per cent. cut was still leaving what the War Risk Office thought was a sufficiently big margin, and we were advised in May, 1944, that we could take another 12½ per cent. off, I think we should have made a closer examination of what the results had been for 1943. Those results come in very late and the marine business works on such immense experience over swings of years that, broadly speaking, one can take a general snapshot of what was happening. As things turned out, it was a mistake not to have followed up what looked like a pointer to something wrong at that time. We accepted the view, which was also the view of the War Risk Office, who are extremely experienced people—they are not the market; they are advisers to the Government, they are serving the Government, they are not serving the market: they took the view at the end of 1944 that there was no profit in the business. In point of fact, in 1943, when we got the results in, the underwriters had made a profit of £2.1 millions whereas we had expected them to have something like £700,000. Immediately after V.E. Day, we made a further reduction of the premiums by about 30 per cent., again acting upon the belief that the 1944 guess that it was an unprofitable year was probably all right. It was not until December, 1945, that we were able to collect all the previous years, and we found that the year 1944, instead of being an unprofitable year, had shown a premium income exceeding the claims by 17 per cent. instead of by the 10 per cent. that we had budgeted for. Now the explanation of this is a very strange one—so strange that I think it is almost credible at once. It is this, that, in the experience of the underwriters, they have never known such unexpected years. First of all, we are insuring practically almost entirely homeward cargo. There is very little that is covered on export cargo. Losses on homeward cargo hardly existed at all. There were quite appreciable losses on export cargo, but there was practically no total loss at all on the homeward cargo, and indeed the whole of the losses in the year 1945 were quite exceptionally low in underwriters' experience. As I say, that is, at first sight, an explanation which explains too much, but these market men and the War Risk Office say that that is, in fact, what happened, and, taking an average expectation of risk plus the risks that are inherent in the difficulties of navigation in convoy and without lights, and so on, we had considerably over-estimated the premium income that was necessary to cover the risks.

49852

5676. But this is only marine risk; it does not include war risk?—Risk from enemy action is a war risk, but the distinction between the two is settled by a lot of case law. The risks that come from sailing in convoy, the risks that come from sailing without lights, the risks which come from going about a different course from the one to which the ship is accustomed—those are marine risks. They are not enemy action risks. They are consequential on the war, but they are treated as marine risks. I am not laying down what is one of the most controversial issues of law on that. Having discovered that quite considerable excess payments had been made by way of premium income, we set about negotiating (the only thing you can do, in the circumstances) a retrospective re-adjustment of the money that had been received by the underwriters, and on the two years 1944 and 1945 we expect to have a refund of a little under £1 million from them. We have also altered the basis of the business for the future, until the Government has made up its mind exactly what will happen—what is to be the machinery for insuring Government imports. In future, we share whatever profits are made in excess of 15 per cent. of the premium income, and we have reduced the rates of premium from the 1st January by about 15 per cent. on the average, but with much bigger reductions in the rates for cargoes from North America and the near Continental countries. That is to say, we have done the three things which were, I think, open to us: we got a retrospective repayment of the largest sum we could, reduced the current premium rates overall, and sharply for the routes which were proving clearly pretty safe, and, in so far as there is a possibility of a big error in judgment still, we go shares in our own error of judgment with the underwriters instead of letting them have the benefit of the error if it goes in their favour. I said this was not a very happy story, and that is why I have told it in full. The Treasury must accept responsibility for what happened. We all of us, the War Risk Office and the underwriters, acted, so far as could be seen, completely *bona fide* on an average expectation of risks based on a lifetime of experience of many of them. We are to blame, I think, because we did not see—indeed, nobody saw—the significance of this suggestion that probably it looked as though the figures would show justification for a bigger cut. We are handicapped (and I am not sure we are to blame for this because, from such enquiries as have been made, it is not possible to get the figures any more quickly) by not having the results of a year's business sufficiently fast enough. Sometimes, claims come in very late. Communications were difficult during those war years and business was very late. I mention that because the Ministry of War Transport, the Ministry of Food and the Ministry of Supply (those last two, prin-

N 2

27 June, 1946.]

Sir WILFRED EADY, K.C.B., K.B.E., C.M.G.

[Continued.]

cipally) were meeting accounts with this marine risk insurance in them all this time, and it never struck them that there was something curious, either. Either we all slipped up, or this was a thing which, to some extent would have deceived everybody at the time. So far as the underwriters are concerned, they have secured from this Government business something like £300,000 over the most profitable years—combined profitable years—more than we had intended they should get. On the other hand, that is not their total business, because they have their own marine risk on the outward business, and I am afraid I cannot say whether on all their business together they have made more than they expected to make or less.

5677. Why did not the Treasury adopt what is quite a common practice in all Government Departments where estimating is difficult, for various reasons, because of various uncertainties, namely, a provisional contract and give provisional rates which were subject to adjustment after the total figures were in?—I suppose that makes the continuance of proper marine risk rather artificial, if, in point of fact, the risk is a provisional risk. We could have helped ourselves by doing that, and then the contracts would have been subject to review when the figures came in. On the other hand, except for the bit of risk which flowed from the war, like the convoys, and that sort of thing, this was ordinary expectation of risk over, as I say, a lifetime of experience, for which you would not normally need to put a provisional figure. You would think you might get just about on the target.

Mr. Benson.] Are there any questions on paragraphs 5 and 6?

Mr. Thurle.

5678. With regard to this retrospective payment which you were able to arrange from the underwriters, was there any legal basis for that or was it just a voluntary act?—I think there was no legal basis. It was a clear agreement that things had gone wrong. Neither side intended it to have those results.

Sir Frank Sanderson.

5679. In the statement you have just made, you said that you regarded the premiums which have been paid as excessive and that you, of course, accepted responsibility. Is not the prime cause merely that the losses sustained were happily much less than had been anticipated?—Yes.

5680. Is not that really a position which no one can accept responsibility for in advance?—I say, first of all, the losses were less than expected, and, secondly, they turned out to be curiously less on the homeward journey. That is a very satisfactory state of affairs, from the national viewpoint, but, as accounting officer, I was not sure you would accept that.

5681. That is the point I wanted to bring out. The next point is this. You stated that in the year 1943-44 the profits which accrued to the underwriters were approximately £2.1 million?—Yes.

5682. Whereas you would have anticipated some £700,000?—Yes.

5683. If you take a series of years, from 1939 to 1943-44, is it not a fact that the losses were more serious than anticipated, and, if you take the average of the whole of those four years, the profits are not above but below what would be anticipated?—No. For the five years 1940 to 1944 inclusive (I have not got 1939-40; I ought to have foreseen that point), the plain fact is that the premium income exceeded the target income by a very great deal. It was 26 per cent. for the five years 1940 to 1944, whereas we expected it to be 10 per cent., and for the year 1944 alone, where we had made our first adjustment, 17 per cent. in place of 10 per cent. (Mr. Harby.) This commenced only on the 1st January, 1940. You would have no earlier information. (Sir Wilfrid Eady.) I am afraid I did not know that. I was not at the Treasury then.

Mr. Benson.] Sir Frank Sanderson's point is: Have they done better during the war years than they would normally do in peace-time? Is not that your point?

Sir Frank Sanderson.

5684. Yes?—I am not in a position to answer that, because it is not Government money involved, and I know nothing about their losses on what is still their own commercial business.

5685. The point I was trying to get at was this: Was not the profit earned during the year 1943-44 somewhat excessive due to the losses being less than anticipated?—Yes.

5686. And, if you take the whole series of war risks, would you not then find that the margin of profit was not in excess of that which you anticipated?—No, I am afraid that is not the position. On this Government insurance, from the time it started until the end of 1945, the total premium income received by the underwriters for this Government marine risk was much in excess of what both sides agreed should be the target.

5687. My final question is this: In regard to the future machinery for insuring Government imports, can you state whether it is being considered by the Government, now that we are in years of peace, that it should revert back to the normal course of insuring through Lloyds?—The whole of that big issue of what is to be the basis of insuring the Government imports and Government-controlled imports is being worked out and will have to be decided by Ministers before the end of this year, when the present premium rates come to an end.

27 June, 1946.]

Sir WILFRED EADY, K.C.B., K.B.E., C.M.G.

[Continued.]

Lieut.-Colonel *Hamilton*.] I am new to this Committee, so you will have to say whether my questions are in order, Mr. Chairman. This is a very peculiar arrangement, as is mentioned in paragraph 5. Government Departments normally always carry their own risks and do not put it in the hands of private insurance companies. The practice was departed from, as is stated here, in order to keep this commercial organisation going. It was a sort of act of kindness to this organisation, which it was considered important to keep in operation. That is why this very unusual departure was made. I observe, in the second sub-paragraph of paragraph 5 of the report of the Comptroller and Auditor-General, that this Committee appears to have had some doubt about it themselves, but said they had not enough information to say whether they thought the arrangement a good one or not. What I would like to know is this: Who actually made this decision that the ordinary procedure should be departed from, and who will make the decision as to how far it is to continue?

Mr. *Benson*.

5688. It was a Government decision?—Yes; it was a Government decision. If I may make clear one point, the ordinary Government procedure is not to insure its property but to take its chances and to save itself the premium. On another occasion, I have indicated what a saving that has meant, for example on the movement of gold which we have managed to put into His Majesty's ships. The decision that marine insurance, which is a vital part of British economy and an immensely valuable collector of foreign exchange, should be continued under conditions which made ordinary business almost impossible was taken at the very outbreak of war. That is, in January, 1940, when the scheme came into operation.

5689. I believe there are other examples of a similar policy to keep an organisation in being, and the Government has operated through the organisation?—Yes. This is part of this immensely lucrative, from the national point of view, business which comes to us by way of foreign exchange. It is connected with the whole tradition of Lloyds underwriting, our own marine insurance world.

5690. Are there any further questions on paragraphs 5 and 6? We pass to paragraph 7, which relates to the arrangements for the financing of E.N.S.A. As time has progressed, N.A.A.F.I. has made continually greater contributions to E.N.S.A.? Yes.

5691. I believe some repayment is to be made by N.A.A.F.I. to Government account; that is so, is it not?—Yes, that is so.

5692. What is the position there?—The position is this, that, in addition to the

current contribution that N.A.A.F.I. have made to each year's expenditure, they have kept in reserve—up, at any rate, till August, 1944, they kept in reserve—from their profits the total of what they owed the Treasury by way of advances to the E.N.S.A. entertainments, so that at the moment these advances are secured. But it began to look as though either N.A.A.F.I. charges would have to rise and create still more dissatisfaction or the Service charities, to which N.A.A.F.I.'s profits normally would go in peace-time, would be denuded, if this system of having the advances fully covered by continuous reserve, were maintained. So that in August, 1944, it was decided to discontinue the old arrangement. Until August of this year, the N.A.A.F.I. profits will be allocated between Service charities and entertainment on an annual basis to be agreed with the Treasury, and any balance of the cost of entertainment will be met finally by the Exchequer. The contingent liability towards the Exchequer up to August, 1944, will be repaid by N.A.A.F.I. in full. I am afraid I am not in a position to tell the Committee the exact allocation that has been agreed upon, but I think that agreement that has been reached will clear up a position that was getting us all into increasing difficulties.

Mr. *Benson*.

5693. Are there any questions on paragraph 7? We turn to paragraph 58, which is on page xviii; "Services not hitherto specified". That is largely formal. A certain number of accounts and figures that were given to this Committee in confidence but were never published, on account of the undesirability of making them public during the war, have now been published for the first time. You will find those figures on pages 6-8. There is item 5 on page 7. Then, for the previous years, the figures are on pages 17-20.

Mr. *Thurtle*.] May I get it clear? Is this the Secret Service?

Mr. *Benson*.

5694. The Secret Service is one of the payments. You will find the Secret Service figures for each year. It is divided into various years. You will find the expenditure in the various years on page 17. On page 17 you will find the Secret Service, and for each year the amount which was expended. This includes a large number of other advances which were not made public?—They were not recorded in Departmental Appropriation Accounts. I think the Secret Service one is the one that was not published at all. It did not appear anywhere until this particular document which is before the Committee.

Mr. *Benson*.] We are at the moment concerned only with pages 1-4.

27 June, 1946.]

Sir WILFRED EADY, K.C.B., K.B.E., C.M.G.

[Continued.]

Mr. Thurtle.] I think we are at cross-purposes.

Mr. Benson.

5695. We have gone to paragraph 58 on page xviii. That is purely a formal statement. Page xviii refers to certain items of the account—pages 1-4 and pages 6-8. Paragraph 58 of the report of the Comptroller and Auditor General is linked up with pages 1-8 of the Accounts?—(Mr. Harby.) No, it is not. It is linked up with Appendix III on pages 17 to 19, as stated in the paragraph. Those are figures for the years 1940 to 1943.

5696. I am sorry.—Those have all been taken by the Committee in previous years, but they have not been published.

5697. On pages 17 to 19, there are the accounts for the four years, 1940 onwards. Are there any questions on pages 17 to 19? You will find there, Mr. Thurtle, annual statements. We turn now to the Account, at pages 1-4. The £150 million surplus to be surrendered is the £150 million previously referred to, I think, Sir Wilfrid?—(Sir Wilfrid Eady.) Yes.

5698. I have no further questions on the Account on pages 1-4. Has any Member of the Committee any questions on that Account? We turn to pages 6 to 8, Services 1 to 12 and Services 14 to 17, administered by the Treasury. On page 6, in Appendix II, there is a list of debts owing by other countries. Could you tell us whether there have been any settlements on any of these outstanding debts?—(We are working them off by degrees. The Committee may have noticed that the largest single one mentioned here in paragraph 1—Advances to Poland—was settled this week. It was not settled, of course, by 100 per cent. repayment. There has been a settlement which includes a part-payment in gold and an agreement to pay the sum agreed between the two Governments over 15 years. Do the Committee wish to know the position of each one of these accounts?)

5699. I do not think so?—The Czechoslovakia one is under discussion. A large part of this particular French advance is settled. The Netherlands one is deferred for two years, because of the economic destruction in Holland. The New Zealand one has all been repaid during 1945-46. The Polish one I have mentioned. In regard to Turkey, the repayments are just over £6 million out of a total of £40 million. They are repayable by 20 years' annuities. There is no default on the annuities up to the present. With regard to the Russian one, the interest has been paid, but the repayment of the principal has only just begun under the agreement, and that accounts for what seems on an earlier page to be a relatively small repayment of principal. With regard to the Yugo-Slavian one, only a small part has been paid, and the terms of settlement in respect of the rest are under discussion. The Iraq one

has been repaid in full with interest at 4 per cent., and the Spanish one has been repaid.

5700. Are these related in any way to the various arrangements that were made in 1938 and 1939?—No. These are mostly 1939 onwards. These Vote of Credit ones all arise from the war. There is nothing pre-war in this Vote of Credit Account.

Mr. Benson.] Are there any questions on pages 6 to 8, Services 1 to 12 and 14 to 17?

Sir Frank Sanderson.

5701. I am not quite clear of the position in regard to Poland's indebtedness of £21 millions. Are we to regard it as a possibility that a major portion of it will be recovered in future?—The financial agreement with Poland contains these three ingredients. We have supplied the Polish armed forces with some £73 millions worth of equipment. That has been written off; it has been treated as mutual aid. We have advanced £47 millions for the pay of the Polish troops. That claim is held in suspense, we reserve a right to re-open the question. It is not waived at all. Then we advanced some £32 millions for civil administration, welfare services and the Polish refugees in the Colonies and other parts of the world, and that has been compounded for a payment of £3,000,000 in gold plus £10 millions spread over 15 years, beginning five years from now. That settles that one. It means a very sharp scaling down of the nominal book value of a debt like this with a country that has had its economy so damaged.

Mr. Benson.

5702. I want to ask a question on page 8, No. 17. There is a misprint there. The Services are numbered: "14, 15, 6" and then a blank. It should be: "14, 15, 16, 17". On Service 16: "Silver purchases and sales", there is a rather curious tale there, I believe. Perhaps we might have the history of these silver purchases and the policy?—When the war broke out, the Government had no silver stocks. The requirements of the market were met from the market's own stocks, and the Government of India sold from their own stocks held in London both to the market for commercial purposes and to the Mint for coinage. The Indian Government's policy was to keep the price from rising above 23½d. per standard ounce. They continued that policy by supplying the market until February, 1941, when they said they saw no reason why they should undertake this responsibility alone, and the Treasury had to make its own arrangements. Much the largest consumer—at any rate, substantially the largest consumer—is the Royal Mint, and there was a very great increase in circulation owing to increased employment and other war causes. There was also a much bigger demand for commercial

27 June, 1946.]

SIR WILFRED EADY, K.C.B., K.B.E., C.M.G.

[Continued.]

silver—not for the jewellery trade, but for industrial purposes, particularly for photography. There was all the expansion of photography in connection with the R.A.F. The Treasury came to the conclusion that it had better take over the business from the Government of India and become the main source of supply. So we arranged bulk purchases from India, as they were needed, at 22d. per standard ounce at Bombay, which allowed us to sell, with a very slight turn in our favour—just enough to keep it right—at 23½d. We purchased also at varying prices in Hong Kong, Greece and Australia, and once from the United States. Up till the 31st March, 1944, we had purchased 73 million standard ounces and had sold 68 million ounces, the Mint having taken 4½ million ounces of our sales. There was very little speculative activity, because we were the suppliers of silver and we restricted the uses made of silver. There was a drastic cutting down of raw silver for the jewellery trade—down to practically nothing. The jewellery trade had to keep itself going by melting down old silver which it obtained. In the year 1943, we had to make a drastic change in our arrangements. The silver situation in India, which, with China more or less out of business at the time, really dominates what happens to silver, got rather out of hand. There was fear of invasion and there was a sharp inflationary rise in silver prices in India. The Government of India first of all said they could not continue to supply us at the low price of 22d., in face of this internal high price demand, and finally they said that they could not supply us with any more silver at all because the internal rise in price in the value of silver in India was such that the old silver rupees were being melted down for their bullion content. So, towards the end of 1942, we asked the United States Treasury whether they would supply us with silver on lend-lease terms. It took an interminable time to work out the arrangements, because silver is an extremely politically explosive subject in the United States. We got into difficulties because we lost nearly 5 million ounces by enemy action; but on the 1st June, 1943,

much to the relief of everybody concerned, the first lend-lease shipment arrived in this country. Since then, we have received 88 million ounces on lend-lease, and we are asking for more. We were not able to have this silver treated like all the rest of the lend-lease and worked off under the final financial settlement, because, again, of the limitations—the constitutional limitations—on what the United States Treasury does with silver. Our obligation is to return within five years of the end of the war an equal amount of silver in specie. That might be an onerous obligation. I do not know whether the Committee want me to give the actual financial figures for the year 1944-45 in and out of the Account, or whether what you wanted was the story of silver.

5703. Yes, the story. I take it you were supplied by the United States with these 88 million ounces when the price of silver was lower than it is likely to be when we have to return it?—Yes. The price of the lend-lease silver in the Treasury books was raised in September, 1945, to 44d., after having been 23d. to 25d.

5704. What is the market price of silver at the moment?—44d.

5705. The American price now controls the world, does it?—Yes, that is right.

5706. We shall have to repay at 44d.?—At the then London price.

Sir Frank Sanderson.

5707. One question in regard to Service 14 on page 8: "Sale of capital assets to the Canadian Government (further on account)," a figure of £441,000. That amount seems conspicuously small. I take it it is merely a payment on account of what will be a much larger payment due?—Yes; it is 2 million dollars out of an account of 207 million dollars.

5708. It is all good? It is merely a question of settlement and collection?—Yes.

Mr. Benson.] Are there any further questions on Services 1 to 12 and 14 to 17 in the Vote of Credit Appropriation Account?

PUBLIC EXPENDITURE ACCOUNT, 1944.

(On this Account no questions were asked.)

CONSOLIDATED FUND ABSTRACT ACCOUNT, 1944.

Mr. Benson.

5709. Will Members turn to the Consolidated Fund Abstract Account, 1944, pages 9 and 10, the report of the Comptroller and Auditor General? On page 9, I see an item: "External Debt repaid (net)." Could you give us some information about that?—(Sir Wilfrid Eady.) These are repayments of £11 million on the Reconstruction Finance Corporation loan—that American loan that was raised just before lend-lease,

which I think you have heard of in connection with the Exchange Equalisation Account—the pledged security loan. There were repayments on that, and there are £12 million on the Canadian Government loan.

Mr. Benson.

5710. Are there any questions on the report of the Comptroller and Auditor General? We turn to the account. I have

N 4

27 June, 1946.]

Sir WILFRED EADY, K.C.B., K.B.E., C.M.G.

[Continued.]

no questions to ask on the Account. Has any Member of the Committee any ques-

tions on the Account? May I take it that the Account is approved? (*Agreed.*)

(Treasury Memorandum on Abridgments in Finance Accounts (Finance Accounts, 1944).)

Mr. Benson.

5711. During the war, the Finance Accounts were simplified for the purpose of saving paper, and the Treasury recommend that the Public Accounts Committee should agree that those simplifications should be made permanent. I should like to know whether the Comptroller and Auditor General has anything to say on that point?—(Mr. Harby.) No; we think the abridged form is quite satisfactory for the future.

Mr. Benson.] In order to see what the abridgment is, the Committee would have to compare the Finance Accounts for 1942-43 with the recent Accounts for 1944-45. I have looked through them this morning with the Comptroller and Auditor General, and it does not seem to me that there is any particular reason why we should not agree with the recommendations of the Treasury.

Sir Frank Sanderson.] Is it recommended by the Comptroller and Auditor General?

Mr. Benson.] Yes. The Comptroller and Auditor General says he has no objection whatever.

Sir Frank Sanderson.] By which you take it he approves?

Mr. Benson.] He has no objection. It is not for him to approve or disapprove. He advises that he can see no objection and, if the Committee agrees with him that there is no objection, then we consent that the

(Sir Wilfrid Eady withdrew.)

VOTE OF CREDIT APPROPRIATION ACCOUNT, 1944.

COTTON BUYING COMMISSION.

Mr. C. E. I. JONES called in and examined.

Mr. Benson.

5714. Will Members turn to the Vote of Credit Appropriation Account, 1944, page xviii, paragraph 57 of the report of the Comptroller and Auditor-General? This is with regard to the Cotton Buying Commission. Perhaps we might have the history of this, particularly with regard to the present position?—(Mr. Jones.) This is the first of two Cotton Buying Commissions which were set up during the war. This was set up in 1940 and was a purely British Commission. The one set up in 1941 was the Anglo-Egyptian Cotton Buying Commission. Both ceased active operations at the end of August, 1945, but their final accounts have not yet been prepared. The balance of profit on the two Commissions is estimated at a total of £8

Treasury should retain the present format. They are comparatively minor simplifications.

Mr. Thurtle.] That is the highest degree of approval that the Comptroller and Auditor General ever expresses, is it not?

Mr. Benson.] Yes. He is a constitutional critic. Are there any questions which any Member of the Committee would like to ask Sir Wilfrid on this point, on the format?

Sir Frank Sanderson.

5712. I would like to be assured that the Comptroller and Auditor General is satisfied that the new form will give all the information which is reasonably required?—Yes. If I may say so, in the old Finance Accounts, you had some information that you have already in the Civil Appropriation Accounts. Now it is summarised in the Finance Accounts instead of being given in detail. In the old Finance Accounts, every judge's name was printed and the salary he drew. Now you say that there are six judges drawing £5,000, instead of printing all their names. That is the kind of alteration which has been made.

5713. From that statement, it would appear that it meets with your approval?—No—I have no objection.

Mr. Benson.] There is very little information which is suppressed, and what information is suppressed can be obtained elsewhere. Is that agreed? (*Agreed.*)

millions, of which one-half—£4 millions odd—will be due to the United Kingdom Government, subject to undertakings that were entered into with the Egyptian Government that half of that sum would be made available for the benefit of the Egyptian cultivator.

5715. I believe there is some further arrangement with regard to our half, is there not?—That proposition has been put to the Egyptian Government, but the latest advice I had from the Accounting Officer was that these proposals had been submitted in writing to the Egyptian Government in June of this year, but we have not yet heard the decision of the Egyptian Government. I rather imagine that they are very much preoccupied with the treaty negotiations and this is rather hanging fire at the present moment.

27 June, 1946.]

Mr. C. E. I. JONES.

[Continued.]

5716. The further suggested arrangement was that one-half of our half should be devoted to the interests of the fellaheen, was it not?—That was part of the undertaking which was agreed with the Egyptian Government at the time we entered into the joint Commission in 1941.

5717. So that in reality the arrangement was that the British Government should take one-quarter of the profit and that the rest should go half to the Egyptian Government and one-quarter to what one might term social services?—I think what is not yet settled is whether the Egyptian Government will apply their share, which is due for them to make available for the benefit of the Egyptian cultivators, in exactly the same way as we shall.

Mr. Benson.] I have no further questions on paragraphs 56 or 57. Has any Member of the Committee any questions?

Sir Frank Sanderson.

5718. In paragraph 56, the Comptroller and Auditor General states that the "Commission was set up to buy Egyptian cotton and cotton seed of the 1940 crop under arrangements described in paragraph 24 of my Report for 1940." I understand that, when Italy came into the war and the Medi-

terranean was closed, we sent out this Commission and purchased the whole of the crop of cotton seed and Egyptian cotton from the Egyptians with a view to assisting their economic position primarily. What I do not understand is this. The Comptroller and Auditor General states later on that these stocks have been disposed of. The cotton seed has not arrived in this country, either during or since the war. Could you tell the Committee how and to whom it was disposed?—Most of these disposals were made a good many years before this year of account. This year really records the closing transactions of the Commission. I imagine that the bulk of the purchases made in 1940 would have been disposed of in the main in 1941 and 1942. The Ministry of Supply were holding certain stocks still in Egypt in 1944, but that was more or less the residue of the purchases of the Cotton Buying Commission. (Mr. Harby.) As regards cotton seed, that was, to a large extent, bought by the Ministry of Food.

Mr. Benson.] Are there any further questions on paragraphs 56 and 57? Will Members turn to the Account, which is at page 16, Service 70. I have no questions. Has any Member of the Committee any questions?

(Mr. Jones withdrew.)

CIVIL APPROPRIATION ACCOUNTS, 1944.

CLASS VI.

VOTE 8.

FORESTRY COMMISSION.

(On this Account no questions were asked.)

TRADING ACCOUNTS AND BALANCE SHEETS, 1944.

FORESTRY COMMISSION ACCOUNTS.

(On this Account no questions were asked.)

CIVIL APPROPRIATION ACCOUNTS, 1944.

CLASS VIII.

VOTE 2.

MINISTRY OF PENSIONS.

(On this Account no questions were asked.)

VOTE OF CREDIT APPROPRIATION ACCOUNT, 1944.

MINISTRY OF PENSIONS.

(On this Account no questions were asked.)

(The witnesses withdrew.)

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

TUESDAY, 2ND JULY, 1946.

Members present:

Mr. PEAKE in the Chair.

Mr. Benson.
Mr. Cuthbert.
Lieut.-Colonel Hamilton.
Mr. Haworth.
Mr. Holmes.

Mr. Kirby.
Mr. Lever.
Sir John Mellor.
Sir Frank Sanderson.
Mr. Thurtle.

SIR GILBERT UPCOTT, K.C.B., SIR HERBERT BRITTAIN, K.B.E., C.B., and
Mr. C. E. I. JONES called in and examined.

VOTE OF CREDIT APPROPRIATION ACCOUNT, 1944.

FOREIGN OFFICE.

Mr. L. B. SHERWOOD, O.B.E., called in and examined.

Chairman.

5719. Mr. Sherwood, are you the Accountant to the Foreign Office? What is your proper title?—(Mr. *Sherwood.*) I am head of the Finance Department of the Foreign Office.

5720. I see these Vote of Credit Appropriation Accounts were signed by Sir Alexander Cadogan but you take responsibility?—I take responsibility, yes.

5721. And you are prepared to answer questions on them?—Certainly.

5722. Will Members turn to the Vote of Credit Appropriation Account, 1944, and to the Report of the Comptroller and Auditor General page v paragraph 9. This paragraph deals with what is known as U.N.R.R.A. In the Accounts for the year 1944-45 there is £1,694,000 approximately for expenditure by U.N.R.R.A. and that I gather is made up of £279,000 which is our agreed proportion—15 per cent. of the administration expenses—and £1,415,000 odd for cash payments to U.N.R.R.A.?—The operational expenditure.

5723. The Comptroller and Auditor General goes on to say "Further contributions to meet the operational requirements of the Administration were made by Supply and Defence Departments in the form of stores issued and services rendered." Can you give us the approximate value of these services in kind rendered by the Supply and Defence Departments?—I do not think I can give the actual charges. I can give you the cash payments and departmental returns of charges as at 31st March, 1946. That includes the year following the year of account. I have not the figures for the year of account only. I could give you the figures if they are of interest to the Committee up to 31st March, 1946.

5724. If you would. These figures are for payments in kind in the form of supplies and stores up to the end of March of this year. Is that right?—Yes. (Sir *Gilbert Upcott.*) If Mr. Sherwood gives

those figures, I think he should also give the figure of cash payments by the Foreign Office to U.N.R.R.A. for relief in the year succeeding the year of account. That will give the complete picture. (Mr. *Sherwood.*) Yes, I was proposing to do that.

5725. If you please?—The cash payments total £10,027,000. I will give it in thousands of pounds if I may. The Supplies and Services total £29,954,000. The total is £39,981,000.

5726. I just want to ask Sir Gilbert what his responsibility is as regards the accounts of U.N.R.R.A.?—(Sir *Gilbert Upcott.*) These cash payments and supplies are not expressed to be a grant in aid but that would not be in any case applicable to Vote of Credit issues. For my part I regard my position in relation to these issues from the British Exchequer as similar to my position in the case of a grant in aid; that is to say I regard it as my duty to see that the issues to U.N.R.R.A. conform to Parliamentary or Treasury authority but not to concern myself to see that the money or supplies reach their ultimate destination. That no doubt is a matter in which the Foreign Office and the Treasury are interested, but this is an international organisation which has its own methods of organisation and I do not think it would be proper for me to attempt to follow up the supplies or cash after they have been issued to U.N.R.R.A. I have in point of fact had some information from time to time as to the financial administration of U.N.R.R.A. because my officer in New York has been a member of the Audit Sub-Committee of U.N.R.R.A., but I think it would be better for the Committee to receive detailed evidence on the financial administration of U.N.R.R.A. from the Foreign Office or the Treasury rather than from myself.

5727. When you speak of the Audit Sub-Committee of U.N.R.R.A. what is that for?—U.N.R.R.A. is a self-governing body and appoints its own auditors. The Audit Sub-Committee is that part of its organisa-

2 July, 1946.]

Mr. L. B. SHERWOOD, O.B.E.

[Continued.]

tion which supervises the audit arrangements. U.N.R.R.A. has an internal audit system of its own but also professional auditors who are, I think, Deloitte, Plender, Griffiths & Co.

5728. Do they audit the whole expenditure of U.N.R.R.A. wherever the expenditure is incurred?—So I understand, but perhaps it would be better for the Treasury to give precise details. (Mr. Jones.) Yes, that is so.

5729. Does anybody in the Foreign Office see the professional auditors reports?—(Mr. Sherwood.) Yes. We have here the one auditors report that has been published; the report, that is, by the professional auditors.

5730. Does that show a reasonably satisfactory position?—No. I am afraid I cannot say that it does. Would you care for me to read suitable extracts?

5731. Yes—please do not read it all?—(Mr. Jones.) Perhaps I might say first of all that the Treasury is represented on the Committee of Financial Control which, under the Council of U.N.R.R.A., is responsible for the general financial control and for all accounting matters and has a technical sub-committee consisting of people who are experienced in audit matters. There is the Audit Sub-Committee on which we have been helped by the presence of a member of the Comptroller and Auditor General's staff, and these two bodies have been giving very close attention in the last twelve months, in consultation with the professional auditors of U.N.R.R.A., to cure the original troubles which U.N.R.R.A. experienced from having been set up with a world-wide organisation at a time when accountants were in very short supply, and there has been much discussion and consultation in these Committees and various measures have been taken by the Administration to reform their administration and to meet the criticisms that were made by the auditors when they made their first report in July of last year. The present position, I understand, is that the last Council Meeting which was held at Atlantic City in the Spring of this year considered the various criticisms which had been raised by the auditors of U.N.R.R.A., and passed a resolution enjoining the Administration to secure that the various reforms which had been promised were given effect to, so that the Accounts for the calendar year 1945 should be completed and audited as soon as possible. In the earlier days the story was not very satisfactory but I think we are satisfied that all practical measures have been taken to improve matters by finding new staff and by strengthening both the internal audit and the accounting staff of the Administration.

5732. Thank you. That answers the question I had in mind. One other question, Mr. Sherwood. What is our

total commitment to U.N.R.R.A.?—£155,000,000.

5733. That is the outside limit is it?—At present, yes.

5734. Is it all likely to be called for? I suppose you cannot say?—I think it would be very difficult to answer that.

Chairman.] Are there any questions on paragraph 9 of the Report of the Comptroller and Auditor General?

Sir John Mellor.

5735. I see it is stated that our share of the administration expenses is 15 per cent. Is our share of operational expenses also 15 per cent.?—No. Our share of operational expenses is based on an estimate of 1 per cent. of the national income as estimated by H.M. Government.

5736. Is the cost of stores and services provided by the Supply and Defence Departments credited against our obligation?—Yes, that is operational. That is part of the operational expenses.

Sir Frank Sanderson.] Might I put a quite minor point? I observe that the Comptroller and Auditor General in the first part of the paragraph gives the figures in dollars; the second part of the paragraph gives the figures in dollars and in pounds sterling. Would it not be more convenient if the Accounts were compiled either in dollars or in sterling, but not partly in each?

Chairman.

5737. That is a question more for Sir Gilbert, I think. It is his paragraph?—(Sir Gilbert Upcott.) I am obliged to translate the figures because they appear in U.N.R.R.A. Accounts as dollars but they appear in the British Accounts as pounds sterling.

5738. To take an illustration I have in mind, it says "the United Kingdom share (15 per cent.) of the budget of 10,000,000 dollars covering the administrative expenses, etc." then it goes on to say "of the charge of £1,694,645 2s. 1d. in the present account" and so on. The point that surely must present itself to any member of the Committee is what was the rate of exchange and what rate of exchange was it taken at? I should have thought it would have been simpler if the figures could have been given either in pounds sterling or in dollars—I do not mind which, but not both.—This first sub-paragraph of paragraph 9 is a very abbreviated reproduction of a paragraph which I wrote in my report on Accounts of 1943 which gave the figure in dollars and sterling, namely, that the charge of £372,000, which was in the Account represented the sterling equivalent of 15 per cent. of the budget of 10,000,000 dollars. The exchange has been pegged all through. The exchange is 4.03 dollars. 4.03 dollars is and has always been so far pegged. It is the same in both years.

2 July, 1946.]

Mr. L. B. SHERWOOD, O.B.E.

[Continued.]

Mr. Haworth.

5739. The figure given by you of £39,000,000 is the accumulative total, I take it?—(Mr. Sherwood.) That is the full total of all charges up to 31st March 1946. (Mr. Jones.) Perhaps one had better make a reservation there. I think it omits certain transfers of military stores in the field when there was some delay in reporting what stores had been transferred to the Board of Trade, who are compiling these global statistics and there were probably also certain billing delays in compiling this March 31st, 1946, figure. The physical deliveries by the 31st March may in value prove to have been more than this total figure of £29,000,000 to £30,000,000 when we finally get the bills rendered.

5740. There is a provision in this year's Estimates for £90,000,000?—Yes.

5741. Which is estimated or calculated to be the balance to make up our total contribution of £155,000,000?—Yes. It was extremely difficult to estimate that figure because we were aware at the time that Estimate was prepared of the delays in getting bills to U.N.R.R.A. valuing stores delivered, particularly by the Defence Departments for stock handed over in the field. We have every reason to believe that the figure of £29,000,000 to £30,000,000, of which you have been informed, will prove to be less than the actual value of these deliveries when they have all been worked out.

5742. Can you tell us how our percentage figure of the national income, which is our basis of payment for operational expenses, compares with the United States figure?—(Mr. Sherwood.) It is 1 per cent. in each case.

Chairman.

5743. Are there any further questions on paragraph 9 of the Report of the Comptroller and Auditor-General? We turn to the account which is at page 8. I should like to ask Mr. Sherwood a question or two about Item No. 18 "Assistance to the Government of Saudi Arabia," a figure of £1,662,000. Perhaps you would explain that to us, would you? Will you tell us what the idea is?—H.M. Minister at Jeddah reported that there was considerable risk which might arise in Saudi Arabia on the outbreak of war in Europe from the activities of the enemy. It was recommended by the Minister then that we should agree to compensate Saudi Arabia for the loss of revenue arising out of a reduced pilgrimage, and an initial payment of £200,000 was proposed.

5744. Have those payments gone on at an increasing rate year by year?—At an increasing rate up till 1943. In 1944-45 they began to fall and now they have finished.

5745. Can you give us the total amount of the payments?—Yes. Net, £11,739,000 is our present estimate. That is subject to a certain amount of correction and adjust-

ment. I say "net" because we are expecting a contribution from the United States Government who, in the last 2 years of the payments, began to take an increasing interest in Saudi Arabia and joined with us in helping them.

5746. Are they going to pay a proportion of it?—Yes. It was based roughly on half shares each; but it is not an exact arithmetical division.

5747. It possibly would not be very tactful for us to enquire in great detail as to the reasons for these payments?—I think we could safely say now that the reason was that this is a most important strategic point. It was most important in fact that as far as possible internal peace should be preserved in Saudi Arabia.

5748. These people had to be kept happy and comfortable during the war?—They lost their revenue from the pilgrimage, which was one of their main sources of income.

5749. I think we shall have to take the word of the Foreign Office for it, that this money has been well spent?—I can give that assurance without any hesitation at all. We regard it as a very good investment indeed.

5750. The next item, No. 19, is "Assistance to Ethiopia." That is not quite on the same footing, is it?—No, that was by treaty or by agreement. Immediately after the liberation of Ethiopia, an Agreement and Military Convention was signed between this country and Ethiopia on 31st January, 1942. Under that Agreement, having in mind the shocking conditions to which Ethiopia had been reduced first by Italian occupation and then by being fought over, it was decided—and published in Command 6334—that financial help should be given to Ethiopia to get started again.

5751. Is it a fixed payment over a number of years?—No. It was a reducing payment. I have the details here.

5752. For how long does it go on?—It finished in 1944, because the Ethiopian Government denounced the Agreement as it was then in force, and the new Agreement which was then negotiated contained no further provision for financial aid from His Majesty's Government. So with the exception of a few payments which were not part of the Agreement, which were allowed, as one might say, as an act of grace in addition to what the Agreement provided—as I say, with the exception of a few quite unimportant amounts still being paid, there is no further expenditure under this heading.

5753. These are the final payments shown here?—Yes.

Chairman.

5754. With regard to the assistance to the Government of Saudi Arabia, has any allied government besides the United States

2 July, 1946.]

Mr. L. B. SHERWOOD, O.B.E.

[Continued.]

of America been invited to contribute to that assistance?—No.

Chairman.] Are there any further questions on the Account? May I take it that

the Vote of Credit Appropriation Account is approved? (*Agreed.*) Thank you, Mr. Sherwood.

(*Mr. Sherwood withdrew.*)

CIVIL APPROPRIATION ACCOUNTS (WAR SERVICES), 1944.

PARAGRAPHS 1-5 OF THE REPORT OF THE COMPTROLLER AND AUDITOR GENERAL.

Sir HERBERT BRITAIN, K.B.E., C.B., called in and examined.

Sir Herbert Britain.] I think Sir Wilfrid Eady has already apologised for not being here himself. He went to the Argentine on Saturday.

Chairman.] Yes. The first five paragraphs of the Report of the Comptroller and Auditor General on the Civil Appropriation Accounts (War Services) 1944, are quite formal, so we need not bother with them.

NATIONAL DEBT:

FUNDS LEFT IN TRUST FOR THE REDUCTION OF THE NATIONAL DEBT.

POSITION AT 31ST MARCH, 1946.

Chairman.

5755. I think you explained this matter to the Committee a few months ago, Sir Herbert. It is a fund left by an anonymous donor with a view ultimately to extinguishing the National Debt?—(*Sir Herbert Britain.*) Yes.

5756. It was established in 1927 with a gift of £500,000. Looking at the foot of page 2, the value of the fund is now £1,532,000. There is a very big increase in the value of the fund as against the previous year, an increase of £257,000, as I calculate it. If we look a little higher up, we see what has been received in the year ended March 31st, 1946. The figure of contributions received is £174,000. What are those contributions?—From time to time, people do leave money to this fund; but, of course, we do not keep this fund; we do not manage it at all. It is in the hands, as stated above, of Baring Brothers, who are the trustees appointed by the original donor. We do know of cases from time to time (we are called in about them) where people leave varying amounts to this fund for the reduction of the debt. It just comes in, and that is that.

5757. Supposing I, in my Will, or any other member of the Committee in his Will was disposed to try to reduce the National Debt, is a mere bequest for the purposes of reducing the National Debt automatically passed over to Baring Brothers?—No. We had a case in which that question arose. An estate was left, and there was some argument as to where the donor wished the money to go. He referred to the "Baring Fund for the reduction of the National Debt." Eventually it went into this fund, but if you just left the money towards the reduction of the National Debt

or towards the cancellation of some of the National Debt, it would probably come to us or to the National Debt Commissioners.

5758. At any rate, during the year this large sum of £174,000 has passed to this fund—again from anonymous donors, I suppose?—I should not like to say off-hand that they were all anonymous. In some cases the fact that the money has been given has appeared publicly, I think. Those people are not necessarily anonymous.

5759. If you add together the contributions received and the net income of the year, which is about £222,000, we are still left about £35,000 short of the increase in the value of the fund over the 12 months. How would that be accounted for?—That is due to the rise in the value of securities. The securities in which this fund is held are rather mixed, but quite a large proportion of them are now Government securities, and of course, over this particular 12 months and since, there has been quite a considerable appreciation in Government securities. The figure at the top is the cash invested on behalf of the fund; the figure down below is the market value.

5760. Thank you. I do not think I have any questions about the Elsie Mackay Fund. That is a somewhat similar fund except that it has to terminate within 45 or 50 years?—Yes.

5761. And can be invested only in gilt-edged securities?—In trustee securities. (*Sir Gilbert Upcott.*) The Elsie Mackay Fund is almost entirely, if not entirely, gilt-edged. I audit it.

5762. Is there a difference between gilt-edged and trustee securities? I am not a Stock Exchange man?—(*Sir Herbert*

2 July, 1946.]

Sir HERBERT BRITAIN, K.B.E., C.B.

[Continued.]

Britain.) There are a large number of Dominion stocks, Colonial Stocks, and some railway debentures and that sort of thing, which are trustee securities as well as gilt-edged.

5763. "Gilt-edged" is a term of art used by the Stock Exchange, is it not, or is there some definition of it?—I am sorry—I was taking it rather in the sense of Government securities. (*Sir Gilbert Upcott.*) I think the former Committee was told that originally the National Fund held a very wide range of industrial securities, it has a very wide discretion, I think. (*Sir Herbert Britain.*) Yes, we were talking about the other two.

Chairman.] Are there any questions on this Account?

Mr. Haworth.

5764. This statement of the National Fund, I take it, is the only statement issued publicly. If people do leave contributions, it occurs to me that it is rather a scurvy acknowledgment unless we do show it publicly. Would there be any difficulty in stating who was the donor, where the name was public, in a statement such as this? It seems to me it is the least one could expect on behalf of the nation that we should acknowledge peoples' legacies?—Perhaps we could consider that with the trustees. We must consult them about it, I think, as it is primarily their account. I do not think we should have any objections.

Mr. Benson.

5765. It might be a highly profitable thing to draw the attention of the public to the generosity of some other member of the public?—It might be.

5766. It might well be that if there were a generous acknowledgment in the Times your funds would flow in much more rapidly. I notice a rather curious fact. In the 18 years to 1945, further contributions amounted to £193,000. During the year 1946, contributions received were £174,000. In one year the fund has received almost as much as it received in the previous 18 years?—There was about £89,000 which came from one estate during 1945-46.

5767. Even with that amount, which reduces the contributions received approximately by half, it still leaves the fund receiving £70,000 in one year, as against £193,000 in 18 years. Is that just pure luck?—I am sure it is. It must be quite fortuitous.

Chairman.] I thought it was the advent of a Socialist Government!

Mr. Benson.

5768. It may well be a feeling of thanksgiving running right throughout the

property-owning classes?—This particular donor I mentioned died in 1936.

Sir Frank Sanderson.

5769. On page 2 it is stated that the gift was made on condition that it should be retained and accumulated until, either alone or with other funds, it was sufficient to discharge the National Debt; whereas, with regard to the Mackay Fund, it is stated that the money was to be accumulated for not less than 45 and not more than 50 years. Is it assumed that the Elsie Mackay Fund will in fact cease at the end of 45 or 50 years and the money will be handed over to the Commissioners of the National Debt?—Yes, I think that is what will happen.

5770. With regard to the National Fund, in view of the fact that the amount is roughly £1,500,000 at the present time, and that the weight of the National Debt to-day is approximately £24,000,000,000, and that it would take 600 years on a basis of 2½ per cent. to accumulate sufficient to repay it, is it intended to wait 600 years before this fund is used for the purpose, so far as you are aware?—We had to accept this gift on the terms on which it was offered to us.

5771. Assuming the National Debt does not decrease in the next 600 years, the amount will accumulate until that time. That is the intention?—I think that will be dealt with by some of our successors.

5772. One other question I would like to ask is this. Does this money accumulate without deduction of income tax or is it subject to taxation at the same rate as the ordinary funds of an investor?—They recover income tax. There is an item in the year 1945-46 "Net Income and Income Tax Recoverable."

5773. They recover the full amount of income tax?—I am certain that must be the case.

Sir Frank Sanderson.] I think my calculation is approximately correct that it will probably be 600 years hence.

Mr. Benson.] That is near enough for this Committee.

Sir John Mellor.

5774. When a bequest is expressed to be for the reduction of the National Debt, is it automatically applied for the reduction of the Funded debt or does it go into the till to be used for the reduction of the floating debt?—Assuming there were no qualification in the trust or testament, we have full discretion to use it as we wish, I think.

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

2 July, 1946.]

SIR HERBERT BRITAIN, K.B.E., C.B.

[Continued.]

TRADING ACCOUNTS AND BALANCE SHEETS, 1944.

PARAGRAPHS 1-2 OF THE REPORT OF THE COMPTROLLER AND AUDITOR GENERAL.

(On these Paragraphs no questions were asked.)

CIVIL APPROPRIATION ACCOUNTS, 1944.

CLASS I.

VOTE 3.

REGISTRATION OF ELECTORS.

(On this Account no questions were asked.)

VOTE 4.

TREASURY AND SUBORDINATE DEPARTMENTS.

Chairman.

5775. Will Members turn to the Civil Appropriation Accounts, 1944, Class I, Vote 4, Treasury and Subordinate Departments. The Account is on pages 13 to 17. I have a question on page 17. About threequarters of the way down the page, there is a reference "Surplus Stores, etc., Liquidation Account." This deals with the disposal of surplus stores after the war 1914-18?—(Sir Herbert Britain.) Yes.

5776. The note tells us "Receipts during 1944 include £2,000 in final settlement of a claim for £17,500. A further claim amounting to £52,946 remains outstanding." Could you give us a little information about those two items?—(Sir Herbert Britain.) As regards the first one, that arose from a loan made in 1917 by the then Ministry of Munitions to a company which was concerned with copper production in Queensland. At the end of the war, the company found difficulty in getting rid of its products and operations stopped. To avoid sending the company into liquidation, it was agreed that the balance of our outstanding loan (the original loan was £70,000) should be surrendered against a cash payment of £7,500, and the balance of the debt was then fixed at £17,500, the figure mentioned here. But, owing to high costs the company never went into production again and we have received nothing more on our debt. In 1943, 3 years ago, the company told us that they proposed to go into a scheme of arrangement with a view to attracting fresh capital so that they might try again at their copper mining after this war, and as a measure of help—and also in view of the fact that at that stage we ranked only as an ordinary creditor of the company and had not any hopes of getting any large sum in payment—we agreed to accept this sum of £2,000 in full settlement of the whole thing.

5777. What is the further claim?—The £52,000 is another remanet from the last war. Very shortly, we sold a certain

amount of war stores to a company in Belgium. Very shortly after the company had taken possession of them, the Belgian Government themselves claimed it, and ever since 1919, or shortly afterwards, the matter has been before the Belgian Courts, and is still not settled. The original debt was about £109,000. We actually got back £57,000, so that this £52,000 is the balance, about half the original debt.

5778. When that matter is cleared up, everything pertaining to the disposal of surplus stores of the last war but one will be disposed of?—I should think so—certainly so far as the Treasury is concerned in terms of £ s. d. Whether there are other problems still left over I do not know. But I think that is substantially so.

Chairman.] Are there any questions on the Account on pages 13-17?

Mr. Lever.

5779. With regard to this £2,000 item, has any step been taken to ascertain how the other creditors fared in their claims against this Company, to see that the Treasury did not fare any less profitably?—I am sorry but I have not the full details of that.

5780. Did you ascertain before settling for £2,000 that other creditors were not receiving more favourable treatment?—It is the sort of question we normally ask. I have not actually the record here that we did. Mr. Jones says that in fact we did find out that we were not treated any less favourably than any other creditors. You may take that as an assurance.

Mr. Benson.

5781. I should like to ask why the Ministry of Civil Aviation comes into this group of accounts, on page 15.—This was a temporary arrangement of course. We had put in here a number of offices of Ministers. It is not the Ministry in the full sense of the word. They are in theory the personal staffs of various Ministers, and it was

2 July, 1946.]

Sir HERBERT BRITAIN, K.B.E., C.B.

[Continued.]

thought that was the appropriate way to deal with the office of the Minister of Civil Aviation for the time being. Since then it has a vote of its own.

5782. That is why the office of the Minister of Re-Construction appears there also?—Yes. There is a whole list—the office of the Minister of Re-Construction, the office of the Minister Resident in the Middle East, the office of the Minister Resident in West Africa, and so on.

Sir *Frank Sanderson*.] On page 14, sub-head D₄ is, "Incidental Expenses". It shows a grant of £10,000 and an expenditure of £32,000. The excess of expenditure over the grant was £22,000. The note states, "Excess mainly due to catering, etc., charges in connection with a hostel provided for the use of the staff." Was this quite a new conception to have this hostel?—Sir Wilfrid Eady last year explained to the Committee that this hostel had been opened in August, 1943, in Cairo owing to the very great difficulty of getting suitable accommodation for greatly increased staffs out there at reasonable prices. We took over a building which had just been erected and put out a catering contract to, I think it was, Thomas Cook & Son out there, and made charges on sliding scales to the staff who were housed there. Actually the building was rather an expensive building; I imagine it was the best available at the time. The result was that we felt that we could not put the whole of the full cost on to the staff there, so that there was a loss year by year. But it has now been closed in October, 1945.

Sir *Frank Sanderson*.] I recall raising this point last year.

Mr. *Haworth*.

5783. Is not this the same figure that appears on page 17 on the credit side?—That is so.

5784. We had £23,000 credit.—That is so. That £23,000 is credit, but there is more than £23,000 in sub-head D₄ on page 14. The £22,000 is only the difference between the grant and the expenditure.

5785. Yes, but that is a set-off.—It certainly is a set-off. The loss was estimated at £1,800 a year.

Sir *Frank Sanderson*.

5786. One other point. On page 15, sub-head H₁ "Salaries, etc.", a grant of £5,700, whereas the expenditure was £8,000, showing an excess over the amount granted of £2,300. The note states "Excess mainly due to the appointment of a secretary during the year for which no provision was included in the Estimate." Was it proposed at one time to carry on this work without a secretary?—During the war there was no full secretary to the University Grants Committee, because these grants were not changing. Their responsibilities were not as great as they were in peace-time, or as great as they are now, and this represents a change really by way of preparation for their peace-time work.

5787. Would you suggest that the University Grants Committee warranted the payment of a full time secretary at approximately £2,500 a year?—It is not £2,500.

5788. The difference is £2,300.—That includes some other items. The salary of the secretary is £1,700, but I should think the Treasury would certainly regard that work as justifying the appointment of a secretary with a salary of that kind. There is very large money in it nowadays.

Sir *John Mellor*.] On page 17, in the details of receipts, there is an item "Suez Canal Company—Resident Director's Fees," a figure of £502. How did it happen that the Treasury received £502 for Resident Director's fees?

Chairman.

5789. I can explain that one myself.—The normal arrangement is that when for instance an officer of the Treasury is acting as Resident Director, he continues to receive his salary from the Treasury, but any fees he gets by virtue of his appointment as Director are taken into the Exchequer.

Sir *John Mellor*.

5790. Is that all that any Resident Director got?—It may be part of a year.

Chairman.] Are there any further questions on the Account? May I take it the Account is approved? (*Agreed.*)

VOTE 6.

PRIVY SEAL OFFICE.

VOTE 13.

GOVERNMENT HOSPITALITY.

(*On these Accounts no questions were asked.*)

VOTE 19.

REPAYMENTS TO LOCAL LOANS FUND.

Chairman.

5791. Will Members turn to page 37. Sub-head B is "Repayments of Assets written off" a figure of £9,828 ros. That is not,

at first blush a very informative sub-head. Would you tell us what it means?—(Sir *Herbert Britain*.) Parliament is given information about this in another connection.

2 July, 1946.]

Sir HERBERT BRITAIN, K.B.E., C.B.

[Continued.]

The principle is that when a loan has been made out of the Local Loans Fund, and turns out to be a bad one, Parliament in the Public Works Loan Bill of the year has to write that off the assets of the Local Loans Fund formally, and then the Exchequer makes good the loss to the Local Loans Fund through this Vote. When the Public Works Loan Bill is presented, we give there, in a memorandum attached to the Bill, a sort of financial memorandum, full details of all the cases, including not merely details of the loan, but all the circumstances in which the loan has gone bad so that although details are not published here, they are given very extensively elsewhere for the information of Parliament.

5792. My recollection is that the details, together with a short history of why each loan has been written off, used to appear in the Schedule to the Public Works Loan Bill?—The Schedule gives a table, giving the name, the amount, and so on. In addition to that, there is bound up with the Bill itself quite an extensive memorandum which gives much more detail of the circumstances of each case. I do not think all these details have ever been in the Bill, because my recollection is that the Memorandum was produced at the request of this Committee many years ago.

5793. I have a copy of the Act of 1944 here, and it does set out in the Schedule the names of the individuals who had received loans. It does not go into the detail of why the amounts were written off?—That is set out separately in an explanatory memorandum bound up with the Bill. (Sir Gilbert Upcott.) In case there might be any misunderstanding, it should be understood that when these repayments are written off the Local Loans Fund they are not necessarily remitted. Sometimes they remain due from the borrower, but the Exchequer becomes the creditor instead of the Local Loans Fund. (Sir Herbert Britain.) They remain due to the Exchequer.

5794. They are written off as bad debts from the point of view of the loaner, which is the public Works Loan Fund?—(Sir Gilbert Upcott.) Yes.

Mr. Benson.

5795. On the question of these debts, apart from one or two harbours, practically the whole of these debts are related to farm mortgages?—(Sir Herbert Britain.) Yes, under the Agricultural Credits Act.

5796. With the increase in the value of land there ought to be an enormous reduction in this figure in the next year or two. Does the Treasury handle those debts, or is it entirely a matter for the Public Works Loan Commissioners?—The Public Works Loan Commissioners handle them and make recommendations to us.

5797. Whose job is it to put on pressure with regard to the debts outstanding? These figures represent the actual writing off. There is a very much heavier debt

actually owed on these mortgages in arrears, in either interest or capital. Is it the Treasury's job to put on pressure?—The Public Works Loan Board's.

Sir Frank Sanderson.

5798. The heading of this Account is, "Repayments to the Local Loans Fund." It is in respect of advances in Northern Ireland. I take it that this small amount does refer to the advances to Northern Ireland of the main Local Loans Fund?—Yes.

5799. Or is it that there are two entirely separate Local Loans Funds, one dealing with loans to Northern Ireland, and the other the Local Loans Fund as we know it in respect of our own country?—There are now two local loans funds, but this account relates to advances made in Northern Ireland before 1921, before the Government there was divided. Those debts are collected by the Government of Northern Ireland, and we repay the Local Loans Fund the full amount due out of this Vote and we recover from Northern Ireland through the residual share arrangement what is due less a certain allowance for bad debts and so on.

5800. Is it proposed eventually to wipe out the Northern Ireland Local Loans Fund?—The Northern Ireland Local Loans Fund is a new fund set up since they were divided, and is run by them now, but this relates to advances from our fund before 1921.

5801. From our Local Loans Fund to the Northern Ireland Local Loans Fund?—Not from our Fund to their Fund, but from our Fund to individual borrowers in Northern Ireland before 1921. We shall go on collecting those until the terms of the loans run out.

5802. We are here dealing specifically with this small branch, namely Northern Ireland?—With Northern Ireland borrowers from our fund.

5803. We are not dealing in any way with the principal fund?—No.

Mr. Benson.

5804. Each year prior to the war we used to get a very elaborate and useful report from the Local Loans Commissioners. When is that likely to start again?—You get a detailed account of the fund.

5805. You get a White Paper of three sheets, which contains merely the figures of the fund, but there was a valuable report on its work.—It has probably been suspended during the war. There is no intention of permanently suspending it.

5806. When is it going to be published again?—I will make enquiries about that. (Sir Gilbert Upcott.) The Local Loans Fund has been practically in suspense during the war.

Chairman.] Are there any further questions on the account? May I take it the Account is approved? (Agreed.)

2 July, 1946.]

Sir HERBERT BRITAIN, K.B.E., C.B.

[Continued.]

VOTE 20.

ROYAL COMMISSIONS, ETC.

Mr. *Thurtle*.

5807. On page 39 there is a Service "Scottish Savings." May I ask a question on that? I see under sub-head E4 there was a grant of £2,500 for Advertising and other Publicity in connection with the Scottish Savings, and actually there was an amount of over £30,000 spent in excess of that figure. Could there be any explanation as to why they spent so much more than was granted?—(Sir *Herbert Britain*.) Yes, this is rather a formal matter. In this estimate, as in many others, we did not know at the beginning of the year, owing to war conditions, exactly how much we would be likely to spend, so we confined the original estimate to the pre-war normal

provision, and left the whole of any excess over that to be borne from the Vote of Credit. In this case we took only £2,500 because that was the pre-war amount that this Committee spent, but we knew very well right from the beginning that we should spend very much more than that.

5808. Even pre-war, you were spending money on urging people to save, were you?—Yes—nothing like as much as at present, but we were encouraging thrift and that sort of thing.

Chairman.] It seems rather unnecessary in Scotland! Are there any further questions on the Account? May I take it the Account is approved?—(Agreed.)

VOTE 21.

MISCELLANEOUS EXPENSES.

VOTE 22.

SECRET SERVICE.

(On these Accounts no questions were asked.)

TREASURY CHEST FUND ACCOUNT, 1944.

Chairman.

5809. This fund is simply used for the purpose of exchanging British currency into the appropriate local currencies for the payment of troops overseas, is it not?—(Sir *Herbert Britain*.) Yes. That is the essence

of it. No final change is made against the fund at all. It is simply a banking Fund, really.

Chairman.] Are there any questions on the Account? May I take it that the Account is approved?—(Agreed.)

CIVIL APPROPRIATION ACCOUNTS, 1944.

CLASS I.

VOTE 26.

REPAYMENTS TO THE CIVIL CONTINGENCIES FUND.

(On this Account no questions were asked.)

CIVIL CONTINGENCIES FUND ACCOUNTS, 1944.

(On this Account no questions were asked.)

CIVIL APPROPRIATION ACCOUNTS, 1944.

CLASS II.

VOTE 13.

CHINESE CURRENCY STABILISATION FUND.

Chairman.

5810. Will Members turn to the Civil Appropriation Accounts, 1944, page 94. When I was Financial Secretary I remember explaining this matter to the House of Commons, but I wish you would explain it once more to me because it is "Chinese" to me. Will you tell the Committee what this grant of £5,000,000 did?—(Sir *Herbert Britain*.) In 1939 as the result of the strain to which China was subjected owing to the Chinese-Japanese war, her exchange got into difficulties, and it was agreed between

the British Government and the Chinese Government that a Stabilisation Fund should be set up, of which half of the capital should be contributed by Chinese banks and half by British banks. The half of the British banks came to £5,000,000. Two banks put up £3,000,000 and £2,000,000 respectively. We guaranteed those British banks repayment of their £5,000,000 on a winding-up, and we guaranteed also interest at 2½ per cent. until the capital had been repaid. Not very long after the fund got going war conditions rather upset its

2 July, 1946.]

Sir HERBERT BRITAIN, K.B.E., C.B.

[Continued.]

operations and it was eventually closed down towards the end of 1941. Then we had the alternatives whether we should wait for a winding-up of the fund in order to see what was due back to the British banks under our guarantee, which would have taken a very long time, because some of the assets of the fund had been seized by the Japs, and it was a matter probably whether we should ever get reparations from the Japanese to pay that off—or should we take the bull by the horns and pay off the £5,000,000 straight away in order to save our continuing liability for interest at 2½ per cent. That 2½ per cent. was originally to come out of the Chinese fund and the Chinese banks were liable to pay it before our guarantee came into operation. We did not feel we could force the Chinese banks to pay that amount in all the circumstances so it would have meant that we should have had to go on paying 2½ per

cent. interest on this debt until the fund was wound up. In view of the uncertainty as to how long that was going to last we thought it was a prudent course, and one which would certainly mean a definite saving to the Exchequer, to repay the whole of the £5,000,000 to the two banks and take any assets that ultimately proved to be recoverable into the Exchequer when the winding-up was completed. That was the case which was put to the House and was approved in this grant for £5,000,000.

5811. Are there prospects of recovering anything substantial against this £5,000,000?—We do not know yet because it depends on the extent to which we can get reparations from Japan for this and other items.

Chairman.] Are there any questions on the Account?—May I take it the Account is approved?—(Agreed.)

CLASS III.

VOTE II.

MISCELLANEOUS LEGAL EXPENSES.

CLASS IV.

VOTE IO.

SCIENTIFIC INVESTIGATIONS, ETC.

VOTE II.

UNIVERSITIES AND COLLEGES, GREAT BRITAIN.

CLASS V.

VOTE 7.

WIDOWS', ORPHANS' AND OLD AGE CONTRIBUTORY PENSIONS.

VOTE 12.

SPECIAL AREAS FUND.

(On these Accounts no questions were asked.)

VOTE 13.

FINANCIAL ASSISTANCE IN SPECIAL AND OTHER AREAS.

Chairman.

5812. The Account is at page 225. Under sub-head B I see that there was £18,000 under the heading of "Loans to new industrial undertakings in the special and other areas." Can you give us any particulars of those loans?—(Sir Herbert Britain.) That was £18,000 to one company, a hosiery manufacturing company, under an earlier agreement, a pre-war agreement towards the price of buying a factory from the Commissioner for Special Areas.

5813. It was a hosiery manufacturing company?—Yes. That was on account. We promised to make a much larger advance when the money is required and outside capital from other sources has been brought in.

5814. This is under the policy of diversification of industry. Is that it?—It is under the pre-war scheme.

5815. A little lower down the page I see "Repayment of Principal and Interest on loans to new industrial undertakings in the special and other areas." There seems to have been £163,000 on previous advances repaid. Can you give me any particulars of that?—Of course, there are a large number of repayments going on all the time under the terms of our agreements with these companies, but of that sum of £139,000 on account of Principal, £90,000 was received in one particular case.

5816. What was the case?—It was under an agreement of March, 1939. We had agreed to advance £200,000 to this particular company to establish a new factory and business in South Wales. The factory was erected during 1940 and 1941 and the company immediately went into production for the Ministry of Aircraft Production, but

2 July, 1946.]

Sir HERBERT BRITAIN, K.B.E., C.B.

[Continued.]

the particular production which was required of them was not required after about the end of 1943.

5817. This was aluminium, was it not?—It was aluminium. May I say we do not usually give the names of companies. (Sir Gilbert Upcott.) The Committee have had the name of this company before on the Ministry of Aircraft Production Account. It is the South Wales Aluminium Company. (Sir Herbert Britain.) Yes, the

South Wales Aluminium Company. The contract with the Ministry of Aircraft Production was terminated and as compensation for the termination of the contract the company received £150,000. They used £90,000 of that to repay part of our loan. The whole of the balance has since been repaid.

Chairman.] Are there any questions on the Account? May I take it that the Account is approved? (Agreed.)

CLASS VI.

VOTE II.

DEVELOPMENT FUND.

(On this Account no questions were asked.)

DEVELOPMENT FUND ACCOUNTS, 1944.

Mr. E. H. E. HAVELOCK, O.R.E., called in and examined.

Chairman.

5818. Will you look at the Accounts of the Development Fund, Sir Herbert? The Loans Account is half-way down pages 4 and 5, the second Account. On the right-hand side of the page there is the item "Loans converted to grant in 1944" a figure of £8,000. Does that mean that what had previously been a loan for some reason or other was turned into a grant?—(Sir Herbert Britain.) Yes. There were three cases in which for reasons peculiar to each case the Development Commissioners recommended that they should be so converted. If the Committee would like details of that, Mr. Havelock, the Secretary of the Development Commission, could give them.

5819. I dare say we could find the details if we looked through the remarks column on pages 7, 8, 9 and 10, but it takes a little time to do so. The particulars are given here somewhere are they not?—But not the reasons. (Mr. Havelock.) Particulars are given in that statement of outstanding loans, as you say, on pages 9 and 10. The chief item was really one of £6,314 advanced to the Port Isaac Harbour Commissioners. As the Committee know, Port Isaac Harbour is a very small fishing harbour in Cornwall. As sometimes happens, no sooner do you improve the harbour than the fishery fails to be as productive as you hoped. That is what in fact happened here. The Commissioners are simply a body set up to hold the moneys, mainly fishermen, and after first trying what we could do to get them through by remitting £5,000 of a loan as against £5,000 remitted by the local urban district council in 1938, we felt we must wipe it off. That is largest. The next largest was in respect of an advance to the Wick Harbour Trustees, £1,637. There, the whole financial position has been so serious, particularly since the

war, when the herring fishery has gone back there, that they are coming to us for a general re-assessment of their outstanding debts, and for additional advances. (Sir Herbert Britain.) You will see on page 10 in the statement of outstanding loans Port Isaac originally had £11,314 and the whole of that has been converted into grants and therefore it is clear. Wick Harbour had originally £85,787. A good deal of that has been converted into grants, but they still owe us £63,734.

5820. All those sums are a warning against lending one's money to Harbour Commissioners, are they not? What happens when you lend your money to a Harbour? Why is it always lost? I do not understand. Do the fishing fleets go somewhere else directly the dues are increased?—(Mr. Havelock.) This is really part of the Nation's contribution towards fishery development. That is what it comes down to. If the local community is one which can stand an ordinary Government loan it goes to the Public Works Loan Board. If it is not strong enough for that, but there are prospects of development if you put some money into the harbour, then the Commissioners are empowered to recommend to the Treasury either a grant or a loan at rather less good security than the Public Works Loan Board would give.

Chairman.] Are there any question on this Account?

Sir Frank Sanderson.

5821. On page 3 of the Account, there is an item "Scottish Seaweed Research Association, £2,500." Are you able to say that this expenditure bore fruitful results?—That is only a first very small instalment of a much larger scheme.

Chairman.] Are there any further questions on this Account? May I take it that the Account is approved? (Agreed.)

(Mr. Havelock withdrew.)

2 July, 1946.]

Sir HERBERT BRITAIN, K.B.E., C.B.

[Continued.]

CIVIL APPROPRIATION ACCOUNTS, 1944.

CLASS VI.

VOTE 12.

DEVELOPMENT GRANTS.

CLASS VII.

VOTE 9.

RATES ON GOVERNMENT PROPERTY.

*(On these Accounts no questions were asked.)*CZECHO-SLOVAK FINANCIAL CLAIMS FUND AND CZECHO-SLOVAK REFUGEE
FUND ACCOUNTS, 1944.*Chairman.*

5822. I wanted to ask Sir Herbert whether the Financial Claims Fund will be wound up shortly? It seems to be coming to an end.—(Sir Herbert Britain.) It is estimated that it will cover the services of the loans which are intended to be met from it up till about the end of August, 1947; so it will automatically come to an end unless special arrangements are made in the meantime. But that is the extent of the time it will last.

5823. Can you tell me anything about the Czecho-Slovak Refugee Fund, which still has a balance of close on £2,000,000?—That of course is paying out money regularly for the maintenance of refugees who are in this country, but I think it is the subject of discussions which are at present going on with the Czecho-Slovak Government, as to precisely how this money should be used in future.

Chairman.] Are there any questions on this Account? May I take it the Account is approved? *(Agreed.)*

TITHE ACT, 1936, ACCOUNTS, 1944.

*(On these Accounts no questions were asked.)**(The Witnesses withdrew.)**(Adjourned till Tuesday, 30th July.)*

LIST OF APPENDICES

	<i>Page</i>
APPENDIX NO. 1	
H.M. Treasury—Comparison of Audited Expenditure with Exchequer Issues and General Abstract of Appropriation Accounts, 1943 ...	371
APPENDIX NO. 2	
H.M. Treasury—Minute on Report of Public Accounts Committee, 1945	374
APPENDIX NO. 3	
H.M. Treasury—Minute on First Report of Public Accounts Committee, 1945-46	377
APPENDIX NO. 4	
Exchequer and Audit Department—United Kingdom Commercial Corporation	381
APPENDIX NO. 5	
H.M. Treasury—Supreme Court of Judicature Account	382
APPENDIX NO. 6	
Colonial Office—Safeguards Adopted in Despatch of Important Telegrams	383
APPENDIX NO. 7	
Ministry of Food—Milk Marketing Board's Reserve Funds	384
APPENDIX NO. 8	
War Office—Losses due to Capture of Imprest Holder in Java	386
APPENDIX NO. 9	
Admiralty—Arrangements for Securing Economy in Manufacture ...	387
APPENDIX NO. 10	
Ministry of Supply—Prices of Technical Veneers and Plywood	388
APPENDIX NO. 11	
Ministry of Health—District Auditors	390
APPENDIX NO. 12	
Ministry of Supply—Subsidy Element in Prices of Utility Cloths ...	398

THE COMMITTEE OF PUBLIC ACCOUNTS

APPENDIX No. 1

PAPER handed in by *Sir Herbert Brittain*, K.B.E., C.B., on 20th February, 1946

1943

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, 1946

COMPARISON of AUDITED EXPENDITURE in 1943 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	391,164,188	9 8	391,164,188	9 8	—		—	
NAVY	1,810	0 0	690,563,761	8 7	1,188,885	12 6	—	
ARMY	1,510	0 0	954,304,031	0 8				
AIR SERVICES	1,110	0 0	499,535,028	2 5				
	4,430	0 0	2,144,402,820	11 8				
CIVIL SERVICES	438,810,570	0 0	2,985,823,233	5 6				
REVENUE DEPARTMENTS...	129,340,000	0 0	142,338,765	2 4				
VOTE OF CREDIT	4,950,000,000	0 0	* 244,401,295	8 0				
TOTAL	5,909,319,188	9 8	5,908,130,302	17 2	1,188,885	12 6	—	

* Expenditure shown in Vote of Credit Appropriation Account	£	s. d.
Less Excess Expenditure of Army, Navy, Air, and other Votes already included under the respective Votes (<i>see</i> following page)	4,946,368,365	8 7
	4,701,967,070	0 7
	<u>244,401,295</u>	<u>8 0</u>

1943
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, 1943			Expenditure, 1943			Differences between Exchequer Grants and Net Expenditure (Columns 3 and 6)	
	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)
	£	£	£	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.
Navy	40,001,990	40,000,180	1,810	723,752,581 9 0	33,188,820 0 5	690,563,761 8 7	—	690,561,951 8 7
Army	110,001,660	110,000,150	1,510	1,057,452,684 18 2	103,148,653 17 6	954,304,031 0 8	—	954,302,521 0 8
Air Services... ..	125,001,220	125,000,110	1,110	608,175,134 6 6	108,640,106 4 1	499,535,028 2 5	—	499,533,918 2 5
TOTAL, NAVAL, MILITARY AND AIR SERVICES...	275,004,870	275,000,440	4,430	2,389,380,400 13 8	244,977,580 2 0	2,144,402,820 11 8	—	2,144,398,390 11 8
Civil Services :								
Class I.	4,391,583	1,168,511	3,223,072	5,308,701 15 9	1,140,056 1 11	4,168,645 13 10	102,086 18 9	1,047,660 12 7
" II.	18,542,741	312,855	18,229,886	18,679,899 8 9	306,798 19 3	18,373,100 9 6	1,735,396 18 3	1,878,611 7 9
" III.	22,471,290	1,854,396	20,616,894	24,298,685 10 0	1,677,330 12 10	22,621,354 17 2	394,037 10 3	2,398,498 7 5
" IV.	88,608,800	6,581,010	82,027,790	87,555,208 15 10	6,581,009 17 2	80,974,198 18 8	1,662,583 18 10	608,992 17 6
" V. For details see H.C. 13 and 57 of 1945	206,998,283	4,772,277	202,226,006	201,140,926 17 2	4,402,717 15 8	196,738,209 1 6	5,505,406 14 9	17,609 16 3
" VI.	21,703,699	3,833,510	17,870,189	30,694,936 4 1	3,700,659 12 1	26,994,276 12 0	370,039 7 11	9,494,126 19 11
" VII.	16,086,274	1,539,035	14,547,239	36,654,222 12 5	1,539,035 0 0	35,115,187 12 5	55,713 17 5	20,623,662 9 10
" VIII.	39,326,766	57,743	39,269,023	55,206,020 17 9	57,743 0 0	55,148,277 17 9	13,010 9 0	15,892,265 6 9
" IX.	54,050,931	1,278,000	52,772,931	54,050,429 9 10	1,278,000 0 0	52,772,429 9 10	501 10 2	—
" X.	586,336,090	586,334,100	1,990	3,019,769,585 18 8	526,852,033 5 10	2,492,917,552 12 10	—	2,492,915,562 12 10
TOTAL, CIVIL SERVICES	1,058,516,457	607,731,437	450,785,020	3,533,358,617 10 3	547,535,384 4 9	2,985,823,233 5 6	9,838,777 5 4	2,544,876,990 10 10
Revenue Departments :								
Customs and Excise	6,419,600	175,800	6,243,800	6,005,712 2 0	175,800 0 0	5,829,912 2 0	413,887 18 0	—
Inland Revenue	13,359,700	145,600	13,214,100	13,330,764 2 3	145,600 0 0	13,185,164 2 3	28,935 17 9	—
Post Office	115,789,763	5,157,763	110,632,000	128,481,451 18 1	5,157,763 0 0	123,323,688 18 1	—	12,691,688 18 1
TOTAL REVENUE DEPARTMENTS	135,569,063	5,479,163	130,089,900	147,817,928 2 4	5,479,163 0 0	142,338,765 2 4	442,823 15 9	12,691,688 18 1
Vote of Credit	5,000,000,000	—	5,000,000,000	{ (I) 4,701,967,070 0 7	{ —	{ 4,701,967,070 0 7	{ 53,631,634 11 5	{ —
				{ (II) 244,401,295 8 0		{ 244,401,295 8 0		
	6,469,090,390	888,211,040	5,580,879,350	11,016,925,311 14 10	797,992,127 6 9	10,218,933,184 8 1	63,913,235 12 6	4,701,967,070 0 7
Deduct Vote of Credit Expenditure (1) already included under Army, Navy, Air and other Votes (see Column 8).	—	—	—	4,701,967,070 0 7	—	4,701,967,070 0 7	—	4,701,967,070 0 7
TOTAL FOR VOTED SERVICES ...	6,469,090,390	888,211,040	5,580,879,350	6,314,958,241 14 3	797,992,127 6 9	5,516,966,114 7 6	63,913,235 12 6	—

APPENDIX No. 2

PAPER handed in by *Sir Herbert Brittain*, K.B.E., C.B., on 16th October, 1945

TREASURY MINUTE ON THE REPORT OF THE
COMMITTEE OF PUBLIC ACCOUNTS, 1945

My Lords read the Report of the Committee of Public Accounts for 1945, dealing with the Appropriation and other Accounts for 1943, on which They make the following comments:—

PARAGRAPHS 1 TO 3.—EXTRA-STATUTORY SUPERANNUATION SCHEMES.

My Lords are glad to note that the Committee do not wish to raise any objection to Their proposals, on the understanding that statutory authority for the necessary extension of the Superannuation Acts will be sought as soon as is conveniently possible.

PARAGRAPHS 4 AND 5.—POST OFFICE.—AIRGRAPH SERVICE.

Write to:—

The Postmaster General.

SIR,

I am directed by the Lords Commissioners of His Majesty's Treasury to draw your attention to the comments contained in paragraphs 4 and 5 of the Report of the Committee of Public Accounts, 1945, regarding the contract for photographing, enlarging, etc. in connection with the Airgraph Service.

My Lords share generally the views of the Committee as expressed in paragraph 5. Nevertheless They appreciate that the estimate of the volume of traffic, on which prices for 1942 were fixed, was based on the best information available in 1941, and that it was the unforeseen popularity of the service which resulted in unexpectedly large profits being earned by the contractor for that year.

Their Lordships have been informed of the settlement made by the Postmaster General with the contractor for 1943 and They have no comments to offer on the terms which have been agreed.

I am, etc.

PARAGRAPH 6.—FOREIGN OFFICE.—FINANCIAL ADMINISTRATION.

My Lords note the comments of the Committee.

PARAGRAPHS 7 AND 8.—FOREIGN OFFICE.—GRANTS IN AID TO BRITISH COUNCIL.

Write to:—

The Under Secretary of State,
Foreign Office.

SIR,

I am directed by the Lords Commissioners of His Majesty's Treasury to request you to invite the attention of the Secretary of State for Foreign Affairs to the comments in paragraphs 7 and 8 of the Report of the Committee of Public Accounts, 1945, on the grant in aid to the British Council.

My Lords have approved the proposal that the British Council should set up an internal audit department. Their Lordships endorse the Committee's desire that the accounts of the Council for any year should in future be rendered to the Comptroller and Auditor General sufficiently early to permit of his examination being completed in time for their consideration by the Public Accounts Committee along with the Appropriation Account for the same year.

I am, etc.

PARAGRAPHS 9 TO 11.—NAVY.—CONTROL OF SUB-CONTRACTORS' PRICES.

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 comments in paragraphs 9 to 11 of the Report of the Committee of Public Accounts, 1945, regarding the control of sub-contractors' prices.

My Lords fully support the desire of the Committee to be satisfied that the profits of Government sub-contractors relating to supplies for Government use are not as a whole more than fair and reasonable. They feel sure that the Admiralty will, as recommended by the Committee, continue to press their investigations of trading results with a view to ensuring a more satisfactory control over sub-contractors' prices.

Their Lordships will be glad to receive a report from the Lords Commissioners of the Admiralty showing the progress made in this matter before the end of the present financial year.

I am, etc.

PARAGRAPHS 12 TO 14.—ARMY.—PURCHASE OF ORANGES IN PALESTINE.

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 comments contained in paragraphs 12 to 14 of the Report of the Committee of Public Accounts, 1945, regarding purchases of oranges in Palestine.

Their Lordships are confident that the Army Council will take all possible steps to recover any excess costs which may be shown by costing investigations to have resulted from the payment for the 1943 crop in full at the maximum contract prices.

My Lords will be glad to be kept informed of the arrangements proposed by the Army Council for purchases of the 1945 crop.

I am, etc.

PARAGRAPHS 15 TO 17.—MINISTRY OF HEALTH.—PAYMENTS TO LOCAL AUTHORITIES FOR WAR SERVICES.

My Lords note the comments of the Committee.

PARAGRAPHS 18 AND 19.—MINISTRY OF INFORMATION.—RECEIPTS FROM THE DISTRIBUTION OF FILMS.

Write to:—

The Secretary,
Ministry of Information.

SIR,

I am directed by the Lords Commissioners of His Majesty's Treasury to request you to invite the attention of the Minister to the comments in paragraphs 18 and 19 of the Report of the Committee of Public Accounts, 1945, regarding the method of accounting for receipts from the distribution of films.

As stated in evidence by Their representative, My Lords fully endorse the principle that receipts arising from the use of public property should be accounted for as public funds, and that moneys passing through the hands of public officers in their official capacity should be recorded in the accounts rendered to the Comptroller and Auditor General. They note that the Committee have accepted Their view that in cases where a film is surrendered for the use of exhibitors in return for a definite or ascertainable payment it would be correct that only that payment should be recorded in the Ministry's accounts.

Their Lordships have received a report from the Ministry regarding the exhibition of the film "Desert Victory" in the Middle East, which shows that certain of the receipts were handled by officers of the Ministry and paid over to charities without being recorded in the Ministry's accounts, and that there was failure to observe the limitations attached to Their Lordships' sanction for the loan of this film for charitable purposes.

My Lords understand that instructions have now been issued by the Ministry to prevent a recurrence of these irregularities and to secure the observance of the principles set out above.

My Lords are prepared to agree that the Ministry should have general discretion to lend commercially valuable films for exhibition for approved charities provided that no expense or loss of revenue is incurred by the Exchequer. If the exhibition for charity takes the place of a normal commercial exhibition, the charity should be required to pay to the Ministry a sum equal to the net amount which the Ministry would have received from the normal exhibition.

The prior sanction of Their Lordships will be required for any loan to a charity of a commercially valuable film which involves any expense or loss of revenue being incurred by the Exchequer.

I am, etc.

PARAGRAPHS 20 TO 22.—MINISTRY OF FOOD.—NATIONAL MILK SCHEME.

Write to:—

The Secretary,
Ministry of Food.

SIR,

I am directed by the Lords Commissioners of His Majesty's Treasury to request you to invite the attention of the Minister to the comments in paragraphs 20 to 22 of the Report of the Committee of Public Accounts, 1945, regarding the National Milk Scheme.

My Lords have been furnished with copies of the instructions issued by the Ministry with a view to ensuring observance by retailers of their obligations under the Milk Order to maintain records relating to beneficiaries under the National Milk Scheme. They have also been informed of the steps which have recently been taken to improve the standard of work of the Food Offices in connection with the scheme.

While My Lords recognise that in present circumstances the possibility of overcharges cannot be entirely eliminated, They feel confident that the Ministry are doing everything practicable to keep abuses to a minimum. Their Lordships would be glad to be furnished with a report on the position at the end of this year, showing the results of the investigations undertaken under the revised instructions.

I am, etc.

APPENDIX No. 3

PAPER handed in by *Sir Herbert Brittain*, K.B.E., C.B., on the
22nd February, 1946

TREASURY MINUTE ON THE FIRST REPORT OF THE COMMITTEE OF PUBLIC ACCOUNTS,
SESSION 1945-1946

My Lords read the First Report of the Committee of Public Accounts, Session 1945-46, dealing with the Appropriation and other Accounts for 1943, on which They make the following comments :—

PARAGRAPHS 1 TO 3.—PAYMENTS TO LOCAL AUTHORITIES FOR
WAR SERVICES.

My Lords note the comments of the Committee. Their Lordships fully share the desire of the Committee that outstanding claims for war services performed by Local Authorities should be cleared at an early date.

The Committee refer to the steps taken since the Comptroller and Auditor General brought the matter to notice to expedite the clearance of outstanding claims. Their Lordships have agreed to the following additional measures to further this end :—

(a) Claims for war damage repairs will in future be settled directly between the War Damage Commission and Local Authorities without the intervention of the Ministry of Health ; the District Auditors will of course continue to certify the claims.

(b) The Ministry of Fuel and Power and the Home Office have been authorised to accept certain minor claims without certification by the District Auditors, except where such claims include expenditure which is *prima facie* inadmissible.

(c) The examination by the Home Office of claims for expenditure on shelters will in future be limited to technical examination by Regional Officers and the following up of matters brought to notice in the District Auditors' reports.

(d) Simplification of the form of claims for 1944-45 and later years for services administered by the Home Office has been agreed to in principle and will be discussed in detail with the Local Authorities.

Their Lordships wish to emphasize that the present position with regard to these accounts is attributable as much to the inability of the Local Authorities to render claims promptly, owing to their accounting staffs having been seriously denuded during the war, as to delay in dealing with the claims when rendered.

The Committee refer to the statement made by the Treasury that the tendency had been for the District Auditors' staff to deal, to some extent, rather too much with the details of minor irregularities and expenditure of doubtful admissibility than to concentrate on bringing to light really important matters requiring the attention of Departments. While Their Lordships would agree that a greater measure of discretion might usefully have been granted to District Auditors to accept comparatively minor items of doubtful admissibility, the statement referred to above was not intended to imply that the District Auditors had in fact failed to bring any important matters to the notice of Departments. Their Lordships would refer in particular to paragraph 14 (d) of Their memorandum of 7th June, 1945, in which it was stated that, although in a number of instances the audit reports on claims are delayed, there is constant consultation between District Auditors and local financial officers and that immediate audit investigation is undertaken in agreement with the Local Authorities for any new expenditure or service of special importance. My Lords are fully satisfied that this current consultation with the District Audit staff on matters of special importance, together

with the subsequent audit of the claims, have been adequate to protect public funds from any important irregularities or uneconomical expenditure by Local Authorities.

As stated in evidence, Their Lordships have agreed that selective test checks of the claims will suffice in present circumstances and instructions to this effect have been issued to the District Audit staff. Their Lordships do not doubt that in the future, as in the past, the degree of examination undertaken will suffice to bring to the notice of the Department concerned all matters of importance.

Write to :—

The Secretary,
Ministry of Health.
The Under Secretary of State,
Home Office.
The Secretary,
War Damage Commission.

SIR,

I am directed by the Lords Commissioners of His Majesty's Treasury to request you to invite the attention of the Minister [Secretary of State] [Commission] to the comments in paragraphs 1 to 3 of the First Report of the Committee of Public Accounts, Session 1945-46, regarding the settlement of claims by Local Authorities for expenditure on war services.

Their Lordships are aware that the importance of overtaking arrears in reaching final settlements of these claims is fully realised both by Departments and by Local Authorities. The Committee are being informed of the relaxations in the standards of audit and departmental examination already sanctioned and My Lords would be very willing to consider any further proposals for expediting the work which Departments may wish to submit for Their approval.

My Lords do not doubt that the matter will be kept under constant review by the Minister [Secretary of State] [Commission] and They would be glad to be furnished with a report showing the progress made as at 31st March, 1946, as soon as possible thereafter.

I am, etc.

PARAGRAPHS 4 TO 6.—CONTROL OF TRADERS' MARGINS.

Write to :—

The Secretary,
Ministry of Supply.

SIR,

I am directed by the Lords Commissioners of His Majesty's Treasury to invite the attention of the Minister to the comments made by the Committee of Public Accounts in paragraphs 4 to 6 of their First Report, Session 1945-46, regarding the control of traders' margins in connection with the disposal of surplus stores.

My Lords would be glad to be furnished with the actual results of the revised Order fixing the price of cotton cloths referred to at the end of paragraph 5 of the Committee's Report.

As regards disposals of surplus stocks, My Lords are aware that since Their Minute of 15th February, 1945, on the Reports of the Committee of Public Accounts for 1944, the need to expedite disposals in order to release storage space is likely to result in an increasing proportion of disposals being made by auction or tender, with the result that the field for the review of the various margins for disposals at negotiated prices may be somewhat smaller than was originally contemplated.

My Lords agree in principle with the views expressed by the Committee that customary trade margins are not necessarily appropriate to the circumstances governing disposal of surpluses and that arrangement should be made to review actual results by suitable tests during the transitional period. Their Lordships would be willing to discuss with the Ministry in due course the scope and nature of the tests to be carried out within this field in order to meet the wishes of the Committee.

I am, etc.

PARAGRAPHS 7 AND 8.—MINISTRY OF AIRCRAFT PRODUCTION.—
PROFIT RATES IN FIXED PRICE CONTRACTS.

Write to :—

The Secretary,
Ministry of Aircraft Production.

Sir,

I am directed by the Lords Commissioners of His Majesty's Treasury to request you to invite the attention of the Minister to the comments in paragraphs 7 and 8 of the First Report of the Committee of Public Accounts, Session 1945-46, regarding the rates of profit realised in respect of fixed price contracts placed with the aircraft industry.

I am, etc.

PARAGRAPH 9.—MINISTRY OF AIRCRAFT PRODUCTION.—CONTROL OF PRICES.
My Lords note the comments of the Committee.

PARAGRAPH 10.—MINISTRY OF SUPPLY.—ROYAL ORDNANCE FACTORIES.

Write to :—

The Secretary,
Ministry of Supply.

SIR,

I am directed by the Lords Commissioners of His Majesty's Treasury to invite the attention of the Minister to the comments in paragraph 10 of the First Report of the Committee of Public Accounts, Session 1945-46, regarding the inclusion in the Appropriation Account of the Ministry of Supply for 1943 of the cash accounts of the Royal Ordnance Factories for the final four-week period which ended on 1st April, 1944.

As the Committee point out, Their Lordships' approval of the arrangement referred to by the Committee was limited to the period of the emergency. My Lords understand that the normal procedure will be resumed in the Appropriation Account for 1945.

I am, etc.

PARAGRAPH 11.—SURPLUS ON VOTES OF CREDIT FOR 1942.

My Lords note the comments of the Committee. They take this opportunity to state formally that it is Their Lordships' intention to return as soon as possible to the normal procedure of surrender within one or two years and that it is expected that all the surrenders due to be made by 31st March, 1946, will be made by that date.

PARAGRAPHS 12 AND 13.—CURRENCY DEPOSIT ACCOUNT.

My Lords note that the Committee do not desire to raise objection to the procedure adopted in regard to this Account and They take this opportunity to repeat the assurances given by Their representative in evidence (*a*) that this procedure will not be regarded as a precedent for normal times, and (*b*) that whatever balances remain in the Account after the liabilities connected therewith have been met will be surrendered to the Exchequer and will not be used for any other purpose.

PARAGRAPH 14.—FINANCIAL ARRANGEMENTS WITH THE CANADIAN GOVERNMENT.

My Lords are glad to endorse the Committee's expression of their warm appreciation of the assistance so generously given by Canada to the United Kingdom in the various ways described.

PARAGRAPHS 15 TO 17.—MINISTRY OF SUPPLY.—TIMBER MERCHANTS' REMUNERATION.

Write to :—

The Secretary,
Ministry of Supply.

The Secretary,
Board of Trade.

SIR,

I am directed by the Lords Commissioners of His Majesty's Treasury to request you to invite the attention of the Minister [President of the Board of Trade] to the comments in paragraphs 15 to 17 of the First Report of the Committee of Public Accounts, Session 1945-46, regarding timber merchants' remuneration.

Their Lordships have already approved the rate of remuneration of the softwood merchants for the first nine months of the peace-time scheme, on a basis which, it is thought, is likely to be found reasonable in the light of actual costs, information on which is meanwhile being obtained.

My Lords await the proposals of the Minister [President] in respect of hardwood and They would be glad if he would take the comments of the Committee into full consideration in framing these proposals and in particular the suggestion that, at the outset at least, remuneration should be fixed on a provisional basis pending the receipt of definite information as to the actual costs likely to be incurred under the new conditions.

I am, etc.

PARAGRAPH 18.—SERVICES NOT SPECIFIED.

My Lords note the comments of the Committee.

PARAGRAPHS 19 AND 20.—UNITED KINGDOM COMMERCIAL CORPORATION.

My Lords note the comments of the Committee. Their Lordships have arranged with the Board of Inland Revenue for the assessment of the liability of the Corporation for taxation to be dealt with on broad lines.

PARAGRAPH 21.—UNITED KINGDOM COMMERCIAL CORPORATION.
ISKANDERUII PORT DEVELOPMENT.

My Lords understand that negotiations are now taking place between the Corporation and the contractor with a view to the revision of the allowances on actual cost of 15 per cent. for overheads and 5 per cent. for profit. My Lords hope to be able to inform the Committee of the satisfactory conclusion of these negotiations when the accounts of the Corporation come under examination later this year.

APPENDIX No. 4

PAPER handed in by *Sir Gilbert Upcott*, K.C.B., on 17th June, 1946

UNITED KINGDOM COMMERCIAL CORPORATION

Scope of the Corporation's activities

1. The Corporation has undertaken no new operations of major importance since October, 1945, the date of my last Memorandum,* and the realization of stocks and the discharge of existing commitments have been much accelerated. All but one of the overseas subsidiary companies are in voluntary liquidation and the Corporation is proceeding as rapidly as possible with the winding up or transfer to Government Departments, etc., of its remaining activities.

Funds at the disposal of the Corporation

2. The capital of the Corporation and of the subsidiary English and Scottish Commercial Corporation remained unchanged at 31st March, 1946, at £5,000,000 (subscribed by the Treasury) and £6,000,000 (£5,999,000 subscribed by the Treasury) respectively. During 1945 the U.K.C.C. placed on deposit with the Treasury surplus funds amounting to £16,000,000. Advances by the Treasury to the E.S.C.C. increased during the same period from £66,000,000 to £84,200,000.

Audited accounts of the Corporation

3. Since the date of my last Memorandum I have been furnished with the audited accounts of the U.K.C.C. and subsidiary companies for the year ended 31st March, 1945.

The U.K.C.C. accounts for that year show a net profit of £4,712,756 before making provision for Excess Profits Tax and British Income Tax. As in previous years, profits arose mainly on the sale of wheat, flour and sugar, and through the provision in selling prices for certain charges which did not mature.

The net profit of £586,756 remaining after making provision for taxation was carried to the reserve for contingencies, which was thus raised to £2,050,147 at 31st March, 1945. At the same date the total provision for British taxation was £13,295,210. During the following year £9,187,548 was paid to the Inland Revenue in discharge of various assessments. Note (1) to the Balance Sheet states that there were large contingent liabilities in respect of uncompleted transactions entered into in the course of business.

4. The accounts of the E.S.C.C. show the net amount of irrecoverable expenditure ascertained during the year ended 31st March, 1945, as £19,623,439. The total of such expenditure ascertained to that date was £31,480,925, including approximately £21,400,000 on transactions in wolfram, £6,900,000 on Persian road transport and £2,000,000 on Iskanderun port development.

English and Scottish Commercial Corporation—Balance Sheet

5. The assets side of the Balance Sheet of the E.S.C.C. shows Sundry Debtors and Payments in Advance amounting to £28,079,870. Over one-half of this total represents debits to the U.S.S.R., mainly for goods supplied, but including also £4,116,057 for their contribution towards the cost of Persian Transport, which I understand is not yet agreed. The largest remaining item in the total is £4,689,147 charged against the U.S.A. for their contribution towards the cost of joint pre-emptive operations.

* Appendix No. 1 to the First Report of the Public Accounts Committee, Session 1945-46.

This Balance Sheet also shows £23,325,395 under the heading of Transactions in Suspense. No settlement has yet been reached with the U.S.A. in relation to the expenditure of £8,689,117 on commodities for joint account. The item of £5,456,027 for Persian Transport arose from a notional charge to make provision for the cost of Lend-Lease trucks, and not from a cash disbursement. I am informed that this provision will not be required. The Russian trading transactions, amounting to £9,089,686, await settlement of prices.

6. Notes appended to this Balance Sheet show that, in addition to large contingent liabilities for uncompleted transactions, substantial amounts of irrecoverable expenditure are expected to arise from the eventual liquidation of stocks, debts and other assets, and the completion of other transactions, and that certain items, including the book value of stocks in hand, may be subject to adjustments.

G. C. UPCOTT,
Comptroller and Auditor General.

17th June, 1946.

APPENDIX No. 5

PAPER handed in by *Sir Herbert Brittain*, K.B.E., C.B., on the
22nd June, 1946

Qs. 2512-22

SUPREME COURT OF JUDICATURE ACCOUNT

1. At the meeting of the Public Accounts Committee on 26th March, 1946, the Treasury were asked for a statement of the present position with regard to Dormant Funds in Chancery.

2. The balances of the suitors' accounts on 28th February, 1945, were:—

Securities	...	...	...	...	...	...	...	...	£	46,695,709
Cash	...	...	...	...	...	...	...	...		3,231,964

The Securities in Court are the actual assets of the suitors and consist mainly of Government stocks.

3. The large bulk of the Securities and Cash balances of suitors represent the balances on active accounts. Under the Supreme Court Funds Rules the term "Dormant Funds" refers to Funds in Court which have not been dealt with during the preceding fifteen years.

4. The total of the Dormant Funds at 28th February, 1945, was £2,922,810, consisting of:—

(a) Cash	...	...	...	...	...	...	...	...	£	1,616,684
(b) Securities (nominal values): of which	£1,236,446	were								
Government stocks	...	...	...	...	...	...	...	...		1,306,126

5. The arrangements relating to Dormant Funds in the High Court were last reviewed in 1932 by the Dormant Funds Committee under the chairmanship of Lord Tomlin (Cmd. 4152). This Committee recommended certain changes dealt with in the following paragraph, but did not recommend that any action should be taken to extinguish suitors' right in accounts which had remained dormant for a long period.

6. The changes recommended by the Tomlin Committee were as follows:—

(a) Interest should cease to be credited on money on deposit when carried over into the Dormant Funds. Effect was given to this change by S.R. & O. No. 61 of 1933, amending the Supreme Court Funds Rules.

(b) The surplus on Income Account of securities held by the National Debt Commissioners, after paying interest on suitors' money on deposit, should be surrendered to the Exchequer. Effect was given to this recommendation by section 32 of the Finance Act, 1936. As a result of the action referred to at (a) above, income on cash and securities in Dormant Funds goes to increase the surplus on the Income Account. The following transfers from the Income Account to the Exchequer have been directed by the Treasury under these powers:

							£	s.	d.
1942	...	...	...	...	...	...	50,000	0	0
1943	...	...	...	...	...	...	75,000	0	0
1944	...	...	...	...	...	...	72,291	0	0
1945	...	...	...	...	...	...	78,458	12	9

(c) If the Investment Fund held by the National Debt Commissioners appears larger than reasonably required from time to time, an appropriate part of the investments should be cancelled. Effect was given to this recommendation by section 32 of the Finance Act, 1936, but no directions have yet been issued by the Treasury under the powers granted by this section. As shown on page 7 of the 1944 Account, the excess at 28th February, 1945, of the market value of the securities held by the National Debt Commissioners over the liability of the Commissioners to the Accountant-General and the liability of the Consolidated Fund was only £241,784.

7. As stated in evidence, legislation would be necessary to revoke the right of suitors in Dormant Funds. As the Exchequer is already receiving the benefit of the income on Dormant Funds, and all but a small proportion of Funds are invested in Government securities, it is not considered that any advantage would be gained from re-opening the recommendations of the Tomlin Committee at the present time.

Treasury Chambers.

22nd June, 1946.

APPENDIX No. 6.

PAPER handed in by *Sir G. H. Gater*, G.C.M.G., K.C.B., D.S.O.,
on the 28th June, 1946.

Qs. 4763-66

COLONIAL OFFICE.

Appropriation Account for Vote of Credit Services, 1944-45.

Note on the safeguards adopted by the Colonial Office in the despatch of important telegrams.

1. Before the war it was the practice of the Colonial Office to communicate to Governors by mail, copies of all telegrams despatched. Important messages, such as the message to British Guiana in question, were usually communicated by fast mail rather than by telegram, but in cases where telegrams were sent it was usual to send a confirmatory despatch as well as the routine confirmation copy.

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2. In time of war, however, this practice was of necessity modified. Not only did shortages of staff, both in the Colonial Office and in the Colonies, and the greatly expanded volume of telegraphic work, render such a procedure impracticable, but in many cases Colonial territories were in only intermittent touch with the United Kingdom. Cables were cut and communication had to be carried on by wireless telegraph. Regular air mail services were withdrawn or restricted, ocean mails were subject to delays often amounting to months, and in a number of cases mails were lost in transit through enemy action, replacement often entailing delays of upwards of six months. In these conditions the bulk of official business had to be transacted by telegraph.

3. The error in the case of the telegram in question was a most unusual happening and was made more so by the fact that the particular paragraph in which the omission of words occurred still read sense when decoded. With a view, however, to eliminating the risk of recurrence of such an error it was arranged that the encoding of all important telegrams should be carefully checked before issue, and a procedure has since been introduced whereby words of vital importance are repeated in the text of the message. Thus in the telegram in question the indication that the assistance was to be restricted to 50 per cent. of expenditure above \$600,000 would be followed by a phrase ". . . repeat 50 per cent. of expenditure above \$600,000."

This in itself is regarded as an adequate safeguard against error but, as an additional precaution, the Colonial Office are arranging in future to forward to Governors by the fastest mail service available, as a matter of normal office routine, copies of all telegrams approving the expenditure of any sum of money.

It is confidently anticipated that these measures will avoid the occurrence of a similar error in future.

APPENDIX No. 7.

PAPER handed in by *Sir Frank Tribe*, K.C.B., K.B.E., on 3rd July, 1946.

Qs. 4956, 4981

NOTE ON THE UTILISATION AND DISPOSAL OF THE MILK MARKETING BOARD'S
RESERVE FUNDS.

The Milk Marketing Scheme, 1933, has statutory effect under the Milk Marketing Scheme (Approval) Order, 1933, dated the 28th July, 1933, and made by the Minister of Agriculture and Fisheries under Section 1 (8) of the Agricultural Marketing Act, 1931.

Section 7 (1) (a) of the Act provides "for the establishment of a Fund to be administered and controlled by the Board, for the payment into the Fund of all monies received by the Board, and for the payment out of the Fund of any monies required by the Board for the operation of the Scheme."

Section 67 of the Scheme provides as follows:—

“ The Board may set aside reserves and may utilise such reserves in the operation of this Scheme in such manner as the Board may think fit, but subject thereto any monies standing to the credit of the Fund which, in the opinion of the Board, are not required for the operation of this Scheme after meeting the Board’s administrative and other expenses and losses (if any) shall be distributed in such manner as may be determined by a Resolution passed at a General Meeting of registered producers.”

Section 7 (1) (d) of the Act empowers the Board to borrow money for the purpose of exercising their functions under the Scheme and, at the commencement of the operation of the Scheme the Board were faced with the necessity of making large borrowings to cover their initial expenses and to finance such payments to producers for sales of milk as fell to be made before a sufficient amount of proceeds of sale had been received. At one time in 1933 the Board’s overdraft for these purposes exceeded £2 million.

The Board’s policy was to build up sufficient reserves to make further overdrafts and borrowings unnecessary. With this object they made a deduction of ½d. per gallon for expenses and reserves from producers’ prices for milk sold during certain months of the year. By this means they had accumulated free reserves of the Order of £1,500,000 in 1939. They also made a deduction of 5s. a £100 from monies paid into the Fund for the creation of a Bad Debts Reserve which, by the end of 1939, amounted to about £400,000 more than was found to be necessary. This amount has since been transferred to the Board’s free reserves.

Since the end of 1939, when the Ministry of Food became responsible for producers’ prices, no further additions have been made to the Board’s reserves, except such balance of the Bad Debts Fee received from the Ministry of Food as remained in the Board’s hands after setting aside a sufficient amount to meet such bad debts as appeared likely to accrue.

The total amount of Bad Debts Fees received from the Ministry for the period 1st October, 1942 to 31st March, 1946 is £421,233. Bad debts written off or contingently provided for have amounted to £130,139, leaving a net balance of £291,094. Of this net amount, the sum of £154,000 has been set aside for Income Tax and National Defence Contribution thereon, and £16,000 (approximately) for meeting other Income Tax liabilities of the Board. Approximately £4,500 has been expended on War Damage Contribution, and £9,000 for carrying out an adjustment of the Board’s Pension Fund. A contribution of £10,000 has been made to the Veterinary Education Trust, leaving a net balance of £97,307 which has been carried to the Board’s free reserves.

The Board’s free reserves now stand at approximately £2 million, and will fall to be disposed of in due course in accordance with the provisions of Section 67 of the Milk Marketing Scheme. In the meantime, the Ministry of Food benefits in a large measure therefrom. All milk supplies, except those of producer-retailers and farmhouse cheesemakers, are bought by the Board from the producers and resold to the Ministry. The Board make use of their liquid reserves in paying their producers and the Ministry is therefore enabled to withhold payment to the Board to this extent from month to month. In effect there is a continuing loan to the Ministry without interest. The Ministry also enjoy the general use of the Board’s assets, including office accommodation. Profits of the Board’s creameries and interest on the Board’s investments are taken into account by the Ministry in fixing the price of milk to the Board, and thus enure to the benefit of the Ministry.

APPENDIX No. 8.

PAPER handed in by *Sir Eric Speed*, K.C.B., K.B.E., M.C., on the
4th July, 1946

Q. 3236

FURTHER NOTE ON ITEM 53 OF THE LOSSES STATEMENT APPENDIX III, APPROPRIATION ACCOUNT FOR THE YEAR ENDED 31ST MARCH, 1945.

The Imprest Holder in this case was an officer of the R.A.P.C. who was sent to Java in January, 1942, on formation of H.Q., S.W. Pacific Command by the Command Paymaster, Malaya, to act as Paymaster for the troops in the island. He was responsible for obtaining funds for furnishing units with money to pay the troops, and for the payment of bills for expenditure incurred locally.

In the first instance he was provided with funds by Telegraphic Transfer from the Command Paymaster, Singapore, but when early in February communication was disrupted, arrangements were made for a credit to be established at the Javische Bank.

The Command was very short lived and dispersed on the invasion of Java by the Japanese on 26th February, 1942, when this officer was evacuated from Java. The balance of his account equivalent to £66,390 19s. 2d. was transferred by him to his subordinate, another R.A.P.C. officer, who remained on the island to act as Paymaster for the troops.

The latter officer, who adopted the title "Base Cashier", was subsequently captured by the Japanese, and has now been repatriated. He was unable to preserve any documents but states that on the best of his recollection at least 300,000 Guilders (approximately £40,000) were left in the Bank. The remainder was spent on legitimate Army services, mostly on the provision of food and necessaries for the troops both prior to capitulation and afterwards during the period of some weeks that elapsed before they were concentrated into P.O.W. camps. The officer states definitely that no cash was taken from him by the Japanese and none was abandoned. The statement that the balance was handed over to a naval cashier was contained in a cabled message from Ceylon which has now proved to be erroneous.

Enquiry initiated via Singapore has now established that a sum of over 312,000 Guilders (some £41,000) was on 8th March, 1942, standing to the credit of the Base Cashier British Forces in the books of the Hong Kong and Shanghai Banking Corporation in Java, and in addition other sums were standing to the credit of holders of other accounts in this and other banks. These holders include some who were sub-accountants of the Base Cashier, and subject to verification that balances so held were on account of public funds, a further credit of about 85,000 Guilders (some £11,000) may be available. At present all these balances are blocked by the N.E.I. Government but the question of their eventual recovery is being pursued.

The present position is therefore that out of the total of £66,390 19s. 2d. involved, some £52,000 will probably be ultimately recovered, and the balance may reasonably be deemed to have been covered by unvouched expenditure.

APPENDIX No. 9.

PAPER handed in by *Sir Henry V. Markham*, K.C.B., M.C., on the 10th July, 1946.

Qs. 4058-78

ARRANGEMENTS FOR SECURING ECONOMY IN MANUFACTURE.

Note by Accounting Officer for Navy Votes.

In my examination on the 14th May last, on paragraph 17 of the Report of the Comptroller and Auditor General on the Navy Appropriation Account for 1944, I undertook to submit a note in answer to questions put to me arising out of the difference in manufacturing costs for certain naval gun forgings obtained from two different sources.

2. I had explained that the higher cost in the case of one firm was due in part to their use of a more expensive alloy, adding that one had to take into account that the particular alloy used had resulted in fewer rejections at initial inspection. By "initial inspection" is meant the sampling of the gun tube before it is made up into a gun to ensure that the material possesses the requisite qualities. Statistics of the rejections on initial inspection are not available, but at both the firms concerned they are known to have been low, and the margin in favour of the firm employing the special alloy is slight. If I were giving my evidence now, I should feel it right to introduce an adverbial qualification to this effect, as the significance of the point was enhanced by later questions.

3. I deal with the relative position as regards final rejections below.

4. In Question 4058, I was asked what number of units of this forging were purchased from the different sources. In answering this I should explain that the figures of £271 (Firm A) and £184 (Firm B), quoted in answer to Question 4051, related to the estimated cost of material for a set of 4-inch Mark XVI* Gun Forgings, a set comprising the Jacket, Loose Barrel and Breech Ring. In addition, however, to sets of Gun Forgings, orders were placed for complete Gun Bodies with a third Firm C (embodying sets of Gun Forgings which they obtained from Firm B) and with Firm A, and also for Barrels complete and Forgings for Barrels. The quantities ordered during the war were as follows:—

<i>Firm A</i>	<i>Firm B</i>	<i>Firm C</i>
359 Gun Bodies		185 Gun Bodies
186 sets of Gun Forgings	90 sets of Gun Forgings	
867 complete Barrels	3151 Forgings for Barrels	348 Complete Barrels

Lest it should be assumed that an undue number of equipments were ordered from the more expensive firm, I should explain that the remaining capacity of the cheaper firm was fully absorbed in the manufacture of other types of gun and gun forgings.

5. In Question 4062 I was asked what was the percentage of rejections of forgings obtained from the respective sources. Such statistics as are available relate to *final* rejections. As stated above, Firm A manufactured both gun bodies and forgings, whereas the only other forgings were made by Firm B, who did not make gun bodies; the only readily ascertainable figures, therefore, cover gun

bodies and gun forgings for Firm A, and gun forgings only for Firm B. The relative percentages based on the value of rejections calculated at the estimated cost related to total estimated cost were:—

<i>Year</i>	<i>Firm A</i>	<i>Firm B</i>
	<i>Average based on value of complete Gun Bodies and Gun Forgings</i>	<i>Based on value of Gun Forgings only</i>
1939	3.26%	4.6%
1940	1.81%	2.61%
1941	1.18%	2.26%
	Average for 3 years 2.04%	
1942	1.93%	5.2%
1943	2.54%	5.84%
	Average for 2 years 2.15%	

It is, however, right to say, although precise figures are not readily available, that the percentages for Firm A, if applied to gun forgings only, would probably require to be nearly doubled.

6. In Question 4078, I was asked the relative cost of the guns obtained from the two sources. The prices agreed under a 1940 contract (the year in which the gun forgings in question were ordered) for 80 4-inch Mark XVI* guns ordered from each firm were—

Firm C £1,076.
Firm A £1,299 8s. 5d.

H. V. Markham,
Accounting Officer.

Admiralty,
3rd July, 1946.

APPENDIX No. 10

PAPER handed in by *Sir Archibald Rowlands*, K.C.B., M.B.E.,
on the 10th July, 1946.

Note by Accounting Officer of Ministry of Supply.

Qs. 5605-20

PRICES OF TECHNICAL VENEERS AND PLYWOOD

1. The Public Accounts Committee asked to be informed of the profits, capital and percentage of capital represented by the profits in the case of the four largest producers of technical veneer and plywood in the year 1942.

2. The following information has been obtained from the report of the Costing Branch referred to in paragraph 52 of the C. & A.G.'s Report on the Vote of Credit Appropriation Account 1944.

3. The trade falls into three classes of undertaking :

- (a) Cutters of veneer only from the log ;
 (b) Producers of plywood and other products from veneers ;
 (c) Self-contained firms producing plywood and other products from the log, i.e., doing both (a) and (b).

4. The production and approximate annual turnover of the cross-section of the trade examined by the Costing Branch and of the total trade was as follows :—

(a) Veneer Manufacturers			(b) Plywood Manufacturers			(c) Self-contained Factories		
	1942 Production (all types)	% Total		1942 Production (all types)	% Total		1942/3 Production (all types)	% Total
Firm A ...	000 sq. ft. 87,700	57.5	Firm D	000 sq. ft. Est. 7,000	Est. 18	Firm G	000 sq. ft. 5,925	Est. 29
Firm B ...	8,700	6.0	Firm E	8,000	Est. 20	Firm H	4,800	Est. 23
Firm C ...	18,000	11.5	Firm F	780	Est. 2			
	114,000	75.0		Est. 15,780	Est. 40.0		10,725	Est. 52
Not examined (4 firms) ...	38,100	25.0	Not examined (32 firms)	Est. 23,670	Est. 60.0	Not examined (2 firms)	Est. 10,000	Est. 48
Total (7 Trade firms) ...	152,500	100.0	(35 firms)	Est. 39,450	100.0	(4 firms)	Est. 20,725	100.0
Approx. Annual Turnover of Trade ...	£1,200,000			£5,000,000			£2,000,000	

5. The capital employed by the cross-section in 1942, the profit and the percentage on capital represented is shown below :—

(a) *Veneer Manufacturers*

	<i>Capital Employed</i>	<i>Profit</i>	<i>Percentage on Capital</i>
	£	£	
Firm A ...	177,114	234,928	133%
Firm B ...	19,613	13,799	70%
Firm C ...	30,874	24,719	80%
Totalling ...	227,601	273,446	120%

(b) *Plywood Manufacturers*

Firm D ...	174,262	138,723	80%
Firm E ...	230,424	273,684	119%
Firm F ...	16,605	7,122	43%

(c) *Self-contained Factories*

Firm G ...	159,000	205,400	129%
Firm H ...	(Representative Data not available)		

6. No comparable information is available for years later than 1942, but it may be mentioned that the steps taken to reduce prices were as follows :—

Birch veneer (Birch represented some 75 per cent. of total consumption) :

Prices reduced by 25 per cent., March 1943.

Birch veneer prices reduced by 11 per cent., April 1944.

Birch veneer prices reduced by further 4 per cent. on those existing prior to April 1944 in October 1944.

Gaboon veneer : prices reduced by 19 per cent. May 1944.

Amended to 17 per cent. October 1944.

Corresponding alterations were made in *Plywood* prices.

June, 1946.

APPENDIX No. 11.

PAPER handed in by *Sir William S. Douglas*, K.C.B., K.B.E.,
on the 8th July, 1946.

Qs. 3637-98

DISTRICT AUDITORS.

1. On reading the minutes of evidence taken before the Committee on the 7th May last I feel that the Committee might be left under certain misapprehensions unless I supplement that evidence in so far as it relates to the work of the District Auditors in the examination and certification of claims for Exchequer money.

2. In the first place some questions were directed to the kind of matters raised by the Auditors, and the Comptroller and Auditor General in answer to question 3644 said that he had no positive evidence that the District Auditors did in fact raise matters of financial importance. For the information of the Committee I append a statement giving short descriptions of some of the matters covered in Audit Reports. Sufficient cases (26 cases covering the work of the Ministry of Health and 66 cases covering the work for which other Government Departments are responsible) have been selected to form a representative sample. There were many others of the same sort and of course numerous cases of wrong allocation of expenditure for grant purposes and of duplicate or erroneous charges. The reports of the Auditors are on the Departmental files and have always been available to the officers of the Comptroller and Auditor General.

3. In the second place there was some reference to the degree of central direction and control of the Auditors in the examination of claims on behalf of Government Departments, and in answer to question 3644 the Comptroller and Auditor General indicated that in this connection, he thought that the powers and duties of the Chief Inspector of Audit might be usefully reviewed. The work of the Chief Inspector in relation to claims was briefly set out in the sixth paragraph of Appendix 8 to the Committee's Report for the Session of 1944-45 as follows:—

“ In relation to the certification of claims by Local Authorities against the Exchequer, the Chief Inspector is consulted as to whether the audit staff can take the work and if so as to the forms of claim, forms of certificate, explanatory memoranda and circulars of various types. He is also responsible for supervising and co-ordinating the actual work of examination, certification and reporting on claims.”

In amplification of this statement the Committee should know that the Chief Inspector sees every report of a District Auditor and any correspondence arising therefrom, and keeps in touch with the Departments on the one hand, dealing with general points and bringing special points to their notice, and with the Auditors on the other, circulating to them information on points as they arise. He is consulted by the Departments in the early stages when any new grant is proposed, dealing with such questions as whether the Auditors can take on the new work, the form of claim to be used, the form of certificate, etc. He also discusses with the Departments any detailed explanatory memoranda to be issued to the Auditors describing the basis of grant and directing attention to various points of importance. The number of such explanatory memoranda issued during the war was about 100; the number of Circulars dealing with financial matters was many hundreds.

4. Some of the questions asked before the Committee touched on the competence of local authorities to exercise proper financial control and provide adequate safeguards when spending money largely derived from the Exchequer, and I therefore think it desirable to point out that although there are many more cases than those appended to this note where it has been necessary for

the Auditor to take some action, that is only a part of the picture. During the War all the 1,500 local authorities were concerned in one way or another with special war-time grant-aided or re-imbursable expenditure which, over the period up to March, 1944, amounted to something like £540 million; and the number of separate claims involved was about 12,500 a year. Only in a very small minority of cases was there irregularity or extravagance.

SCHEDULE A.

(A) ERRORS OF PRINCIPLE IN ADMINISTRATION.

1. The statement by a County Borough in respect of a claim for financial assistance owing to difficulties resulting from the war was reported by the Auditor to require an adjustment of £22,074 as regards statement of cash balances and consideration of the actual liability of the Corporation against an Income Tax Reserve of £179,000.

[*Note*.—The Auditors have made a number of reports on this subject.]

2. Following adjustment of bed reservation figures at audit, an over-apportionment of charges to Emergency Hospital services of over £10,000 was shown.

[*Note*.—Numerous reports have been made on adjustments necessary in the statistical data relative to occupancy of both Local Authority Hospitals and Voluntary Hospitals for purposes of determination of Exchequer liability under the Emergency Hospital Scheme.]

3. The Department undertook to meet the whole cost of administration of a hospital less certain specific items. After attention was drawn in the report on the claim for 1940-41 to the fact that the Visiting Committee were making a profit as a result of the transfer of their patients to other hospitals the Department finally made deductions totalling £17,915 for the five years ending 31st March, 1944.

4. Reduction of £53,000 in Evacuation claims of a County Council covering a period of three years as a result of audit report. In addition a decision by the Department on principle is awaited regarding two questions raised in the report involving sums of £351,000 and £41,550 in the same period.

5. The District Auditor (by minute to the Chief Inspector) drew attention to a weakness in the arrangements made by the Department relative to recovery of the cost of furniture issued to homeless persons from War Damage Compensation due to the recipient. Amended procedure was subsequently laid down in Circular 2592D.

6. A Council failed to require purchase or return to store of furniture etc. lent to persons rendered homeless by enemy action. Audit action resulted in the necessary steps being taken.

7. General criticism of the inefficient financial administration of an Emergency Hospital. Income of at least £214 either recovered or debited during the audit.

8. Criticism of defective arrangements of a Council for placing homeless persons in requisitioned properties and for assessment and collection of rents.

9. Expenditure on erection and adaptation of buildings for Wartime Nurseries in a County Borough was reported as amounting to £32,847 as against approved expenditure of £6,640. It is not suggested that the expenditure was improper but the report is illustrative of the value of District Audit work in bringing to the attention of Departments important expenditures requiring their specific approval under various Circulars or Regulations. There are numerous reports of this nature.

10. Exception was taken at audit to the principles on which a County Council allocated general establishment charges to Emergency Services. A basis was agreed which resulted in a reduction of charges to the Rest Centre Service of £6,656. This agreement has resulted in saving to the Exchequer in respect of all Emergency Services of many thousands of pounds.

11. General criticism of weakness in system of recovery of parental contributions towards billeting expenses of evacuated children. £250 was recovered during the audit for income due against payments for billeting in an institution.

(B) FRAUDS.

12. Fraud by two women householders who through laxity of local doctors and inefficiency of the Council's billeting officer obtained over 350 false medical certificates on which they were paid 5s. per week for supposed attendance on sick children. Women sentenced to six months' imprisonment. Billeting officer surcharged £32 and dismissed.

13. Misappropriation of rents received from homeless persons rehoused by a billeting Welfare Officer—£61 3s. 6d. This sum was subsequently paid in. Fraud discovered at audit.

14. Misappropriation by Clerk in Rehousing Department—£66. Loss surcharged and recovered. Fraud discovered at audit.

15. Misappropriation by Chief Clerk of Public Health Department of £227 relating to sums charged for attendances at Wartime Day Nurseries. Sum recovered. Defaulter sentenced to six months' imprisonment. Fraud discovered at audit.

16. Default by a member of the almoners' staff (actual culprit not identified) at an Emergency Hospital for £27 10s. received from patients. Fraud discovered at audit. The whole system of assessment of recoveries and collection was revised as a result of the audit report.

(C) PERSONAL IRREGULARITIES.

17. A councillor, acting as billeting officer, rented premises and accommodated evacuees therein. He drew billeting allowances and made a profit estimated at £120. Following action at audit the amount was paid in by the Councillor.

18. The civil administrator of an Emergency Hospital was permitted to draw rations on repayment terms from the Hospital Store. The Auditor reported his outstanding liability for these stores to be £340. He was interviewed by officers of the Department on two occasions and eventually discharged the debt.

19. Improper use of public money by various members of the W.V.S. at a hostel for the homeless. £87 paid in during the audit; £50 surcharged and subsequently recovered.

20. Mileage allowances of £113 6s. 2d. and £37 9s. 3d. respectively were claimed by two officers of a County Council for motor car journeys on Evacuation business that were in excess of the mileage that could have been performed with lawfully acquired petrol. The amounts were surcharged on the officers concerned and recovered from them.

21. Duplicate charges for travelling expenses and improper and excessive use of petrol from the Council's bulk supplies alleged to have been used for purposes of the Evacuation Scheme. £96 11s. 3d. was recovered from the officer concerned (the Clerk to the Council) and the papers were forwarded to the Director of Public Prosecutions for consideration of possible petrol offences.

(D) UNECONOMIC OR EXTRAVAGANT EXPENDITURE.

22. The audit report on extravagance in administration of an Emergency Hospital resulted in the exclusion of £1,549 from the claim for grant and restriction of the powers delegated to the Management Committee and Medical Staff.

23. Expenditure on fire-watching allowances at an Emergency Hospital in excess of the amount recoverable from the Regional Commissioner included in claim against Ministry of Health—£756.

24. Expenditure (£1,652) on adaptation and equipment of a private nursing home requisitioned and released within two months. No Departmental approval was obtained for the project.

25. Excessive payments of tuberculosis allowances—£165.
26. Unnecessary retention of and payment for services of a home help who did no work—£193. Services terminated as a result of audit action.

SCHEDULE B.

(A) UNECONOMIC OR EXTRAVAGANT EXPENDITURE.

SERVICES ADMINISTERED BY THE MINISTRY OF HOME SECURITY
(NOW THE HOME OFFICE).

1. A County Council organised (without Departmental approval) a "Roads Emergency Service," involving the employment of roadmen on a 24-hour telephone control separate from the approved control centres. On receipt of the audit report the Department refused to recognise the service on the grounds that it was unnecessary and disallowed for grant sums totalling £19,163.
2. A County Borough Council provided free meals to personnel on an excessive scale. The sum of £6,825 was struck out of claims following audit report.
3. Extravagance and inefficiency in administration of canteen service—average cost per meal being 3s. 6d. instead of about 1s. 6d.
4. Cost of construction of rescue and decontamination stations in a County Borough inflated by consideration as to possible post-war use of the buildings for normal Council services. £19,582 disallowed out of £39,056 claimed.
5. Criticism of expenditure on works carried out under "Cost-plus" contracts. Technical examination of work recommended whereby over £5,000 was disallowed from the claim.
6. Criticism relating to probable waste of petrol through unnecessarily elaborate schemes for "warming up" engines of A.R.P. vehicles at frequent intervals.
7. New bricks value £882 removed to Dump and sold as salvaged materials instead of being taken into store.
8. Unnecessary employment of skilled electricians on a 24-hour service at a siren switch on the other side of the road from the main control room from which the switch could equally well have been operated—£954.
9. Wages of sundry squads unnecessarily "standing-by"—£2,403.
10. Unnecessary delay in releasing 151 taxi-cabs retained for towing fire pumps involving an excessive hiring charge of £2,050.
11. Unnecessary and extravagant hiring of vans for removal of furniture from bombed premises at a cost estimated at £8,000.
12. A Council failed to comply with the directions of the Department as to the hours of duty to be worked by Civil Defence personnel, and thereby incurred unnecessary expense of £1,415.

SERVICES ADMINISTERED BY THE WAR DAMAGE COMMISSION.

13. Following an extraordinary audit it was found that there had been laxity in the control and supervision exercised by local authority officers whereby excessive and extravagant expenditure on many properties had been incurred, that claims by 13 contractors were excessive to the extent of £5,444, that actual overpayments to 9 contractors amounted to £2,354 and that the Local Authority had irregularly charged to War Damage the cost of normal repairs to Council houses amounting to £855. The overpayments to Contractors were recovered at audit, except to the extent of £294 (still under negotiation).
14. Investigation into charges made by a firm of Architects engaged by two Councils to deal with supervision of War Damage Repairs. As a result of audit action the Councils repudiated claims amounting to £15,501 and £10,363 respectively. High Court actions relating to these claims are pending.

SERVICES ADMINISTERED BY THE MINISTRY OF FUEL AND POWER.

15. Following audit report on defects in petrol control system (including unsatisfactory issue records, deficiencies in petrol stocks and failure to keep log books and journey sheets), the system was tightened up and deficiencies at all pumps reduced from 5.5 per cent. in 1940-41 to 3.12 per cent. in 1942-43 and (on discontinuance of storage at private garages) to 1.68 per cent. in 1943-44.

[*Note.*—There were numerous reports as to petrol deficiencies and much improvement took place as a result of audit work on this subject.]

SERVICES ADMINISTERED BY THE MINISTRY OF FOOD.

16. Excessive purchase of equipment and foodstuffs for British Restaurants, excessive consumption of foodstuffs, absence of adequate costing and trading deficiencies.

17. Following the audit report on losses arising at a British Restaurant from heavy wage costs and rent, the Restaurant was closed.

(B) ERRORS OF PRINCIPLE IN ADMINISTRATION.

SERVICES ADMINISTERED BY MINISTRY OF HOME SECURITY.

18. The audit certification of the claim of a County Borough for expenditure on construction of shelters was withheld by reason of gross defects in accounts and records until such defects were remedied.

19. The arrangements for checking prime cost contracts for the construction of shelters in a County Borough were unsatisfactory and resulted in over-payments to contractors. Some recoveries were made following a review by the City Engineer. At the next audit an improvement in the checking methods was noted.

20. Canteen administration in the A.R.P. and N.F.S. service was revised in a County Borough following current audit discussions with the City Treasurer and A.R.P. Controller.

21. Serious defects in accounting system involving an estimated loss of £14,000 in connection with the sale of salvaged materials. A sum of £2,622 was recovered at audit—the remaining debts being incapable of proof.

22. The unsatisfactory arrangements between a County Council and County Districts as to method of recovering grant on A.R.P. expenditure resulted in duplicate claims and confusion. The County Council was asked in a special interim report to effect re-organisation.

23. Defects in the records of attendance and sickness of A.R.P. personnel employed by a County Council resulted in payment of full wages during sickness.

24. The wages system for payment of A.R.P. personnel in a County Borough was reported to be unsatisfactory and insecure and efforts were made at audit to improve it. No register of part-time A.R.P. vehicles was kept and only approximate figures could be given to the Insurance Company for their insurance. No recovery had been made from an Insurance Company in respect of 8 cars reported as total loss.

SERVICES ADMINISTERED BY WAR DAMAGE COMMISSION.

25. Inefficient administration in a Borough Engineer's office resulted in loss in connection with War Damage repairs. Recoveries from contractors of over £600 were made at audit and the accounting system was completely re-organised.

26. From evidence obtained at the audit of a Metropolitan Borough Council there appears to be grounds for showing that the scale of Architects' fees prescribed by the Ministry of Health for work of War Damage Repairs (Serial Note 76) may be excessive.

27. Failure of Surveyor's Department (although, in the opinion of the auditor, adequately staffed) to render claims for War Damage expenditure whereby the Council had incurred interest charges on a temporary loan.

SERVICES ADMINISTERED BY MINISTRY OF FUEL AND POWER.

28. Serious defects in administration of petrol issues from bulk supplies were rectified as a result of audit action.

[*Note.*—There are numerous reports on this subject.]

SERVICES ADMINISTERED BY THE MINISTRY OF FOOD.

29. General criticism of management of British Restaurants and A.R.P. Canteen. Prosecution of manager for food offences.

[*Note.*—There are a number of reports on the defective arrangements of British Restaurants.]

(C) FAULTY CONTROL OF STORES.

SERVICES ADMINISTERED BY THE WAR DAMAGE COMMISSION.

30. Difference between book stock and actual stock representing 749 tarpaulins costing £5,569. Local investigations proceeding following audit representations.

SERVICES ADMINISTERED BY THE MINISTRY OF HOME SECURITY.

31. Reduction of expenditure eligible for grant recommended of £2,307 re shelter timber (excess charge over cost, handling charges due from other services charged to A.R.P.).

32. Deficiency of 320 gallons of petrol. Value of 200 gallons recovered from a garage proprietor; use of one pump discontinued; other pump to be marked "not for resale, A.R.P."; more frequent stocktaking to be carried out.

33. Unsatisfactory system for controlling issue of stirrup pumps involving possible loss of income.

34. General criticism of inadequacy of arrangements for control of Civil Defence stores and equipment in a County Borough. The auditor's comments led to the appointment of a responsible equipment officer.

35. Substantial losses of Civil Defence stores reported as being due to lack of control. £48 surcharged upon and recovered from Canteen manager for loss of canteen stores due to his negligence.

36. Records of receipt and issue of Civil Defence stores incomplete. Books properly written up before close of the audit.

[*Note.*—There were numerous audit reports on inadequate control of Civil Defence Stores.]

SERVICES ADMINISTERED BY THE MINISTRY OF FOOD.

37. Lack of adequate records and control over provision stores whereby deficiencies had occurred.

(D) FRAUDS.

SERVICES ADMINISTERED BY THE WAR DAMAGE COMMISSION.

38. The Auditor required a contractor to produce his books and found overcharges of £2,672 for wages and £208 for materials on a "cost-plus" contract.

39. The Auditor caused the books of a contractor to be examined and found that £120 had been overpaid as a result of fraud by an accounts clerk who was prosecuted and refunded the money. The books of other contractors were also examined and £404 recovered.

40. The Auditor required a contractor to produce his books and surcharged him with £566 for excessive charges on a "cost-plus" contract. The sum was recovered.

SERVICES ADMINISTERED BY THE MINISTRY OF HOME SECURITY.

41. The Auditor discovered a fraud involving at least £20,000 relating to the repair of Civil Defence vehicles. The garage proprietor and his clerk were convicted on charges of conspiracy to defraud and false pretences. Proceedings for recovery are being commenced.

42. A senior official of a County Council made false charges for travelling expenses by motor car. The Auditor surcharged him with £93 6s. od., which sum was recovered from him.

43. The accounts of a contractor for erection of domestic surface shelters were examined under audit direction and overpayments of £196 were recovered.

44. The Auditor initiated the inspection of the books of contractors engaged on Cost-plus contracts for shelters. Several Contractors were found to have certified wages as paid in excess of actual payments. The excess payments were recovered. A prosecution for false pretences was dismissed on a technicality.

45. The Auditor reported to the Council—

- (a) Recoveries from contractors re erection of Anderson shelters.
- (b) Inadequacy of control of salvaged materials.
- (c) Irregularities in connection with erection of staff shelters (including wrongful charge to A.R.P. for materials).
- (d) Irregularities in connection with storage of private chattels.
- (e) Defects in stores records generally.

The Borough Engineer was dismissed.

46. Improper sales of Anderson shelters by three employees and retention of proceeds (£56 15s. od.). Employees prosecuted and convicted. £51 8s. od. recovered.

47. Report by the Auditor to Council re irregularities in connection with A.R.P. Canteens—defective stores records, improper sales of foodstuffs, excessive stocks, no inventory of equipment. The A.R.P. Controller and the Catering Manager were prosecuted for food offences, the former being fined £200 and ordered to pay half the costs of the prosecution and the latter being sentenced to 10 months imprisonment.

48. The Auditor discovered a fraud by the A.R.P. Officer of a Council who misappropriated £527 (sales of stirrup pumps, replacement or repair of respirators and petty cash). The officer was suspended and allowed to resign after paying in £527.

[*Note.*—Comment was made in report to the Ministry of Health on the fact that receipts for cash received for respirators were not issued in accordance with local authority practice because the Ministry of Home Security had laid down a system providing for a document showing the amount paid to be signed by the payer and retained by the Local Authority.]

49. The Auditor discovered a fraud by the Chief Officer of the Fire Brigade who misappropriated receipts from the sale of stirrup pumps amounting to £69. The amount was recovered during the audit.

50. The District Officer of the Warden's Service misappropriated £112 receipts for repair of respirators. The loss was surcharged upon him by the Auditor and recovered under a fidelity guarantee.

51. The Auditor discovered a misappropriation of £92 by a Borough Treasurer from advances to him for payment of Fireguard subsistence allowances. The sum was recovered and the Treasurer dismissed.

52. The Auditor directed the attention of the County Treasurer to the faulty condition of the records of the County A.R.P. Equipment Officer. After investigation the Equipment Officer was charged with larceny of stores valued £904 5s. 6d. and sentenced to three years penal servitude. There was a net loss of £359 12s. 8d. after recoveries from various sources.

53. The Auditor investigated a misappropriation of cash of £155 10s. 0d. of a (Civil Defence) wages clerk. The money was recovered under a fidelity policy and the clerk sentenced to 6 months imprisonment.

54. The Auditor investigated a misappropriation of cash by a Civil Defence wages clerk of £745 6s. 5d. involving forgery. Clerk sentenced to three months imprisonment. Cash recovered as to £153 6s. 10d. from defaulter and as to the remainder under a fidelity policy.

55. The Auditor discovered that the claim of a Council for costs of clearance of debris included overpayments to a contractor of £259 on fraudulent claims against the Council.

56. The Auditor investigated sales of materials salvaged from bombed sites and overpayments on contracts and recovered £1,500.

57. The Auditor investigated misappropriations of £377 by the Clerk in a Surveyor's Department from sale of salvaged materials. The sum was recovered and the Clerk prosecuted and convicted.

58. The Auditor surcharged £160 on the Catering Officer during the course of investigation into purchasing irregularities (prices, excessive purchases, disposal of surplus stocks) and recovered the amount. The officer was dismissed.

59. The manager of a British Restaurant retained and misappropriated sales proceeds of £226 4s. 8d. He absconded and has not been found.

(E) PERSONAL IRREGULARITIES.

SERVICES ADMINISTERED BY THE WAR DAMAGE COMMISSION.

60. Work of decoration and improvement were carried out by the Surveyor at his own and other premises and improperly charged to War Damage Repairs (over £500 involved). Following the report of the Auditor, the Surveyor, his Deputy and Foreman were called upon by the Council to resign and recoveries were made by the Council for the private work done.

SERVICES ADMINISTERED BY THE MINISTRY OF HOME SECURITY.

61. The Leader of a Council and the ex-Town Clerk were surcharged £1,024 for loss due to their misconduct in relation to a deep shelter scheme. The money was recovered. The Leader of the Council also exhibited gross impropriety in endeavouring to use the Council's powers of requisitioning property for his own personal benefit.

62. Disallowance and surcharge on A.R.P. officer of £66 19s. 6d. for duplicate charges of expenses and unsubstantiated credits in his cash account. The money was repaid by the officer concerned.

63. Purchase of alcoholic liquor (£68 9s. 11d.) for use of A.R.P. Emergency Committee charged on voucher prepared in the office for "refreshments". The amount was surcharged on the Chairman of the Committee, the Town Clerk and the Borough Treasurer and recovered from them.

64. Audit investigation disclosed irregularities in connection with A.R.P. canteen receipts and disbursements and lack of control over petrol and paraffin stocks. The A.R.P. Officer's services were terminated.

65. There was a deficiency of 1,600 gallons of petrol stored in bulk at a garage. Attempts were made to conceal the deficiency by the use of forged issue vouchers. The value of the missing petrol was refunded by the garage proprietor during audit.

66. An Alderman initiated improper charges to a Council for supply of vegetables to a British Restaurant and a National Fire Service Canteen. The sum of £77 10s. 1d. was surcharged on the Alderman and recovered from him.

APPENDIX No. 12.

PAPER handed in by *Sir John H. Woods*, K.C.B., M.V.O., on the 2nd July, 1946.

Qs. 5270-80

In fulfilment of my undertaking to the Committee in my evidence on 4th June I forward statements showing:—

- A. The annual cost of Utility Cloth Rebate Schemes.
- B. The subsidy element in the price of utility cotton cloths.
- C. The subsidy element in the price of utility wool cloths.

Statement C has been amplified to show the position under the revised rates of rebates operating from 1st June, 1946.

J. H. WOODS.

BOARD OF TRADE,
MILLBANK, S.W.1.

2nd July, 1946.

STATEMENT A.—ANNUAL COST OF UTILITY CLOTH REBATE SCHEMES

Period	Payments in respect of	
	Cotton Rebates	Wool Rebates
First 12 months of scheme Cotton: September, 1944 to August, 1945 Wool: March, 1945 to February, 1946 Financial year 1945-46	£ 1,204,476	£ 2,424,809
	2,301,623	2,652,165

STATEMENT B.—SUBSIDY ELEMENT IN THE PRICE OF UTILITY COTTON CLOTHS

Type of cloth	Current Rebate Average per Linear yd.	Current Retail Price Average per Linear yd.
	d.	s. d.
Flannelette Pyjama Cloth	2.23	11 ³ / ₄
Shirtings	2.80	1 2 ³ / ₄
Dress Cloth	3.04	1 4
Overall Cloth	2.73	1 1 ³ / ₄
Gaberdines	11.70	4 0
Fustians	7.24	2 10 ¹ / ₂
Nurse and Hospital Cloths	2.83	1 7
Velveteens	4.57	2 10 ³ / ₄
Linings	2.45	1 0
Corset Cloths	3.01	2 2
Cloth for rubber proofing	unproofed 3.81 single proofed double proofed	} 1 7 } 2 11 } 4 11 ¹ / ₂

The "current rebate" represents the amount paid to the converter, and has the effect therefore of keeping down the price of cloth in the subsequent stages of distribution. But for the rebate the "current retail price" would of course have to be higher.

STATEMENT C: SUBSIDY ELEMENT IN THE PRICE OF UTILITY WOOL CLOTHS

SPECIFICATION NUMBER	RATE OF REBATE PER YARD		MANUFACTURER'S MAXIMUM PRICE PER YARD			RETAILER'S MAXIMUM PRICE PER YARD		
	(b) 1945— May 1946	(c) From 1.6.1946	(a) Without Rebate	(b) With Rebate at "1945 Rate"	(c) With Rebate at Revised Rate	(a) Without Rebate	(b) With Rebate at "1945 Rate"	(c) With Rebate at Revised Rate
210A ...	s. d. 3	s. d. 7½	s. d. 4 0	s. d. 3 9	s. d. 3 4½	s. d. 6 2	s. d. 5 9	s. d. 5 1
204 ...	6	1 3	4 6	4 7	3 3	6 11	6 1	4 10½
209A ...	7½	1 6	9 6	8 10½	8 0	14 7	13 7	12 2
212A ...	NIL	1 8	10 6	10 6	8 10	15 7	15 7	13 0

INDEX

A

- Accounting and audit, standards, 4th Report, 1-3.*
- ADAMS, Mr. E. C., C.B.E.: 3810/1-3810/69.
- Export credits:
- Acquisition of Guaranteed Securities Fund, 3810/45-3810/64, 3810/65-3810/68.
 - Guarantee Department credit insurance scheme, 3810/21-3810/44.
 - Payments under guarantees and recoveries, 3810/9-3810/20.
 - Scheme, 3810/1-3810/8.
- Aden Protectorate, expenditure in, Gater 4628-30.*
- Admiralty:*
- Civil staff, position, *Markham 3317-21.*
 - Ministry of Works, work for, *Robinson 3879.*
- Africa, occupied territories, civil administration in, Speed 3126-8; Upcott 3126, 3127.*
- Agricultural Mortgage Corporation:*
- Debenture stock, *Upcott 3520.*
 - Directors, *Vandepeer 3490, 3510-4.*
 - Establishment and functions, *Vandepeer 3475-80, 3521-4, 3525-8; Brittain 3524, 3526.*
 - Guarantee fund, and annual grants to, *Vandepeer 3481-9, 3502; Upcott 3485, 3486, 3515; Brittain 3494.*
 - Loan to, *Vandepeer 3545, 3546; Brittain 3545, 3547.*
 - Loans by:
 - Conversion to loans at lower interest on payment of fee, *Brittain 3500-1, 3504-9; Upcott 3501.*
 - Interest rates and redemption period, *Vandepeer 3496-9.*
 - Loss on 1944 working, *Vandepeer 3516-8; Brittain 3519-20.*
 - Reserve fund, *Brittain 3502-9.*
 - Share capital and rate of dividend on, *Vandepeer 3490-3; Brittain 3492, 3494-5; Upcott 3495.*
- Agriculture, Department of, for Scotland, see under Scotland.*
- Agriculture and Fisheries, Ministry of:*
- Accounts, form of, *Vandepeer 3529.*
 - County War Agricultural Executive Committees:
 - Administrative expenditure, *Vandepeer 3582.*
 - Expenditure and receipts, *Vandepeer 3574-8.*
 - Farmers, services to, *Vandepeer 3575-6.*
 - Future of, *Vandepeer 3584-5.*
 - Land being farmed by, *Vandepeer 3581.*
 - Machinery, *Vandepeer 3579-80, 3582-3.*
 - Agriculture and Fisheries Ministry of:—cont.*
 - County War Agricultural Executive Committees:—*cont.*
 - Machinery:—*cont.*
 - Sale by Committee on deferred purchase terms, *Vandepeer 3597-8.*
 - Machinery and implements lost by, *Vandepeer 3599; Upcott 3599.*
 - Unauthorised sale of stocks by Committee, *Upcott 3594, 3595; Vandepeer 3594, 3596.*
 - Diseases of animals:
 - Compensation to owners of slaughtered animals, *Vandepeer 3541-4.*
 - Refunds and bonuses to herd owners, *Vandepeer 3537-40.*
 - Estate given to, in South-East Essex, expenditure on, and position as to use, *Vandepeer 3530-4, 3548-51; Upcott 3533, 3534.*
 - Grain sacks, purchase and distribution, *Vandepeer 3593.*
 - Land Fertility (Research) Fund, *Vandepeer 3561-71; Upcott 3562, 3572-3.*
 - Limestone grinding plants, *Vandepeer 3593.*
 - Ministry of Works, work for, *Robinson 3879.*
 - Miscellaneous payments, *Vandepeer 3590-3; Brittain 3591.*
 - National Milk Recording scheme, contribution to, *Vandepeer 3593.*
 - National Stud:
 - Expenditure on land and buildings, *Vandepeer 3552-3.*
 - Stallion Big Game, *Vandepeer 3552.*
 - Stallion syndicates, taking of shares in, *Vandepeer 3554.*
 - Seeds, purchase and sale of, *Vandepeer 3588-9.*
 - Sugar Industry (Research and Education) Fund, *Vandepeer 3555-9; Upcott 3555, 3560.*
 - War Services:
 - Allocation from Vote of Credit, *Vandepeer 3586.*
 - Cost of, *Vandepeer 3587.*
- Air Ministry:*
- Camps, work by Ministry of Works, *Robinson 3879.*
 - Headquarters staff, *Brown 2906.*
 - Oil purchase, *Fergusson 5259; Upcott 5259; Brittain 5259-60.*
- Air raids, work of Assistance Board after, Stuart King 2348-9.*
- Air Services:*
- Accounting staff, *Brown 2817-9, 2823-30.*
 - Appropriation Accounts, 1943, App. 1 (pp. 371, 372).
 - Bomber pilots, training cost, *Brown 2799-803.*
 - British Commonwealth Air Training Plan, *Brown 2788-96; Upcott 2796-7.*

- Air Services*:—cont.
- Civil Aviation, *see that title*.
 - Educational services, *Brown* 2903-4; *Upcott* 2903.
 - Equipment accounts dispensed with, *Upcott* 2914; *Brown* 2915, 2917; *Benford* 2915-7.
 - Imprest holder, failure to account for money, *Brown* 2913.
 - Losses, 2907-13.
 - Pay, etc., accounts, Departmental audit and substitution of current audit; *Brown* 2807-10, 2815-6; *Jones* 2811-3; *Upcott* 2814, 2820-2.
 - Pilots, supply of currency in case of forced descents over enemy territory, *Speed* 3226-9, 3232.
 - Prize money, *Jones* 2524-7.
 - Punishment, "reproving," *Brown* 2907, 2909.
 - Receipts, increase, *Brown* 2786-7.
 - Smuggling by personnel, *Carter* 1905-8, 1925.
 - Stores:
 - Accounting and stocktaking, *Brown* 2875-91; *Upcott* 2884; *Jones* 2890.
 - Accounts, examination of, *Brown* 2868; *Upcott* 2868.
 - Incompletely vouched accounts, *Brown* 2869-74; *Upcott* 2870, 2871, 2872; *Blunt* 2871, 2872; *Jones* 2872.
 - Technical and warlike stores, receipts, *Brown* 2892-6; *Blunt* 2895; *Upcott* 2896.
 - Warlike stores and equipment, *Brown* 2894.
 - Works, buildings and lands:
 - Ex-gratia payments to contractors, *Brown* 2899-900; *Blunt* 2900.
 - New works, additions and alterations, *Brown* 2901.
 - Receipts, *Brown* 2897-9.
 - Works officials, misappropriation by falsification of pay sheets, *Brown* 2910.
- Aircraft Production, Ministry of*:
- 4th Report, 42-43.
 - Aluminium, *see that title*.
 - Amalgamation of Ministries of Aircraft Production and Supply into, *Franks* 5320-1.
 - Contracts:
 - Cancellation, *Franks* 5331, 5334-6, 5389-417; *Upcott* 5342, 5392, 5403, 5410-11.
 - Firm:
 - Appointment of Controller by Minister and reorganisation of board, *Franks* 5343-8; *Pickles* 5346, 5363, 5366-8.
 - Overall price settlement, *Franks* 5349, 5352-6, 5358, 5361-8; *Pickles* 5349, 5365; *Blunt* 5350-1, 5357, 5358; *Upcott* 5359.
 - Fixed price, profit rates, *Franks* 5322-32; *Treasury Minute* App. 3 (p. 379).
 - Prices, progress of settlement, *Franks* 5334-42; *Upcott* 5339.
 - System, *Franks*, 5229-31.
- Aircraft Production, Ministry of*:—cont.
- Grant, *Blunt* 5450.
 - Light alloys purchased by firms, rebate, scheme, *Franks* 5369-88; *Upcott* 5375.
 - Ministry of Works work for, *Robinson* 3879.
 - Power Jets, Limited, taking over by Ministry, *Bruckshaw* 5448-9.
 - Prices, control, *Treasury Minute*, App. 3 (p. 379).
 - Raw materials, accounts, audit, *Franks* 5451-2.
 - Simmonds case, *Blunt* 5333.
 - Store accounts, equipment issued to contractors on embodiment loan, *Franks* 5445-6; *Bruckshaw* 5446-7.
 - Aliens*, admissions from enemy or foreign territory, transport, maintenance, etc., *Maxwell* 4269-71.
 - ALLEN, Mr. Oswald, C.B., C.B.E.:
 - 4367-8.
 - Home Security, Ministry of, settlement of claims of local authorities, 4367-8.
 - Aluminium:
 - Contract with Canadian Company, cancellation, *Franks* 5473-9; *Upcott* 5475, 5477, 5479.
 - Control price of, 4th Report 42-43.
 - Home production, and importation, *Franks* 5458-61, 5469.
 - Transactions and financial results, *Franks* 5453-72.
 - Appropriation Accounts* 1943-44, comparison of audited expenditure and general abstract, App. 1 (pp. 371-3).
 - Approved Schools, etc., England and Wales*:
 - Accommodation, position *re*, *Maxwell* 4309-10.
 - Children in, increase, *Maxwell* 4304.
 - Children waiting admission to, arrangements, *Maxwell* 4305-8.
 - Excess expenditure attributable to the war, *Maxwell* 4291; *Brittain* 4319.
 - Financial arrangements, and Home Office grants, *Maxwell* 4292-9; *Upcott* 4297, 4298.
 - Parents' contributions, *Maxwell* 4317-8.
 - Remand Homes:
 - Detention of children in, for unduly long periods, *Maxwell* 4305.
 - Excess expenditure, *Maxwell* 4300.
 - Improvements, *Maxwell* 4315.
 - Modernisation, *Maxwell* 4303.
 - Number, increase, *Maxwell* 4301-2, 4311-4.
 - Approved Societies, see under* National Health Insurance.
 - Army*:
 - Account, form of, *Speed* 2960-1.
 - Appropriation Accounts, 1943-44, App. 1 (pp. 371, 372).
 - Civil administration in occupied territories in Africa, *Speed* 3126-8; *Upcott* 3126, 3127.

Army:—cont.

Contributions from Colonies and Dominions, etc., *Speed* 3185-8.

Embarkation medical store in home port, deficiencies, *Speed* 3260-7; *Upcott* 3264.

Excess Vote, *Blunt* 2975-8, 2980-1, 2985-8; *Speed* 2988; *Upcott* 2979, 2982-3; *Jones* 2984.

Expenditure overseas, *see particular countries*.

Losses:

Cash, 3236-59.

Stores, 3242-67.

Miscellaneous charges, *Speed* 3226-9, 3231.

Overseas, deficiencies on imprest accounts due to loss of cash and documents through enemy action, *Speed* 3246-59; *Blunt* 3248, 3251-3, 3258.

Pay:

Allowances of families and dependants of personnel reported missing in Far East, *Speed* 3109-11.

Over-issues of balance of civil pay, procedure *re*, *Speed* 3112; *Blunt* 3112-9, 3125; *Jones* 3119; *Upcott* 3121, 3124-5.

Paymasters, handing over of sterling notes of high denominations to, abroad, by military personnel, *Speed* 3242.

Receipts, excess over estimate, *Speed* 2962-74, 3004-11.

Store accounting, Burma, *Speed* 3145-51; *Upcott* 3150, 3152.

Store accounts and stocktaking: Abroad, *Speed* 3155-9.

See also particular countries.

Home, *Speed* 3153-4.

Stores:

Issues to meet civilian needs of European countries, *Speed* 3155-7.

Lend-Lease origin, issue to certain Governments, *Speed* 3230-1; *Blunt* 3231; *Upcott* 3231.

in Occupied territories, theft cases, *Speed* 3233-5.

Sales, receipts, *Speed* 2968-74.

in Transit from United Kingdom to depots on the Continent accounting control difficulty, *Speed* 3160-2.

Works, buildings and lands:

Extra-contractual payment, *Speed* 3220-2.

Hire of buildings, *Speed* 3223-5; *Upcott* 3224.

Works services, in the field, *Speed* 3218-9.

Arts Council of Great Britain, *Maud*, 2115, 2154.

Asmara, theft of motor car, *Speed* 3233.

Assistance Board:

Administrative costs, *Stuart King* 2347-52; *Upcott* 2350; *Brittain* 2351.

Scope of Vote and functions of Board, *Stuart King* 2343-4, 2347-52.

Assistance Board:—cont.

"Uncovenanted" benefit, *Stuart King* 2343-4.

Unemployment allowances, increase in rates, *Stuart King* 2337-40.

Unemployment-benefit:

Increase in basic rate, *Upcott* 2341; *Stuart King* 2342.

Supplementation, *Stuart King* 2341.

Australia:

Assisted passage scheme to, *Machtig* 2318.

Personnel in Royal Navy, pay, etc., adjustment in respect of, 3330-4.

Silver purchase in, *Eady* 5702.

Victoria, settlement scheme, *Machtig* 2327.

Visit by Sir Angus Gillan for British Council, *White* 2700.

B

BAMFORD, Sir Eric, K.B.E., C.B., C.M.G.: 4856-95.

Broadcasting:

Departmental responsibility, 4885.

Licences, fees and revenue from, 4887, 4895.

Over-estimating, 4886.

Properties, 4891-2.

Stores, 4888-90.

War-time assets, ownership, 4893-4.

Information, Ministry of:

Films, 4847-60.

Overseas accounts, 4861-5.

Publicity, 4880.

Store and stock records, 4866-79.

Stores, pilfering, 4870-7.

Trafalgar Square, model haystack, 4884.

BANFORD, Mr. L. J.: 2915-7.

Air Services, equipment accounts dispensed with, 2915-7.

BARNES, Sir Sidney, K.B.E.: 3287-313.

Greenwich Hospital pensions and Naval College, 3288-95, 3299-303.

Basutoland, development and welfare, *Machtig* 2329-32.

Bechuanaland:

Administration, *Machtig* 2304.

Development and welfare, *Machtig* 2329-36; *Upcott* 2333-5.

Grant-in-aid, cessation of, but continuance of Treasury control, *Machtig* 2303-10, 2312; *Brittain* 2311.

Belgium:

Imperial war graves, *Sillar* 2157, 2174.

War stores sold to, after last war, position *re*, *Brittain* 5777-8.

BIRCHALL, Sir Raymond, K.B.E., C.B.: 1784-868.

Post Office:

Airgraph service, contract, 1787-94, 1805.

Cash accounts from postmasters, 1807-8.

- BIRCHALL, Sir Raymond, K.B.E, C.B.:—
cont.
 Post Office:—*cont.*
 Commercial accounts, 1839-68.
 Mails, conveyance by air, 1805-6.
 Savings Bank, 1795-804, 1826-7.
 Trunk telephone calls, 1855-65.
- Birmingham, incorrect classification of houses for war damage payments, *Fraser* 4829-39; *Brittain* 4840.
- Biscuits, *see under* Food, Ministry of.
- Blackpool, Miners' Convalescent Home, *Brittain* 5254-5.
- BLUNT, Mr. D. F. C.:
 Air Services:
 "Incurring displeasure," 2907.
 Store accounts, 2871, 2872.
 Technical and warlike stores, 2895.
 Works, buildings and lands, 2900.
 Aircraft Production, Ministry of:
 Contracts, case of firm, 5350-1, 5357, 5358.
 Grant, 5450.
 Simmonds case, 5333.
- Army:
 Excess Vote, 2975-8, 2980-1, 2985-8.
 Expenditure overseas, 3001, 3062.
 Losses, 3248, 3251-3, 3258.
 Miscellaneous charges, 3233-5.
 Over-issues of balance of civil pay, 3112-9, 3125.
 British Overseas Airways Corporation, 2837-8, 2847-50, 2861-4.
 Contracts Co-ordinating Committee, 4182-4.
 Excess Votes, 2976, 2977-8, 2980-1.
 Government surplus stores, disposal, 5485-90.
 Greenwich Hospital pensions, 3296-8, 3302, 3303.
- Navy:
 Dominion personnel, pay etc., adjustment in respect of, 3327.
 Shipbuilding:
 Conference levy, 3452, 3458.
 Settlement of prices, 3406-14.
 Sub-contractors, control of prices, and rebates, 4165, 4173-5.
 Warships, transfers to Dominion and Allied Governments without charge, 4194-6.
 Palestine, Army purchases, 2944, 2946-8.
 Penicillin, 5511.
 Somalia, advances to farmers, 3134.
 Supply, Ministry of:
 Milling cutters, *ex gratia* payment to firm making, 5626.
 Nigerian tin contracts, 5568.
 Timber, merchants' remuneration and distribution, 5557-8.
- Board of Control, *Upcott* 2920-2; *Jones* 2922-3.
- Board of Trade, *see* Trade, Board of.
- BODDIS, Mr. A. C., C.M.G., p. 328.
- Branston Military Clothing Depot, Stock-taking, *Speed* 3153-4.
 49852
- Brickworks, Brick Charges Account, *Robinson* 3958-67.
- British Broadcasting Corporation:
 Freehold and leasehold properties, *Bamford* 4891-2.
 Licences:
 Fees, increase, *Bamford* 4895.
 Revenue from, *Bamford* 4887.
 Ministry of Information responsibility, extent of, *Bamford* 4885.
 Over-estimating, *Bamford* 4886.
 Stores:
 on Hand, *Bamford* 4888-90.
 Surplus, disposal, *Bamford* 4890.
 War-time assets, ownership question, *Bamford* 4893-4.
- British Council:
 Accounts, position *re*, *White* 2620; *Upcott* 2621.
 Accounts and Estimates, form, *White* 2626-7, 2635-41; *Upcott* 2640.
 Activities of:
 Consultation with Foreign Office and Colonial Office, *White* 2657-9, 2697-9.
 in Dominions, *White* 2700-2.
 Bank interest, *White* 2660-3, 2667; *Davies* 2668.
 Book Export scheme, 4th Report 19; *White* 2625, 2710-24, 2729, 2731-42, 2760-1; *Upcott* 2625, 2722, 2728, 2747, 2756; *Davies* 2725-30, 2735, 2740, 2743-59; *Jones* 2748, 2749, 2751.
 Books and publications, *White* 2646-7.
 Capital expenditure, *White* 2675-80.
 Expenditure abroad, effect of inflation, *White* 2692-4; *Davies* 2694.
 Expenditure and balance, *White* 2622-34, 2667-8; *Upcott* 2627, 2670, 2672; *Davies* 2668-74; *Brittain* 2628, 2674.
 Film theatre in London, *White* 2695.
 Films, *White* 2642-5, 2664-6, 2695-6, 2732.
 Foreign students, encouragement of, *White* 2624, 2629-31.
 Grant-in-aid, *White* 2622, 2660-3; *Upcott* 2670, 2672, 2684, 2690-1; *Davies* 2670-4; *Brittain* 2674, 2681-90, 2703-8; *Jones* 2708-9; *Treasury Minute*, App. 2 (p. 374).
 Internal Audit Department, *Sargent* 2619; *White* 2619-20.
 Overseas Press Department, *White* 2648-50.
 Professional auditors in foreign countries, *White* 2651, 2655-6; *Davies* 2651-4; *Upcott* 2652, 2654.
 Stock abroad, inventories, *White* 2680.
- British Electrical and Allied Manufacturers' Association, arrangements of Ministry of Supply with, 4th Report 9-10; *Franks* 5516-31.
- British Guiana, price stabilization scheme and mistake in telegram, *Gater* 4736-9; *Brittain* 4738, 4743-6, 4757-60, 4763-65; *Upcott* 4746.

- British Industrial Design*, exhibition at Victoria and Albert Museum, *Woods* 5266-7; *Leslie* 5268.
- British Overseas Airways Corporation*, see under Civil Aviation.
- British Phosphate Commission*:
Accounts, calculation of, currency, *Gaye* 2290-3; *Upcott* 2293, 2295; *Brittain* 2294.
- Capital and sinking fund, etc., *Upcott* 2191-2; *Gaye* 2193-6, 2201-2; *Brittain* 2203.
- Commissioners, *Gaye* 2300-1.
- Confidential Accounts, *Gaye* 2260-75, 2278, 2282, 2284-5, 2302; *Upcott* 2268-74, 2276-7; *Machtig* 2279-81, 2283, 2302.
- Deposits in Australia and New Zealand, investigation of, *Gaye* 2212-5.
- Depreciation Fund, *Gaye* 2286-9.
- Output and distribution, *Gaye* 2191.
- Outside phosphate operations, and financing of, *Gaye* 2205-6, 2209-11, 2216-27, 2230-4, 2263-7; *Brittain* 2228-9; *Upcott* 2262, 2274.
- Prices, *Gaye* 2235-8, 2257-9; *Upcott* 2239.
- Control, *Gaye* 2207-8.
- Setting up of, and functions, *Gaye* 2191.
- Shipping, *Gaye* 2198, 2296-9.
- United Kingdom position, *Gaye* 2240-59; *Upcott* 2244-5.
- War-time operations, *Gaye* 2204-8.
- British Restaurants*, *Tribe* 5079, 5084-7.
- British Sugar Corporation*:
Accounts, form of, *Tribe* 5112.
- Balance sheet, *Tribe* 5093-5, 5098; *Leach* 5096-7.
- Beet campaign, loss on, *Tribe* 5102-3; *Leach* 5104-5.
- Capital and dividends, *Tribe* 5093-4, 5120-1; *Leach* 5096, 5100, 5119; *Brittain* 5094, 5121-3, 5129.
- Dividend equalisation fund, *Brittain* 5127-8.
- Payments to, scheme, *Tribe* 5088-92, 5108-10, 5117; *Upcott* 5088, 5117-8, 5125; *Brittain* 5124-6.
- Price to farmers, and fixing of, *Upcott* 5102, 5107; *Tribe* 5102, 5106-7, 5111.
- Stocks and stores, *Tribe* 5098-9; *Upcott* 5099.
- BRITAIN, Sir Herbert, K.B.E., C.B.:
Agricultural Mortgage Corporation, 3492, 3494-5, 3500, 3503-9, 3519-20, 3524, 3526, 3545, 3547.
- Agriculture and Fisheries, Ministry of, miscellaneous payments, 3591.
- Air Ministry, oil, 5259-60.
- Appropriation Accounts, 1943, App. I (pp. 371-3).
- Approved Schools, etc., 4319.
- Assistance Board, 2351.
- Bechuanaland, 2311.
- Belgium, war stores sold to, after last war, 5777-8.

- BRITAIN, Sir Herbert, K.B.E., C.B.:—
cont.
- Birmingham, incorrect classification of houses for war damage payments, 4840.
- Blackpool, Miners' Convalescent Home, 5254-5.
- British Council, finance, 2628, 2674.
- British Guiana, price stabilisation scheme, 4738.
- British Phosphate Commission, 2203, 2228-9, 2294.
- British Sugar Corporation, 5094, 5121-9.
- Chinese Currency Stabilisation Fund, 5810-1.
- Coal Commission, 5133-7, 5156-7, 5163-4.
- Crown Lands, 2397, 2475, 2477-8.
- Czecho-Slovak Financial Claims Fund, 5822.
- Czecho-Slovak Refugee Fund, 5823.
- Development Fund, 5819.
- Export credits, 3810/66.
- Food, Ministry of:
Long-term contracts, 5050-8, 5063.
- Retail butchers' margin, 4989A.
- Foreign Office:
Code and Cypher School, wireless equipment, 2572.
- Financial administration, 2551-2.
- Government Departments, co-operation in cases of suspected fraud, 1922.
- Health, Ministry of:
District Auditors, functions, etc., 3641, 3650-1, 3665, 3667-81, 3695-7.
- Grant and expenditure, 3773-4.
- Housing, temporary, 3968.
- Income tax, 1748.
- India and Burma Services, 4543, 4550, 4551, 4555.
- Information, Ministry of, films, 4846, 4881-3.
- Jamaica:
Banana industry, 4729.
- Hurricane damage, financial assistance, 4639, 4640.
- Kensington Gardens, War Office camps, 4046.
- Local Loans Fund, 5791-805.
- Malta, accounts, 4584-5, 4586.
- Mercantile Marine Services, 4375.
- Milk Marketing Board, 4928-9.
- Miners' hostels, 3921, 5247-9.
- Ministers, Offices of, 5781-2.
- Motor Tax Account, 4382.
- National Debt, funds left in trust for reduction of, 5755-74.
- National health insurance, 4790-2.
- National Milk Scheme, 4906.
- Nigeria, claims by Chiefs of Opobo, 4599.
- Northern Ireland, reserved services, 1783.
- Old age pensions, 1951, 1970.
- Post Office:
Airgraph service, 1792.
- Savings Banks, 1828-38.
- Public Trustee, 2536, 2537-8.
- Queensland, copper production company, loan to, 5776, 5779-80.

BRITAIN, Sir Herbert, K.B.E., C.B.:—
cont.

- Scottish Savings Committee, 5807-8.
Special and other areas, loans to new industrial undertakings in, 5812-7.
Suez Canal Company, 5788-90.
Superannuation and Retired Allowances, 3628-34.
Supreme Court, Prize, etc., Deposit Account, 2533-5.
Supreme Court of Judicature Account, 2512-22 App. 5 (pp. 382-3).
Surplus Stores, etc., Liquidation Account, 5775-80.
Swaziland, 2311.
Treasury Chest Fund, 5809.
Treasury Minutes, Apps. 2, 3 (pp. 374-80).
Unemployment Fund, 4800-2.
University Grants Committee, Secretary, 5786-8.
War Damage Commission:
Contributions by owners, 1772, 4852-3, 4855.
Cost of works and value payments, 4812, 4820.
West Africa, banana dehydration question, 4722.
Works, Ministry of, meals in schools, provision of buildings and plant, 3816-9, 3824, 3829, 3831, 3835-7, 3844-5.
Works Services Estimates, form of, 2087-90, 2093-100.

BROWN, Sir William, K.C.B., K.C.M.G., C.B.E.: 2783-917.

- Air Ministry, 2906.
Air Services:
Accounting staff, 2817-9, 2823-30.
British Commonwealth Air Training plan, 2788-96.
Educational services, 2903-4.
Equipment accounts dispensed with, 2915, 2917.
Losses, 2907-13.
National Air Communications scheme, 2904.
Pay accounts, etc., audit, 2807-10, 2815-6.
Receipts, 2786-7.
Store accounts, 2868-92.
Technical and warlike stores, 2892-6.
Works, buildings and lands, 2897-902.
British Overseas Airways Corporation, 2831-6, 2838, 2840-3, 2845-6, 2849-50, 2859-61, 2863.
Canada, Loan Agreement with, 2791.
Royal Canadian Air Force, air training, 2798-806, 2897-8.
Sweden, accidental bombing of, 2905.

BRUCKSHAW, Mr. H. P., O.B.E.: 5445-79.
Aircraft Production, Ministry of, store accounts, equipment issued to contractors on embodiment loan, 5446-7.
Power Jets, Limited, 5448-9.

Building sites:

- Production officers, *Robinson* 3899-900.
Trade Union representatives on, *Robinson*, 3899-900.

Burma:

- See also India and Burma Services.
Civil administration, *Speed* 3144-51; *Upcott* 3150, 3152.
Imperial defence and railway construction, financial arrangements, *Monteath* 4567-71; *Upcott* 4569.
Burma Office, contributions from Burma revenues towards salaries and expenses of, *Monteath* 4539-44; *Upcott* 4539; *Brittain* 4543.
Bushey Park, crops, *Robinson* 4041.

C

Caledonian Canal, *Hurcomb* 4446-50.

CAMPION, Sir Gilbert, K.C.B.: 2042-86.

House of Commons:

- Commissioners for regulating the Offices of, 2074-5.
Expenditure on other Votes, 2068; 2071.
Incidental expenses, 2061-3.
Members:
Declining salaries in whole or in part, 2044-8, 2084-6.
Northern Ireland, 2042.
Ministers foregoing Ministerial salaries, 2049-53.
Salaries, 2060.
Shorthand writers, 2054-9, 2058, 2080-2.
Staff, 2076-9.

Canada:

- Air training scheme, *Brown* 2788-96.
Contribution towards defence, *Speed* 3188.
Government:
Financial arrangements with, *re* assistance, *Treasury Minute*, App. 3 (p. 379).
Sale of capital assets to, *Eady* 5707-8.
Land settlement scheme, *see under* Oversea settlement.
Loan Agreement with, *Brown* 2791.
Personnel in Royal Navy, pay, etc., adjustment in respect of, *Markham* 3329; *Blunt* 3327.
Royal Canadian Air Force, advanced air training of, *Brown* 2798-806, 2897-8; *Upcott* 2803.
Services and stores for, receipts from, *Speed* 2963-7.
Transfer of cruiser "Uganda" to, *Markham* 4189-90.
Troops in Great Britain, tobacco and cigarettes from Canada for, remission of duty on, *Carter* 1879.

Carlisle State Management District, *see* State Management Districts.

CARTER, Sir Archibald, K.C.B., K.C.I.E.: 1869-990.

Customs and Excise Department:

- Law charges, 1944.
Pensions, 1984-8.
Remissions and extra-statutory concessions, 1874-89.

- CARTER, Sir Archibald, K.C.B., K.C.I.E.:
—*cont.*
Customs and Excise Department:—*cont.*
Revenue and costs, 1869-73.
Rewards for detection of smuggling, 1928-41.
Salaries, 1942-3.
Smuggling and other offences, 1893-927.
Staff difficulties, 1914, 1915.
Entertainments duty, N.A.A.F.I. entertainments for troops at home, 1884.
Government Departments, co-operation in cases of suspected fraud, 1918-24.
Old age pensions, 1945-69, 1971, 1976-9.
Purchase tax, 1895, 1914-24, 1926-7.
Cement Federation, voluntary pool, Robinson, 3931, 3954-7.
Central Office of Information, films, White 2642-3, 2665-6.
Ceylon:
Contributions from, towards defence, Speed 3185.
Trincomalee Floating Dock, loss of, Markham 3461-7; Upcott 3468.
China:
Currency depreciation, loss owing to, Crombie 2763-4.
Currency Stabilisation Fund, Brittain 5810-11.
Civil Aviation:
British Overseas Airways Corporation:
Accounts, examination of, Brown 2831-2.
Accounts and deficit, Brown 2831-6, 2838, 2845-6, 2849-50, 2859-61, 2863, Evans 2834, 2837, 2844, 2856-8, 2861, 2865-7; Blunt 2837-8, 2847-50, 2861-4; Upcott 2835.
Corporation, salaries, Evans 2839; Brown 2840-3.
Transport of civilians without charge, Evans 2852-5.
National Air Communications Scheme, Brown 2904.
Civil Services. Appropriation Accounts, 1943, App. 1 (pp. 371, 372).
Clearing Offices, Upcott 3283.
CLEVERLY, Mr. O. S., C.B., C.V.O.:
2376-483.
Crown lands:
Coal, receipts from, 2380, 2392-9.
Commissioners, 2377.
Estates:
Purchase of, 2381-4, 2400-14, 2419-21, 2431-46.
Sales of, 2322-3.
Farming operations, 2463-4.
Income tax, 2475, 2477-8.
Investments, 2382-4, 2424-9, 2429, 2453-5.
Mining royalties, 2379-80.
Property tax, 2461-2.
Receivers and others, remuneration, 2459-60.
Rents, remissions, 2385-91, 2415-8, 2479, 2481-3.
CLEVERLY, Mr. O. S., C.B., C.V.O.:—*cont.*
Crown lands:—*cont.*
Rolls Estate, 2456-8, 2465-6.
Shootings, 2467-70.
Surplus revenue, payment to Exchequer, 2378.
London, Crown properties, 2385-91, 2447-52, 2456-8, 2465-6, 2481-2.
Clyde Valley area, survey, Henderson 3801.
Coal Charges Account, 4th Report 36-37; Fergusson 5239-41; Upcott 5240, 5241.
Coal Commission:
Borrowing, Gowers 5183.
Compensation payments, Gowers 5138.
Uncleared cheques, Gowers 5138.
Stock, position under Coal Bill, Gowers 5133, 5136; Brittain 5133-7.
Superannuation Fund, 4th Report 33-5; Gowers 5139-82; Upcott 5144, 5165; Naish 5150-4, 5159, 5161, 5168-74, 5181; Brittain 5156-7, 5163-4.
Unworked coal and mines, transfer of property to Coal Board, Gowers 5131-2.
Coal industry, opencast coal production: Robinson 3890-6; Upcott 3891; Fergusson 5233, 5235; Upcott 5234.
Costs, Fergusson 5236-7; Upcott 5237.
Selling prices, Fergusson 5238.
Colonial Development and Welfare Act, 1940, schemes, approved of, 4th Report 22-23.
Colonial Food Yeast, Ltd., see Food Yeast under Jamaica.
Colonial Office, telegrams, safeguards adopted in despatch of important telegrams, Gater App. 4 (pp. 383-4).
Colonies:
Accounts, submission to Comptroller and Auditor-General, position re, Upcott 4580-7; Gater 4581-7.
British Colonies Supply Mission and Colonial contributions, Gater 4572-5.
Grant-aided, audit, Upcott 3644.
Minting of coins for, Craig 2491-7.
Price stabilisation, assistance towards, Gater 4733; Brittain 4734-5.
Consolidated Fund Services, Appropriation Accounts, 1943, App. 1 (pp. 371, 373).
Consular officers, relief to distressed British subjects, Crombie 2593.
Contractors, rebates from, Upcott 4413.
Contracts Co-ordinating Committee, functions, Blunt 4182-4; Upcott 4183.
Control, Board of, see Board of Control.
Corsham, work by Ministry of Works, Robinson 3937.
Cotton, export levy, Woods 5287-90.
Cotton Buying Commission, Jones 5714-8.
Council for the Encouragement of Music and the Arts, grant-in-aid, Maud 2115-7, 2151-4; Pearson 2118-26, 2154; Upcott 2124, 2127, 2154.

- Council of Industrial Design, Woods* 5263-9; *Leslie* 5265, 5268.
- County War Agricultural Executive Committees, see under* Agriculture and Fisheries, Ministry of.
- COXWELL, Mr. C. B., C.B., O.B.E.: 3314-472, 4048-204.
- Navy:
- Shipbuilding, settlement of prices, 3396.
 - Shipbuilding Conference levy, 3452, 3453-9.
 - Victualling allowances, payment when provisions given in kind, 4203.
 - Works services, contracts, *ex gratia* payments, 4187-9, 4197-200.
- CRAIG, Sir John H. McC., C.B.: 2484-511.
- Mint:
- Profit on minting for United Kingdom, 2495.
 - Receipts payable to Exchequer, 2489-90.
 - Silver coinage:
 - Issue of, policy, 2498-500.
 - Redemption and withdrawal, 2484-8, 2503, 2508-11.
 - Replacement, 2502.
 - War medals, 2504-7.
 - Work for overseas countries, 2491-7, 2501.
- Crimean War Graves, maintenance, Sillar* 2170-1.
- Crinan Canal, Hurcomb* 4440-1, 4446-51.
- Gromarty Firth State Management District, see* State Management Districts.
- CROMBIE, Mr. J. I. C.: 2539-617, 2673-782.
- China, currency depreciation, 2763-4.
 - Diplomatic and consular services:
 - Posts abroad, currency holdings, 2764.
 - Prison expenses, law charges, etc., 2772-4.
 - Sub-accountants' and other balances, 2593-7, 2600-2, 2610A-5, 2617.
 - Foreign Office:
 - Code and Cypher School, 2578, 2588.
 - Wireless equipment, 2569-71, 2573-4, 2581-6.
 - Financial administration, 2544-5, 2550, 2553-60.
 - Passport fees, 2590.
 - Liberated territories, care of British subjects, 2765-7.
 - Protecting Powers, uncleared advances to, 2593, 2597, 2610A-5, 2617.
- Crown Lands, 2480.*
- Capital moneys, investment in land and in stocks, *Cleverly* 2382-4, 2429, 2453-5.
 - Coal, receipts from, *Cleverly* 2380, 2392-9; *Brittain* 2397; *Upcott* 2398.
 - Commissioners, *Cleverly* 2377.
 - Estates:
 - Purchase of, *Cleverly* 2381-4, 2400-14, 2419-21, 2431-46; *Upcott* 2430, 2441.
 - Sales of, *Cleverly* 2322-3.
 - Farming operations, *Cleverly* 2463-4.
- Crown lands:—cont.*
- Income tax position, *Oswin* 2472; *Brittain* 2473-4, 2476; *Cleverly* 2475, 2477-8.
 - Investments, *Cleverly* 2424-9.
 - Mining royalties, *Cleverly* 2379-80.
 - Property tax allowed, *Cleverly* 2461; *Oswin* 2461-2.
 - Receivers and others, remuneration, *Cleverly* 2459-60.
 - Rents, remissions, *Cleverly* 2385-91, 2415-18, 2479, 2481-3.
 - Rolls Estate, *Cleverly* 2456-8, 2465-6.
 - Shootings, *Cleverly* 2467-70.
 - Surplus revenue, payment to Exchequer, *Cleverly* 2378.
- Cuba relief of British West Indians in, Gater* 4614-27; *Upcott* 4616.
- Currency Deposit Account, Eady* 5668-72; *Treasury Minute* App. 3 (p. 379).
- Customs and Excise Department:*
- Extra-statutory concessions, *Carter* 1875-89.
 - Law Officers' fees, *Carter* 1944.
 - Offences, *Carter* 1893-927.
 - Old age pensions, *see that title*.
 - Pension orders, non-encashment of, *Carter* 1984-90.
 - Pensioners, number, over-estimating, *Carter* 1986-8.
 - Purchase tax, collection and evasion, position, *Carter* 1895, 1914-24, 1926-7; *Upcott* 1912-3.
 - Remissions, *Carter* 1874, 1888-92; *Upcott* 1889, 1899.
 - Revenue and costs, *Carter* 1869-73.
 - Rewards for detection of smuggling, *Carter* 1928-41.
 - Salaries over-estimating, *Carter* 1942-3.
 - Smuggling, *Carter* 1894-5, 1902-11.
 - Staff difficulties, *Carter* 1914, 1915.
- Cyprus:*
- Barley, imported, subsidy, *Gater* 4742, 4747-56; *Upcott* 4755.
 - Cost of living subsidies, *Gater* 4740-2, 4747-56; *Upcott* 4741, 4748, 4755.
- Cyrenaica, cloth shipments for civilians, theft, Speed* 3233-5.
- Czechoslovak Financial Claims Funds, Brittain* 5822.
- Czechoslovak Refugee Fund, Brittain* 5823.
- Czechoslovak, debt to United Kingdom, Eady* 5699.

D

- DALTON, Mr. T. W. F.: 4205-68.
- National Service Hostels Corporation, 4221-2.
 - Special Areas, 4260-8.
 - Unemployment insurance, 4252.
- Dartford—Purfleet Tunnel recoverable expenditure, Hurcomb* 4410-1; *Upcott*-4410.

- DAVIES, Mr. R.: 2618-762.
 British Council:
 Book Export Scheme, 2725-30, 2735, 2740, 2743-59.
 Finance, 2668-74, 2694.
 Professional auditors in foreign countries, 2651-4.
- DE NORMANN, Mr. E. N., C.B.: 4012-47.
 House of Commons rebuilding, 4012-5.
 Osborne, Emergency Hospital, 4016-9.
- Department of Agriculture for Scotland, see Agriculture, Department of, for Scotland under Scotland.*
- Department of Health for Scotland, see Health, Department of, for Scotland, under Scotland.*
- Development Fund, loans, conversion into grants, Havelock 5818-20; Brittain 5819.*
- Diplomatic and Consular Services:*
 Posts abroad, currency holdings, Crombie 2764.
 Frison expenses, law charges, etc., Crombie 2772-4.
 Sub-accountants and other balances, Sargent 2591-2, 2608-10; Crombie 2593-7, 2600-2, 2610A-5, 2617; Upcott 2593, 2596, 2597; Sherwood 2599, 2603-6, 2607; Jones 2605, 2616, 2617.
- Diseases of Animals, see under Agriculture and Fisheries, Ministry of.*
- District Auditors, functions, etc., 4th Report, 6-8, 3637-98, App. 11 (pp. 390-7). See also under Health, Ministry of.*
- Dominican Republic, relief of British West Indians in, Gater 4614-27; Upcott 4616.*
- Dominions:*
 Forces in Great Britain, parcels to individual members of, remission of duty on, Carter 1883-4, 1886.
 Minting of coins for, Craig 2491-7.
- DOUGLAS, Sir William, K.C.B., K.B.E.: 3637-774, App. 11 (pp. 390-7).
 Emergency Medical Service, 3762-3.
 Evacuation, 3699-700, 3721-7, 3733-6, 3737-42, 3743-7.
 Gibraltar, evacuees, 3751-4.
 Health, Ministry of:
 Casualties and disease, measures to deal with, 3748-50.
 District Auditors, functions, etc., 3638-42, 3645-9, 3656-9, 3662-3, 3690, 3697-8, App. 11 (pp. 390-7).
 Medicinal herbs, growing and drying, 3755-61.
 Requisitioning of premises by local authorities, 3701-20.
 Local authorities, advances and loans to, 3662-3, 3765, 3767-8.
 U.S.A., gifts from, 3764.
- E**
- EADY, Sir Wilfrid, K.C.B., K.B.E., C.M.G.:—*cont.*
 Canada, Government, sale of capital assets, to, 5707-8.
 Currency Deposit Account, 5668-72, App. 3 (p. 379).
 E.N.S.A., 5690-2.
 Marine risks, insurance of foodstuffs and raw materials, 5673-89.
 Reconstruction Finance Corporation loan, 5709.
 Secret Service, 5694.
 Treasury, silver purchases, 5702-6.
 United Kingdom Commercial Corporation, 5629-32, 5640, 5643, 5655.
 Vote of Credit, surrender, 5666-7.
- East Africa:*
 Military expenditure in, contract for transport of stores by road, Speed 3063-101; Upcott 3071-2, 3087, 3092-5.
 Ordnance depots, accounting at, Speed 3168-70.
- Economic Warfare, Ministry of, Economic Advisory Branch, transfer to Foreign Office, Sargent 2561.*
- Education:*
 Conference of Allied Ministers of:
 Contribution towards administrative expenses of, Maud 2105.
 Payment to, for provision of books and periodicals for liberated countries, Maud 2103-4; Upcott 2109.
 Transfer of functions to U.N.E.S.C.O., Maud 2106-8.
 Meals provision for children in schools, provision of buildings and plant by Ministry of Works, 4th Report, 38-40; Robinson 3813-5, 3832-5, 3846-51, 3879; Upcott 3815, 3829-30, 3832, 3835, 3837; Brittain 3816-9, 3824, 3829, 3831, 3835-7, 3844-5; Pearson 3820-3, 3826, 3827-8, 3838-43, 3852-8.
- Education, Ministry of:*
 Elementary education, payments to local authorities, Maud 2110-3; Pearson 2114; Upcott 2114.
 Grant in aid to C.E.M.A., Maud 2115-7, 2151-4; Pearson 2118-26, 2154; Upcott 2124, 2127.
 State Bursaries, Maud 2130-2.
 Teachers, pensions, etc., Maud 2133, 2135, 2140; Upcott 2134-42; Pearson 2141.
 Training of ex-Servicemen and women, Maud 2128; Pearson 2129.
 Youth Welfare, Social and physical training, Maud 2143-4; Pearson 2145-50.
- Egypt:*
 Arbitral Board, remuneration of Neutral Member, Crombie 2768-71; Upcott 2769, 2771.
 Army stores, accounting, Speed 3163.
 Cairo, hostel for staff of Minister Resident in Middle East, Eady 5782-5.
 Cotton and cotton seed purchases in, arrangements, Jones 5714-8; Harby 5718.

Elsie Mackay Fund, Brittain 5760-1, 5769;
Upcott 5761.

Emergency Medical Service, stores and equipment, sales of, *Douglas* 3762-3.

English and Scottish Commercial Corporation, Limited: Paton 5646.
Debts due to, *Paton* 5651-2.
Losses, *Paton* 5662; *Joseph* 5662.
Memorandum, *Upcott* App. 4 (pp. 381-2).

Entertainments duty on N.A.A.F.I. entertainments for troops at home, remission, *Carter* 1884.

E.N.S.A., financing of, *Eady* 5690-2.

Eritrea, tobacco contract by Military Government, *Speed* 3135-43; *Upcott* 3140.

Essex, South-East, estate in, given to Ministry of Agriculture, expenditure on, and position as to use of, *Vandepeer* 3530-4; *Upcott* 3533, 3534, 3548-51.

Ethiopia assistance to, *Jones* 5750-3.

Europe, North-West, military expenditure in, *Speed* 2989-91.

Evacuation, Government scheme:

Closing down of, *Douglas* 3699-700.

Evacuees not returned, *Douglas* 3700, 3721-7, 3733-6, 3743-7; *George* 3728-32.

Local authorities' claims, progress in settlement, *George* 3660-1; *Douglas* 3662.

EVANS, Mr. C. W.: 2831-67.

British Overseas Airways Corporation, 2834, 2837, 2840, 2852-8, 2861, 2865-7.

Excess Profits tax, see under *Inland Revenue*.

Excess Votes, procedure, *Blunt* 2976, 2977-8, 2980-1; *Upcott* 2979, 2982.

Exchequer and Audit Department:

Audit by, present nature of, *Upcott* 3270.

Grant, saving on, *Upcott* 3274-5.

Staff:

Position, *Upcott* 3270-3.

Treasury control position, *Upcott* 3276-7.

Export Credits:

Acquisition of Guaranteed Securities Fund, *Adams* 3810/45-3810/64, 3810/65-3810/69; *Upcott* 3810/54-3810/56; *Brittain* 3810/66.

Guarantee Department credit insurance scheme, *Adams* 3810/21-3810/44; *Upcott* 3810/36-3810/40.

Guarantee Department and Book Export Scheme, *Davies* 2729, 2744-6, 2750-1, 2752-3; *Upcott* 2747; *Jones* 2748, 2749, 2750.

Payments under guarantees:

Loss, incidence, *Adams*, 3810/20.

Loss in Poland, *Adams*, 3810/9-3810/13; *Upcott* 3810/11.

Recoveries in respect of, *Adams* 3810/14-3810/20.

Scheme, scope of, etc., *Adams* 3810/1-3810/8.

F

Factories:

Building of, by Trading Estate Companies for Board of Trade, *Jones* 3867.

Small, of standard design, erection and equipment by Ministry of Works, *Robinson* 3859-77, 3879; *Jones* 3868, 3870.

Far East:

Cargoes for, diversion, *Woods* 5285-6.

Military personnel reported missing in, allowances of families and dependants, *Speed* 3109-11.

Faroe Islands, diversion of cargo to, *Woods* 5286.

FERGUSON, Sir Donald, K.C.B.: 5184-262.

Coal:

Government reserves, 5233.

Opencast mining, 5236-8.

Coal Charges Account, 5239-41.

Fuel and Power, Ministry of:

Briquettes, manufacture, 5186-224, 5223.

Gas oil subsidy, 5225-8.

Lend-lease oil, 5258-62.

Transport subsidies, 5233.

Miners' hostels, 5242-56.

Miners' Welfare Fund Account, 5257.

Petroleum Board, 5229-32.

Finance Accounts, abridged form, *Harby* 5711; *Upcott* 5712-3.

Finland, Export Credits Guarantee Department payments, *Upcott* 3810/54, 3810/55, 3810/56; *Adams* 3810/56, 3810/65, 3810/67-3810/68.

Food, Ministry of:

Biscuits, manufacturers, excess profits, *Tribe* 4965-71.

Biscuits (Charges) Order, and payment of levy by manufacturers, *Tribe* 4959-71; *Upcott* 4965.

Cabbages, contracts for, and loss on, *Tribe* 5019-49; *Upcott* 5033.

District audits, cases, *Douglas* App. 11 (pp. 394, 395).

Fish levy scheme, and working of, *Tribe* 4997-5019.

Long term contracts, supplies from New Zealand, *Brittain* 5050-8, 5063; *Tribe* 5059-62.

Meat, retail butchers' margin, *Tribe* 4984-96; *Brittain* 4989A.

Milk, see *that title*.

Peat, Marwick Mitchell and Co.'s services to, during the war, tribute to, *Tribe* 5130.

Potato transactions and position as to accounts, *Tribe* 5064-70; *Leach* 5071-5; *Upcott* 5072-93.

Purchases, freight, storage etc., *Tribe* 5081-2; *Upcott* 5083.

Semolina, macaroni, etc., price structure of, *Tribe* 4972-83; *Upcott* 4978, 4980.

Subsidies, *Tribe* 5081-2; *Upcott* 5083.

Tea purchases abroad, position as to audit of accounts, *Tribe* 5076-8.

- Food, Ministry of*:—cont.
 War-time meals, items of expenditure, *Tribe* 5079, 5084-97.
 Work by Ministry of Works for, *Robinson* 3879.
- Foodstuffs*, insurance against marine risks, *4th Report* 14-16; *Eady* 5673-89; *Harby* 5683.
- Foreign Office*:
 Accounts, system, *Sherwood* 2546-9; *Upcott* 2549.
 Accounts with other departments, *Crombie* 2593.
 Code and Cypher School: *Sargent* 2587.
 Saving on, *Sargent* 2577; *Crombie* 2578; *Upcott* 2578.
 Staff, *Crombie* 2588; *Sherwood* 2589.
 Wireless equipment, *4th Report* 18; *Sargent* 2564-8, 2579-80, 2571, 2576; *Crombie* 2569-71, 2573-4, 2581-6; *Brittain* 2572; *Upcott* 2572, 2575.
 Economic Advisory Branch, transfer from Ministry of Economic Warfare, *Sargent* 2561.
 Finance department, staff position, *Crombie* 2544-5, 2554-60.
 Financial administration, *Sargent* 2543; *Crombie* 2544-5, 2550, 2553-60; *Sherwood* 2546-9; *Upcott* 2549; *Brittain* 2551-2; *Treasury Minute*, App. 2 (p. 374).
 Grants-in-aid to British Council, App. 2 (p. 374) *Treasury Minute*.
 Passport fees, increased receipts, *Crombie* 2590.
 Research Department, *Sargent* 2562-3.
- France*, Imperial war graves, *Sillar* 2157, 2174.
- FRANKS, Sir Oliver, K.C.B., C.B.E.: 5319-628.
 Aircraft Production, Ministry of: 5320-1.
 Aluminium, 5453-79.
 Contracts:
 Cancellation, 5331, 5334-6, 5389-417.
 Firm, case of, 5343-9, 5352-6, 5358, 5361-8.
 Fixed price, 5322-32.
 Prices, progress of settlement, 5334-42.
 System, 5229-31.
 Light alloys, rebate scheme, 5368-88.
 Raw materials, accounts, audit, 5451-2.
 Store accounts, equipment issued to contractors on embodiment loan, 5445-6.
 Government surplus stores, disposal, 5380-4, 5491.
 Supply, Ministry of:
 Companies, acquisition and sale, 5537-52.
 Electrical equipment, purchases, 5516-31.
 Iron and steel firms, voluntary rebate, 5572.
 Miscellaneous expenditure, 5553.
 Motor vehicles, purchase of proprietary spare parts, 5532-6.
- FRANKS, Sir Oliver, K.C.B., C.B.E.:—cont.
 Supply, Ministry of:—cont.
 Nigerian tin contracts, 5563-74.
 Penicillin, 5494-515.
 Technical veneers and plywood prices, 5578, 5582-92.
 Timber, merchants remuneration and distribution, 5559.
 Wool, 5560-1, 5569, 5571-2.
- FRASER, Sir Robert, K.B.E., C.B.: 4804-55.
 Birmingham, incorrect classification of houses for war damage payments, 4829-39.
 War Damage Commission:
 Contributions by owners, 4854.
 Cost of works and value payments, systems, and simplification of procedure for classification of properties, 4804-31, 4849-52.
 Payments to local authorities, 4841-8.
- French North and West Africa*, book export scheme to, *Jones* 2750, 2751.
- Fuel and Power, Ministry of*:
4th Report, 36-37.
 Briquettes, manufacture of, *Fergusson* 5186-224, 5233; *Watson* 5203-5, 5207; *Upcott* 5219.
 Coal, *see that title*.
 District audits, cases, *Douglas App.* 3 (pp. 394, 395).
 Gas oil subsidy, *Fergusson* 5225-8.
 Government coal reserves, *Fergusson* 5233.
 Lend-lease oil; receipts, *Fergusson* 5258-62.
 Miners' hostels, *Robinson* 3879, 3880-5, 3906-18, 3922-7; *Brittain* 3921; *Upcott* 3911, 3921, 3924-5, 3928.
 Opencast mining, *see under Coal*.
 Transport subsidies, *Fergusson* 5233.

G

- GATER, Sir George, G.C.M.G., K.C.B., D.S.O.: 4572-776, App. 6 (pp. 383-4).
 Aden Protectorate, expenditure in, 4628-30.
 British Colonies Supply Mission, 4572-5.
 British Guiana, price stabilization scheme, 4736-9, 4743-6, 4757-60, 4763-5.
 British West Indians in Cuba and Dominica Republic, relief of, 4614-27.
 Colonial Office, telegrams, important, safeguards adopted in despatch of, 4763-6, App. 6 (pp. 383-4).
 Colonies, accounts, position *re*, 4581-7.
 Cyprus, cost of living subsidies, 4740-2, 4747-56.
 Jamaica:
 Agricultural centres, 4710-5.
 Agricultural development, 4716.
 Banana industry, 4633, 4643-64, 4670-1, 4724-32.
 Development schemes, 4717-22.

- GATER, Sir George, G.C.M.G., K.C.B., D.S.O.:—*cont.*
 Jamaica:—*cont.*
 Food yeast manufacture scheme, 4673-709.
 Hurricane damage and financial assistance, 4631-71.
 Malta:
 Accountancy, 4773-4, 4775-6.
 Accounts, 4577-87.
 Cosup Fund, advances to, 4766-76.
 Nigeria, claims by Chiefs of Opopo, 4594-602.
 Palestine, law and order, maintenance of, 4611-3.
 Security services, 4608-10.
 St. Helena, audit of accounts, 4588-93.
 Trans-Jordan, Treaty with, 4605-7.
- GAYE, Sir Arthur, C.B., O.B.E.: 2191-302.
 British Phosphate Commission, 2191-302.
- GEORGE, Mr. H. H., C.B., M.C.: 3637-774.
 Evacuation, 3728-32.
 Health, Ministry of, District Auditors, functions, etc., 3648, 3652, 3657-61, 3680, 3682-8, 3691-4, 3697, 3698.
 Local authorities, advances and loans to, 3657-61, 3765-6, 3770-2.
- Germany:
 Allied currency notes, *Speed* 2992, 2998, 3012-4, 3016-21; *Upcott* 2992-3, 3015; *Jones* 3015.
 Military expenditure in, *Speed* 2992-3003, 3011-21; *Upcott* 2992, 2996, 2997, 3003, 3015; *Blunt* 3001; *Jones* 3015.
- Gibraltar, evacuees, *Douglas* 3751-4.
- Gold Coast Railway, *Robinson* 3879.
- GORDON, Mr. H. C., C.B.: 5537-55, 5623-8.
 Supply, Ministry of:
 Companies, acquisition and sale, 5543-5A.
 Milling cutters, *ex gratia* payment to firm making, 5554-5, 5623-4.
 Sulphate of ammonia, case of waiving of levy, 5627.
- Government Departments:
 Co-operation between, in cases of suspected fraud, question of, *Cartier* 1918-24; *Brittain* 1922.
 Films for, source of, *White* 2643.
 Press publicity, *Bamford* 4880.
 Government stores, surplus, disposal, *Franks* 5480-4, 5491; *Blunt* 5485-90; *Hutchinson* 5482-3.
- GOWERS, Sir Ernest, G.B.E., K.C.B.: 5131-83.
 Coal Commission, 5131-3, 5138-83.
 Export Credits Guarantee Department payments, *Upcott* 3810/54-3810/55, 3810/56; *Adams* 3810/56, 3810/65, 3810/69.
- Greece, silver purchase in, *Eady* 5702.
- Greenwich Hospital:
 Age pensions to seamen, 4th Report, 31-2; *Barnes* 3288-90, 3299-303; *Upcott* 3289; *Blunt* 3296-8, 3302, 3303.
- Greenwich Park, cultivation, *Robinson* 4041.
- GREGG, Sir Cornelius, K.C.B., K.B.E.: 1657-783.
 Assessors of taxes, 1776-82.
 Excess profits tax, 1765.
 Income tax:
 Agents for collection of, 1776.
 Arrears and total charge, 1658-82, 1709, 1715-7.
 Employees, statutory returns by employers, 1690-1.
 Inspectors, 1701-7.
 Pay-as-you-earn, 1674-82, 1718-22, 1724-47, 1753.
 Remissions and amounts irrecoverable, 1749-64.
 Schedule A, 1683-700, 1710-3.
 Inland Revenue:
 Fraud and evasion, 1766-9.
 War damage contributions, 1772-3.
 National defence contribution, 1765.
 Northern Ireland, reserved services, 1783.
 Surtax, 1672-3, 1714.
- Gretna State Management District, *see* State Management Districts.
- Guatemala, Ministry of Information accounts, position *re*, *Bamford* 4865.

H

- Hampton Court:
 Refreshments, *Robinson* 4038.
 Vegetable growing and crops, *Robinson* 4041.
- HARBY, Mr. F. N., C.B.E.:
 Finance Accounts, form, 5711.
 Marine risks, insurance of foodstuffs and raw materials, 5683.
 Supply, Ministry of:
 Milling cutters, *ex gratia* payment to firm making, 5625-6.
 Motor vehicles, purchase of proprietary spare parts, 5534-5, 5536.
 Technical veneers and plywood prices, 5587, 5590, 5593-6, 5599, 5602-4.
 Vote of Credit Appropriation Account, 5695-6.
- HAVELOCK, Mr. E. H. E., O.B.E.: 5818-21.
 Development Fund, 5818-20.
 Scottish Seaweed Research Association, 5821.
- Health, Department of, for Scotland, *see* under Scotland.
- Health, Ministry of:
 Casualties and disease, measures to deal with, *Douglas* 3748-50.
 Billeting inspectors, *Douglas* 3737-42.
 District Auditors, functions, status, etc., 4th Report 6-8; *Douglas* 3638-42, 3645-9, 3662-3, 3690, 3697-8, App. 11 (pp. 390-3); *Brittain* 3641, 3650-1, 3665, 3667-81, 3695-7; *Upcott* 3644, 3646-7, 3664, 3692, 3697; *George* 3648, 3652, 3657-61, 3680, 3682, 3691-4, 3697, 3698; *Jones* 3653-6, 3666, 3689.

Health, Ministry of:—cont.

- Grant, expenditure and surrender, *Brittain* 3773-4; *Upcott* 3774.
- Hospitals, work by Ministry of Works, *Robinson* 3879.
- Housing, *see that title*.
- Loans to local authorities, and repayment position, *Douglas* 3765, 3767-8; *George* 3765-6, 3770-2; *Upcott* 3767, 3769, 3771-2.
- Medicinal herbs, growing and drying, payments to firms of chemists, *Douglas* 3755-61; *Upcott* 3758.
- Payments to local authorities for war services, *Treasury Minutes* App. 2 (p. 375), App. 3 (pp. 377-8).
- Hebrides, Outer*, road works, *Hurcomb* 4395-7.
- HENDERSON, Mr. G. H., C.B.: 3775-810.
- Rosyth Housing Scheme, 3907-10.
- Scotland, Department of Health:
- Agency services by local authorities and audit of accounts, 3779-89.
 - Casualties and disease, measures to deal with, 3776.
 - Evacuation, 3777-8.
 - Morbidity and Certification Statistics Scheme, 3806.
 - Special inquiries and services, 3798, 3801-2.
 - Voluntary Hospitals, grants to, in respect of duty on spirits, 3803-4.
- Scottish Special Housing Association, 3790-7.
- Second Housing National Housing Company (Housing Trust) Ltd., 3805.
- Herring Industry Board Account*, *Jones* 3284-6; *Upcott* 3286.
- HIGGINS, Mr. P. R., State Management Districts, 4320-66.
- HODGSON, Sir Edward, K.B.E., C.B.: 5263-318.
- War damage, business and private chattels schemes, 5296, 5309.
- Holbrook Royal Naval College and Reade bequest*, *Barnes* 3291-5.
- Holyhead Harbour*, *Hurcomb* 4439, 4442-3, 4446-55.
- Home Office*:
- Grant to Central Committee for Refugees, *Maxwell*, 4275-7.
 - Grant-aided expenditure on air raid precautions, disallowances, *Jones* 3653.
 - Payments to local authorities for war services, *Treasury Minute* App. 3 (pp. 377-8).
 - Probation service, *Maxwell* 4272-4.
 - Special Services, *Maxwell* 4269-71.
- Home Security, Ministry of*:
- District audits, cases, *Douglas* App. 11 (pp. 393, 394, 395, 396-7).
 - Settlement of claims of local authorities, progress, *Allen* 4367-8.
- Hong Kong*, silver purchase in, *Eady* 5702.

Hospitals:

- Emergency service, *Douglas* 3748-50.
 - Local authorities' claims, progress in settlement, *George* 3657-8, 3661; *Douglas* 3663.
 - Service casualties in, Red Cross purchases of tobacco and drink for, remission of duty on, *Carter* 1785-9.
 - Tobacco, drink and playing cards, gifts from abroad, remission of duty on, *Carter* 1875-9.
- Hostels, see National Service Hostels*.
- House of Commons*:
- Commissioners for Regulating the Offices of, *Upcott* 2072-4; *Campion* 2074-5.
 - certain Expenditure on other Votes, *Moyes* 2064-7; *Upcott* 2067, 2068-70, 2072; *Campion* 2068, 2071.
 - Incidental expenses, *Campion* 2061-3.
 - Members:
 - Northern Ireland, position as to taking oath, *Campion* 2042.
 - Salaries, members declining, in whole or in part, *Campion* 2044-8, 2084-6.
 - Ministers foregoing Ministerial salary, *Campion* 2049-53.
 - Salaries, *Campion* 2060.
 - Shorthand writers:
 - Hansard, *Campion* 2080-1.
 - Select Committees, *Campion* 2054-9, 2058, 2082; *Moyes* 2054, 2081.
 - Staff, *Campion* 2076-9; *Upcott* 2083.
 - Telephone services, *Upcott* 2083.
- House of Commons Members' Fund*:
- Actuary's Report, *MacAndrew* 2026, 2037-9; *Moyes* 2027, 2028; *Upcott* 2027, 2040-1.
 - Balance Sheet, *MacAndrew* 2025.
 - Capital Fund, *MacAndrew* 1994, 2023-4, 2037; *Moyes* 1995; *Whitty* 2010-4, 2022; *Upcott* 2014.
 - Contributions to, compulsory, and deduction from salaries, *MacAndrew* 2029-32.
 - Protests against, probable, *MacAndrew* 2033.
 - Contributions and pensions, amount, *MacAndrew* 2023.
 - Investments, *Whitty* 2006-8, 2015-21.
 - Pensions:
 - Amount of, *MacAndrew* 2002; *Moyes* 2003-5.
 - Income limit for, *MacAndrew* 2034-6.
 - Number current, *MacAndrew* 1999; *Whitty* 2009.
 - Qualifications for, *Moyes* 1996; *MacAndrew* 1997-8.
 - Rejection of claims, *MacAndrew* 2000-1.
- Houses of Parliament Buildings*, House of Commons rebuilding, *de Normann* 4012-5.
- Housing*:
- Requisitioning of premises by local authorities for rehousing or homeless or inadequately housed families, *Douglas* 3701-20; *Upcott* 3712, 3717.

Housing:—cont.

- Tarran houses, *Robinson* 3972-7.
 Temporary:
 Arcon houses, *Robinson* 3976.
 Capital assistance to contractors,
McBain 3999-4011; *Robinson* 4007,
 4008.
 Contracts, methods, *Robinson* 3976-81.
 Pressed steel houses, *Robinson* 3988-98;
Upcott 3998.
 Temporary Accommodation Act, working
 of, *Robinson* 3968-98, 4007, 4008;
Brittain 3968; *Upcott* 3970, 3971,
 3998; *McBain* 3999-4011.
 Uni-Seco houses, *Robinson* 3976.
- HURCOMB, Sir Cyril, G.C.B., K.B.E.:
 4369-538.
 Caledonian Canal, 4446-50.
 Coast, 4372-4.
 Crinan Canal, 4440-1, 4446-51.
 Dartford-Purfleet tunnel, 4410-1.
 Hebrides, Outer, road works, 4395-7.
 Holyhead Harbour, 4439, 4442-3,
 4446-55.
 Light Railways Acts, annuities, 4438.
 Local authorities, surveyors, grant
 towards salaries and establishment
 charges, 4414-8.
 Mercantile Marine Services, 3271-6.
 Methane production from sludge, 4522-6.
 Motor Tax Account, 4377-81, 4383-5.
 Railways, Government control and
 agreement, 4456-69.
 Road Fund:
 Account, 4381.
 Extra contractual payments, 4405,
 4412-3, 4419-23, 4426-33.
 Grant in aid, 4389, 4398-400, 4436-7.
 Road haulage organisation, 4470-95.
 Roads, etc.:
 Small plant, etc., losses, 4401-4.
 Work of abnormal character, 4390-4.
 Shipping, 4496-521.
 Trunk Roads, construction and mainten-
 ance, 4406-9, 4434-5.
 War Risks (Marine) Insurance Fund,
 4527-38.
 Welsh Highland Light Railway, 4444-5.
- HUTCHINSON, Mr. L. B.: 5480-93.
 Government surplus stores, disposal,
 5482-3.

Hyde Park, see under London.

I

Imperial War Graves Commission:

- Endowment Fund, *Sillar* 2156, 2159-63,
 2186-7; *Upcott* 2188.
 Lending of surplus income to H.M.
 Government, *Sillar* 2157-8.
 Expenditure, *Sillar* 2173-85.
 Expenditure in 1944 on graves of 1939-45
 year and question of total cost, *Sillar*
 2160, 2164-8.
 Graves in United Kingdom, *Sillar* 2169.
 Identification of graves by War Office,
Sillar 2167.

Imperial War Graves Commission:—cont.

- Maintenance of graves and cemeteries
 other than those of Great War, *Sillar*
 2170-72.
 Salaries, *Sillar* 2189.
- INCE, Sir Godfrey, K.C.B., K.B.E.,
 4205-68.
 Labour and National Service, Ministry of:
 Over-estimate, 4248-58.
 Staff, reduction, 4250, 4258.
 National Service Hostels Corporation,
 4207-45.
 Unemployment insurance, 4251-8.
- Income Tax*, see under Inland Revenue.
- India*:
 Accounting and financial control, short-
 comings in, *Upcott* 4552, 4558, 4560-3;
Monteath 4559.
 Defence expenditure, financial arrange-
 ments, *Monteath* 4547-50, 4553-4;
Brittain 4550, 4551, 4555; *Upcott*
 4552, 4556; *Petch* 4555-7.
 Diversion of cargoes for Far East to,
Woods 5285-6.
 Imperial war graves, *Sillar* 2180-3.
 Industrial expansion, capital assets,
 arrangements re, *Monteath* 4547, 4550,
 4553-4, 4565; *Brittain* 4550-1, 4555;
Petch 4555-7; *Upcott* 4556, 4565-6.
 Silver purchases from, *Eady* 5702.
 Tea purchases from, position as to audit
 of accounts, *Tribe* 5076-8.

India and Burma Services:

- See also *Burma and India*.
 Staff serving with the Forces, balance of
 civil pay, *Upcott* 4545-6.

India Office, contributions from Indian
 revenues towards salaries and expenses
 of, *Monteath* 4539-44; *Upcott* 4539;
Brittain 4543.

Information, Ministry of:

Broadcasting, see that title.

Films:

- Distribution of receipts from, and case
 of "Desert Victory", *Brittain*
 4846; *Bamford* 4847-60; *Treasury*
Minute, App 2 (p. 375-6).
 "Is Your Ernie Really Necessary",
Bamford 4881-3.
 Overseas accounts, position re, *Bamford*
 4861-5.
 Publicity, items of expenditure, *Bamford*
 4880.
 Store and stock records, position, and re-
 organisation of control, *Bamford*
 4866-79; *Jones* 4868; *Upcott* 4869,
 4875, 4878.
 Stores, pilfering, question of marking of
 equipment, *Bamford* 4870-7.

Inland Revenue:

- Assessors of taxes, *Gregg* 1776-82.
 Department, co-operation with other
 Departments in cases of suspected
 fraud, question of, *Carter* 1920-4;
Brittain 1922.
 Excess Profits Tax, *Gregg* 1765.

Inland Revenue:—cont.

Fraud and evasion, *Gregg* 1766-9;
Upcott 1766.

Income Tax:

Agents for collection of, remuneration,
Gregg 1776.

Arrears, procedure in cases of non-
payment, *Gregg* 1668-70.

Arrears and total charge, position,
Gregg 1658-82, 1709, 1715-7; *Upcott*
1708, 1716.

Employees, statutory returns by em-
ployers, *Gregg* 1680-1.

Pay-as-you-earn system, *Gregg* 1674-
82.

Administration, relaxations, *Gregg*
1718-23; *Upcott* 1723.

Administration of, and staff difficul-
ties, *Gregg* 1738-9.

Crown and railway employment, *4th*
Report 17.

Employees not liable for tax, filling
in of cards for, *Gregg* 1727-30.

Fraud by employers, possibilities of,
Gregg 1740-2.

Inspection of employers' records and
results, *Gregg* 1724-6, 1731-7,
1743-4.

Staff, difficulties *re*, *Gregg* 1718.

Taxpayers in Armed Forces, etc.,
cancellation of arrears of Schedule
E tax not exceeding £50, *Gregg*
1745-7, 1753; *Upcott* 1747;
Brittain 1748.

Remissions:

on Equity grounds, *Gregg* 1751-3,
1756-62; *Upcott* 1762.

Example of, *Gregg* 1756.

on Poverty grounds, *Gregg* 1751,
1752.

Example of, *Gregg* 1756.

Remissions and amounts irrecoverable,
Gregg 1749-64.

Schedule A:

Assessment and collection, *Gregg*
1683-700.

Collection from occupier or land-
lord, *Gregg* 1690, 1710-3.

Inspectors, transfers of, and question as
to effect on settlement of taxes, *Gregg*
1701-7.

Miscellaneous receipts, *Gregg* 1774-5.

National defence contribution, *Gregg*
1765.

Surtax:

See also Income tax *above*.

Assessment position, *Gregg* 1672-3.

Supplementary demands, *Gregg* 1714.

Tax, legal avoidance, *Gregg* 1766.

War damage contributions, total contri-
bution and amounts outstanding,
Brittain 1772; *Gregg* 1772-3; *Upcott*
1773.

Inter-Allied Book Centre, London, *Maud*
2105.

Iraq:

Air Force Cemetery, maintenance, *Sillar*
2171-2.

Iraq:—cont.

Base ordnance depot, excessive stocks of
stores, *Speed* 3164-7; *Upcott* 3167.

State Railways, military traffic, financial
arrangements, *Speed* 3022-4, 3030-8.

Ireland, works and buildings in, *Robinson*
4047.

Irish Land Purchase Account, *Jones* 2918;
Upcott 2919.

Iskanderun Port development, *Paton* 5637-
8; *Eady* 5643; *Treasury Minute* App. 3
(p. 380).

ISMAY, Mr. G., C.B.: 1784-868.

Post Office:

Cash accounts from postmasters, 1808.
Counter losses, 1815-21.

Foreign and counterfeit coins, 1809-12.

Loan Expenditure Account, 1822-4.

Savings Bank, 1801-2, 1825, 1838.

Vehicles and accessories and stores from
other Departments, 1913-4.

Italy:

Air Services, store accounting, *Brown*
2890; *Jones* 2890.

British Forces, works services, *Speed*
3218-9.

Imperial war graves, *Sillar* 2175-6.

Military expenditure in, arrangements,
Speed 3039-61; *Upcott* 3059, 3061;
Blunt 3062.

J

Jamaica:

Agricultural centres, *4th Report* 22-23.

Scheme, *Gater* 4710-5; *Upcott* 4715;
Winnifrit: 4715.

Agricultural development scheme, *Gater*
4716.

Banana industry, *Gater* 4633, 4643-64,
4670-1, 4724-32; *Upcott* 4652; *Brittain*
4729.

Development schemes, *Gater* 4717-22;
Upcott 4720.

Food yeast manufacture scheme, *4th Re-
port* 20-21; *Gater* 4673-709; *Upcott*
4679, 4683; *Jones* 4681-2; *Winnifrit*
4698, 4701.

Hurricane damage, financial assistance
as result of, *Gater* 4631-71; *Brittain*
4639, 4640; *Upcott* 4652, 4661-3.

Price stabilization scheme, *Gater* 4733,
4761; *Brittain* 4734-5; *Upcott* 4762.

Java, imprest holder, balance held by, on
evacuation, *Speed* 3236-7, App. 3 (p.
386).

JOHNSON, Mr. F. C.: 4269-90.
Police, Metropolitan, 4287-90.

JONES, Mr. C. E. I.:

Air Services:

Pay accounts, etc., audit, 2811-3.

Store accounts, 2872, 2890.

JONES, Mr. C. E. I.:—*cont.*

Army:

Excess Vote, 2984.
Expenditure overseas, 3015.
Losses, 3238.
Over issues of balance of civil pay,
3119.

Board of Control, 2922-3.

British Council:

Book Export Scheme, 2748, 2749,
2751.

Finance, 2708-9.

Cotton Buying Commission, 5714-8.

Diplomatic and Consular Establishments,
sub-accountants and other balances,
2606, 2616, 2617.

Egypt, cotton and cotton purchases in,
5714-8.

Ethiopia, assistance to, 5750-3.

Health, Ministry of, District Auditors,
functions, etc., 3653-6, 3666, 3689.

Herring Industry Board Account, 3284-6.

Information, Ministry of, store and stock
records, 4868.

Irish Land Purchase Account, 2918.

Jamaica, food yeast manufacturing
scheme, 4681-2.

Local authorities, advances and loans to,
3653-6.

Malta, Cossup Fund, advances to, 4772.

Middle East, foodstuffs for, lend-lease
shipments, 5080.

Navy, Pay, etc., Departmental audit,
3324.

Protecting Powers, uncleared advances,
2616, 2617.

Saudi Arabia, assistance to Government
of, 5743-9, 5754.

Special Areas Fund, 3278.

Supreme Court, Prize, etc., Deposit
Account, 2523-32.

Surveys of Great Britain, 3279-81.

Trade, Board of, factories, 3867.

U.N.R.R.A., 5728, 5730, 5731-6, 5739-41.

Works, Ministry of, standard factories,
3868, 3870.

JOSEPH, Sir Francis L'E., Bt., K.B.E.,
J.P., D.L.: 5629-65.

United Kingdom Commercial Corporation,
5641, 5662.

JUBB, Mr. E. C., C.B., O.B.E.: 3314-472,
4048-204.

Navy:

Contractor, use of higher proportions
of expensive alloy, etc., than other
contractors, 4059, 4063-4, 4067-8,
4171-88, 4103, 4105.

Contracts, arrangements for securing
economy in manufacture, 4056,
4090-102.

Shipbuilding, settlement of prices,
3338-404, 3416-36, 3439-50.

Shipbuilding Conference levy, 3457,
3460.

Ships, conversion, control of expendi-
ture on, 3394-5.

Sub-contractors, control of prices, and
rebates, 4114-57, 4161-72, 4179.

K

Kensington Gardens, see under London.

*Kew, Royal Botannic Gardens, admission
fee, Vandeppeer 3535-6.*

L

*Labour and National Service, Ministry of:
Hostels, see National Service Hostels.*

Over-estimates and sum to be surrendered,
Ince 4248-58.

Staff, reduction, *Ince 4250, 4258.*

Unemployment insurance, *see that title.*

LAIRD, Sir Patrick, C.B.: 3600-24.

Agriculture, Department of, for Scotland:

Account, form of, 3614.

Agricultural Labour Services, 3622-4.

Bracken destruction, 3619, 3620.

Farms, purchase of, 3616-8.

Land drainage, 3619-20.

Rat destruction, 3619, 3621.

War services, 3615.

Scottish Agricultural Securities Corpora-
tion, 3600-13.

Latin America:

Book export scheme to, *Davies 2743,
2750.*

Students from, British Council scholar-
ships, *White 2624, 2629-31.*

LEACH, Mr. R., C.B.E.: 4896-5130.

British Sugar Corporation, 5096-7, 5100,
5104-5, 5119.

Food, Ministry of, potato transactions,
5071-5.

League of Nations:

Contributions to, *Sargent 2776-8; Upcott
2777, 2778.*

Transfer of assets and functions to
U.N.O., *Sargent 2779-82.*

Leather, export levy, Woods 5287-90.

LESLIE, Mr.: 5263-9.

Council of Industrial Design, 5265, 5268.

Liberated countries:

British subjects, care of *Crombie 2765-7;
Upcott 2767.*

Provision of books and periodicals for,
Maud 2103-4.

*Light Railways Acts, annuities under,
Hurcomb 4438.*

LLOYD, Mr. R. J.: 1869-990.

Old age pensions, 1948, 1972-3, 1978,
1983.

Local authorities:

Advances and loans to, settlement of
claims and financial control, 3637-98;

*Jones 3654-6; George 3658-61, 3765-6,
3770-2; Douglas 3662-3, 3765, 3767-8;*

*App. II (pp. 390-7); Upcott 3664,
3767, 3769, 3771-2.*

Local authorities:—cont.

Payments to, for war services, *4th Report*, 6-8; *Treasury Minutes*, App. 2 (375); App. 3 (p. 377-8).

Surveyors, grant towards salaries and establishment charges of, *Hurcomb* 4414-8; *Upcott* 4416-8.

Local Loans Fund; repayments to, *Brittain* 5791-805; *Upcott* 5793, 5794, 5806.

London:

Crown properties:

Empty, policy *re*, *Cleverly* 2447-52.

Rents and remissions, *Cleverly* 2385-91; 2481-2; *Upcott* 2388.

Hyde Park, cultivation of crops, *Robinson* 4041, 4042.

Kensington Gardens, War Office camps, *Robinson* 4043-6; *Brittain* 4046.

Regents Park, vegetable growing, *Robinson*, 4041.

Trafalgar Square, model haystack, loss by fire, *Bamford*, 4884.

Longtown ordnance depot, construction, extra-contractual payment to contractor, *Speed* 3220-2.

M

MACANDREW, Sir Charles, T.D., M.P.: 1991-2041.

House of Commons Members' Fund, 1991, 1994-5, 1997-2002, 2023-38.

MCBAIN, Mr. A. R., C.B., O.B.E.: 3968-4011.

Housing, temporary, 3999-4011.

MACHTIG, Sir Eric, K.C.B., K.C.M.G., O.B.E.: 2191-336.

Basutoland, 2329-32.

Bechuanaland, 2303-10, 2312, 2329-36.

British Phosphate Commission, 2191, 2279-81, 2283, 2302.

Oversea settlement, 2316-28.

Rhodesian Railways, 2314-5.

Swaziland, 2303-10, 2312, 2329-36.

McKENZIE, Mr. A. W.: 5556-622.

Supply, Ministry of:

Technical veneers and plywood prices, 5575-81, 5614-5, 5619.

Timber, merchants remuneration and distribution, 5559.

Malta:

Accountancy, *Gater* 4773-4, 4775-6.

Accounts, position *re*, *Upcott* 4576, 4580, 4581-7; *Gater* 4577-87; *Brittain* 4584-5, 4586.

Cosup Fund, advances to, *Gater* 4766-76; *Upcott* 4769, 4771, 4775; *Jones* 4772.

Marine Risks, insurance of foodstuffs and raw materials against, *4th Report* 14-16; *Eady* 5673-89; *Harby* 5683.

MARKHAM, Sir Henry V., K.C.B., M.C.: 3287-472, 4048-204, App. 9 (pp. 387-8). Admiralty, civil staff position, 3317-21.

MARKHAM, Sir Henry V., K.C.B., M.C.:—*cont.*

Navy:

Contractor, use of higher proportions of expensive alloy, etc., than other contractors, 4048-52, 4057, 4069-70, 4104; App. 9 (pp. 387-8).

Dominion personnel, pay, etc., adjustment in respect of, 3326, 3329-34.

Expenditure details for 1939 to 1943, separate paper, 3315.

Floating dock, loss of, 2461-7.

Pay, etc., Departmental audit, 3322-3.

Shipbuilding, settlement of prices, 3335-8, 3341, 3355, 3398, 3405, 3437-8, 3415.

Shipbuilding Conference Levy, 3451-2.

Ships, conversion, control of expenditure on, 3469-70.

Ships and naval establishments, cash accounts, uncleared balances, 3316, 3317.

Stocktaking; 4186.

Sub-contractors, control of prices, and rebates, 4110-3, 4123, 4131, 4137, 4141, 4158-60, 4166-9, 4180.

Victualling Store Accounts, 4185.

Warships, transfers to Dominion and Allied Governments without charge, 4189-93.

Works Services, contracts, *ex-gratia* payments, 4201-2.

MAUD, Mr. J. P. R., C.B.E.: 2101-54.

Arts Council of Great Britain, 2115, 2154.

Council for the Encouragement of Music and the Arts, 2115-7, 2151-4.

Education, Conference of Allied Ministers of, 2103-8.

Education, Ministry of:

Elementary education, payments to local authorities, 2110-3.

State bursaries, 2130-2.

Teachers, pensions, etc., 2133, 2135, 2140.

Training of ex-Servicemen and women, 2128.

Inter-Allied Book Centre, London, 2105.

Liberated countries, books and periodicals, 2103-4.

MAXWELL, Sir Alexander, G.C.B., K.B.E.: 4269-368.

Approved schools and remand homes, 4291-318.

Home Office, special services *re* aliens, 4269-71.

Police, England and Wales, 4278-86.

Probation service, 4272-4.

Refugees, Central Committee for, 4275-7.

State Management Districts, 4327.

Meat, road transport, *Hurcomb* 4492.

Mercantile Marine Services:

Accounting, *Brittain* 4375.

Administration, *Hurcomb* 3271.

Coastguard, *Hurcomb* 4372-4.

Seamen's kit, loss of, *Hurcomb* 4376.

Merchant Navy Club Company, Ltd., Inca 4228-30.

Middle East:

- Air Force, stocktaking, *Brown* 2885-9.
 British Forces, works services, *Speed* 3218-9.
 Camp construction, native labour, defalcations in connection with recruitment and payment of, *Speed* 3243-5.
 Foodstuffs for, lend-lease shipments, loss on, *Tribe* 5079A-80; *Upcott* 5079; *Jones* 5080.

Milk:

- National Milk scheme and working of, *Tribe* 4899-917; *Brittain* 4906; *Upcott* 4908; *Treasury Minute* App. 2 (p. 376).
 Producers' prices, fixing of, *Tribe* 4938-9.
 Recording scheme, *Vandepeer* 2593.
 Testing scheme, *Vandepeer* 2593.

Milk Marketing Board:

- Agency services for Ministry and fee to cover bad debts, etc., *Tribe* 4919-58; *Brittain* 4928-9; App. 7 (pp. 384-5).
 Functions, status, financial position, etc., *Tribe* 4922A-7, 4930-4, 4940-51, App. 7 (pp. 384-5); *Upcott* 4952-4.

*Miners' Hostels, see Hostels.**Miners' Welfare Fund Account, Fergusson* 5257.*Ministers, Offices of, Brittain* 5781-2.*Ministry of Aircraft Production, see Aircraft Production, Ministry of.**Ministry of Education, see Education, Ministry of.**Ministry of Food, see Food, Ministry of.**Ministry of Fuel and Power, see Fuel and Power, Ministry of.**Ministry of Home Security, see Home Security, Ministry of.**Ministry of Information, see Information, Ministry of.**Ministry of National Insurance, see National Insurance, Ministry of.**Ministry of Supply, see Supply, Ministry of.**Ministry of War Transport, see War Transport, Ministry of.**Mint:*

- Minting for overseas countries, *Craig* 2491-7, 2501.
 Profit made on minting for United Kingdom, *Craig* 2495.
 Receipts payable to Exchequer, *Craig* 2489-90.
 Silver coinage:
 Issue of, policy, *Craig* 2498-500.
 Redemption and withdrawal, *Craig* 2484-8, 2503, 2508-11.
 Replacement, *Craig* 2502.
 War medals, minting of, *Craig* 2504-7.

MONTEATH, Sir David, K.C.B., K.C.M.G., C.V.O., O.B.E.: 4539-71.

- India and Burma Offices, contributions from Indian and Burman revenues, 4539-44.

Moss Side State Institution, Upcott 2921.*Motor Tax Account:*

- Departmental examination and examination by Exchequer and Audit Department, *Hurcomb* 4384-5; *Upcott* 4386-9.
 Receipts, *Hurcomb* 4377-81; *Brittain* 4382.

MOYES, Mr. A. J., O.B.E.: 1991-2086.

- House of Commons, shorthand writers, 2054, 2081.
 House of Commons Members' Fund, 1995-6, 2003-5, 2027-77.

N

NAISH, Mr. H. W., M.B.E.: 5131-83.

- Coal Commission, 5150-4, 5159, 5161, 5168-74, 5181.

National Council, Grant-in-aid, Stuart King 2352.*National Debt, funds left in trust for reduction of, Brittain* 5755-74; *Upcott* 5761, 5763.*National Debt Services, Appropriation Accounts, 1943, App. 1 (p. 373).**National Health Insurance:*

- Approved Societies, investment of funds, *Phillips* 4787-90; *Brittain* 4790-2.
 Departmental responsibility, *Phillips* 4777-8.

Fund:

- Balances, taking over by Ministry of National Insurance, *Phillips* 4784-6.
 Investments and cash balances, *Phillips* 4780-3.

National Insurance, Ministry of, taking over of funds by, Phillips 4777-8.*National Service Hostels:*

- Charges, *Ince* 4223-5, 4246-7.
 Closures, *Ince*, 4219-20, 4227.

Corporation:

- Director and Finance Director, *Ince* 4233-5.
 Financial relations with Ministry, *Ince* 4236-41; *Upcott* 4237, 4241.
 Management of Merchant Navy Clubs, *Ince* 4228-30.

Cost of, and loss, Ince 4207-15.*Future of, Ince* 4218-20; *Dalton* 4221-2.*Miners' hostels, Ince* 4242-5; *Upcott* 4245;*Fergusson* 5242-56; *Brittain* 5247-9.*Ministry of Works services for, Ince* 4213-5.*Number, Ince* 4217.*Residents, percentage to capacity, Ince* 4216.*Workers using, Ince* 4226.*National Stud, see under Agriculture and Fisheries, Ministry of.**Nauru and Ocean Islands:*

- See also British Phosphate Commission.*
 Damage at, *Gaye* 2197-200.
 Rehabilitation, *Gaye* 2200.

Navy:

- 4th Report 27-30.
 Age Pensions, 4th Report 31-32.
 Appropriation Accounts, 1943, App. I (pp. 371, 372).
 Armament depot, construction of underground magazines, *ex gratia* payment, *Coxwell* 4187-9, 4197.
 Contractor, use of higher proportions of expensive alloy, etc., than other contractors, 4th Report 27-28; *Markham* 4048-52, App. 9 (pp. 387-81), *Upcott* 4051, 4065, 4069-70, 4104; *Jubb* 4059, 4063-4, 4067-8, 4071-88, 4103, 4105.
 Contracts:
 Economy in manufacture, arrangements for securing, 4th Report 27-28; *Markham* 4053-4, 4056; *Upcott* 4055, 4057, 4106-9, 4089, 4097; *Jubb* 4056, 4090-102, App. 9 (p. 387).
 Sub-contractors' prices:
 Control, 4th Report, 29-30; *Markham* 4110-3, 4123, 4131, 4137, 4141, 4158-60, 4180; *Jubb* 4114-23, 4124-57, 4161-72, 4179; *Upcott* 4117, 4123, 4124, 4126, 4141, 4171, 4176-8, 4181; *Blunt* 4165, 4173-5; *Treasury Minute*, App. 2 (p. 375).
 Rebates, *Jubb* 4132-4, 4142, 4155-7; *Markham* 4158, 4166-69; *Upcott* 4167; *Blunt* 4165, 4174-5.
 Dominion personnel, pay, etc., adjustment in respect of, *Markham* 3326, 3329-34; *Blunt* 3327-8.
 Expenditure, details for 1939 to 1943, publication as separate paper, *Markham* 3315.
 Floating dock at Trincomalee, loss of, *Markham* 3461-7; *Upcott* 3468.
 Gifts over £10,000, pre-war practice re, *Markham* 4193; *Blunt* 4194-6; *Upcott* 4196.
 Greenwich Hospital, pensions, *Barnes*, 3288-90, 3299-303; *Upcott* 3289; *Blunt* 3296-8, 3302, 3303.
 Pay, etc., Departmental audit, *Markham* 3322-3; *Jones* 3324, *Upcott* 3325.
 Shipbuilding, settlement of prices and agreement of profit rates, *Markham* 3335-8, 3341, 3355, 3398, 3405, 3415, 3437-8; *Jubb* 3338-404, 3416-36, 3439-50; *Coxwell* 3396; *Upcott* 3397-8, 3429; *Blunt* 3406-4.
 Prize Money, *Jones* 2524-6.
 Shipbuilding Conference levy, *Markham* 3451-2; *Coxwell* 3452, 3453-9; *Blunt* 3452, 3458; *Upcott* 3454; *Jubb* 3457, 3460, 3459.
 Ships, conversion, control of expenditure on, *Jubb* 3394-5; *Markham* 3469-70.
 Ships and naval establishments, cash accounts, uncleared balances, *Markham* 3316, 3317.
 Stocktaking, Report on, to Treasury, *Markham* 4186.
 Victualling allowances, payment to crews of landing craft when crews provisioned in kind, *Coxwell* 4203.

Navy:—cont.

- Victualling Store Accounts, examination, *Markham* 4185.
 Warships, transfers to Dominion and Allied Governments without charge, *Markham* 4189-93; *Blunt* 4194-6, 4196.
 Works Services, *ex gratia* payments, *Coxwell* 4187-9, 4197-200; *Upcott* 4199; *Markham* 4201-2.
 N.A.A.F.I.:
 Contributions to E.N.S.A. and new arrangements, *Eady* 5690-2.
 Entertainments for troops at home, remission of Entertainments' duty on, *Carter* 1884.
 Supplies, overseas, abortive expeditions, *Speed* 3212-4, 3217.
 Tobacco and cigarette supplies to, financial arrangements, *Speed* 3207-11, 3215-6.
 Netherlands, debt to United Kingdom, *Eady* 5699.
 New Zealand:
 Debt to United Kingdom, *Eady* 5699.
 Food supplies from, long term contract, *Brittain* 5050-8; *Tribe*, 5059-62.
 Personnel in Royal Navy, pay, etc., *Markham* 3334.
 Transfer of warships to, *Markham* 4190.
 Visit by Sir Angus Gillan for British Council; *White* 2700.
 Nigeria:
 Chiefs of Opobo, claims by, *Gater* 4594-602; *Upcott* 4596, 4597, 4603-4; *Brittain* 4599.
 Tin, contracts, *Franks* 5563-74; *Blunt* 5568.
 North Africa:
 Book export scheme to, *Davies* 2729, 2750, 2753-6, 2757-9; *Jones* 2750, 2751.
 Landings in, loss of currency during, *Speed* 3238-41; *Jones* 3238; *Upcott* 3238, 3239.
 North America, book export scheme to, *Davies* 2749.
 North Eastern Trading Estate, Limited, loan to, *Dalton* 4261-3, 4264.
 Northern Ireland:
 Land boundary, smuggling, *Carter*, 1895, 1902, 1909-11.
 Local Loans Fund, *Brittain* 5798-803.
 Members of Parliament from, position as to taking oath, *Campion* 2042.
 Reserved services, expenditure for administration of, *Gregg*, *Brittain* 1783.
 Northern Ireland Exchequer, Appropriation Accounts, App. I (p. 373).
 O
 Old age pensions:
 Administration, *Carter* 1945-57, 1967-9; *Lloyd* 1948; *Brittain* 1951, 1970; *Upcott* 1956.

Old age pensions.—cont.

Extra-statutory grants, *Carter* 1971, 1976, 1981-2; *Lloyd* 1972-3, 1983; *Upcott* 1973-7.

Pensioners, surrender of pensions by, as contribution to national finances in emergency, *Carter* 1978, 1979; *Lloyd* 1978; *Upcott* 1980.

over 70 pensioners, *Carter* 1953-68, 1976; *Upcott* 1964, 1974-5.

Osborne Convalescent Home:

Purpose of, cost of running, etc., *Robinson* 4020-33; *Upcott* 4021, 4023, 4025, 4029.

Use as Emergency Hospital, *de Normann* 4016-9.

OSWIN, Mr. T. R.: 2376-483.

Crown Lands, 2461-2, 2472.

Oversea settlement:

Assisted passages, repayments, *Machtig* 2318; *Upcott* 2318.

Australia, assisted passage scheme to, position, *Machtig* 2318.

Canadian land settlement scheme, position, *Machtig* 2318-28; *Upcott* 2321, 2322, 2326.

Receipts and expenditure, *Machtig* 2316; *Upcott* 2317.

Settlement scheme in Victoria, Australia, *Machtig* 2327.

P

Palestine:

Army stores, accounting, *Speed* 3163.

Maintenance of law and order, responsibility for, *Gater* 4611-3; *Winnifrith* 4613.

Mobile Police Force, *Gater* 4610.

Oranges, Army purchases, *Speed* 2924-43, 2948-58; *Upcott* 2926, 2944-5, 2944-5, 2950, 2959; *Blunt* 2944, 2946-7, 2944, 2946-8; *Treasury Minute* App. 2 (p. 375).

Security services, grant in aid of additional expenditure on, arrangements, *Gater* 4608-10.

PATON, Sir Leonard, C.B.E., M.C.: 5629-65.

United Kingdom Commercial Corporation, 5633-8, 5644-63.

PEARSON, Mr. B. L., D.S.O., M.C.: 2101-54, 3811-58.

Council for the Encouragement of Music and the Arts, 2118-26, 2154.

Education, Ministry of:

Elementary education, payments to local authorities, 2114.

Teachers, pensions, etc., 2145-50.

Training of ex-Servicemen and women, 2129.

Works, Ministry of, meals in schools, provision of buildings and plant, 3820-3, 3826, 3827-8, 3838-43, 3852-8.

Penicillin, see under Supply, Ministry of.

Persia:

Railway built by British, *Speed* 3028-9. State Railways, military traffic, financial arrangements, *Speed* 3025-9.

PETCH, Mr.:

India and Burma services, 4555-7, 4565-6.

Petroleum Board, *Fergusson* 5229-32.

PHILLIPS, Sir Thomas, K.C.B., K.B.E.: 4777-803.

National Health Insurance:

Approved Societies, investment of funds, 4787-90.

Fund, investments and balances, 4780-3.

Responsibility of Ministry of National Insurance, 4777, 4784-6.

Unemployment Fund, 4793-9, 4803.

PICKLES, Mr. E. L., C.B., O.B.E.: 5319-479, 5494-536.

Aircraft Production, Ministry of, contracts, case of firm, 5363, 5349, 5365-8.

Penicillin, 5500-3.

Pilgrim Trust, *Maud* 2153.

Poland, indebtedness to United Kingdom, *Eady* 5698, 5699, 5701.

Police, England and Wales:

Excess expenditure attributable to the war, *Maxwell* 4278.

50 per cent. grant to Local authorities, *Maxwell* 4283-6.

Metropolitan, strength, *Johnson* 4287-90.

War Reserve:

Expenditure on, *Upcott* 4279, 4280; *Maxwell*, 4280, 4282.

Retirements, *Johnson* 4287-90.

Port Isaac Harbour, improvement, loan, *Havelock* 5819; *Brittain* 5819.

Portman Estate, Somerset, purchase of, by Crown Lands Commissioners, *Cleverly* 2381, 2401-410, 2419-21.

Post Office:

Airgraph service:

Contract with Kodak, *Birchall* 1787-94, 1805; *Brittain* 1792.

Treasury Minute, App. 2 (p. 374).

Capital expenditure, *Birchall* 1849-54.

Cash accounts from postmasters, cutting down of checking, and discrepancies found, *Birchall* 1807-8; *Ismay* 1808.

Commercial accounts: *Birchall* 1844-68.

Resumption of publication, prospects, *Birchall* 1839-43; *Upcott* 1842.

Counter losses, *Ismay* 1815-21.

Loan Expenditure Account, *Ismay* 1822-4.

Loss on exchange of foreign and counterfeit coins, *Ismay* 1809-12.

Mails, conveyance by air, *Birchall* 1805-6.

Savings Bank:

Accommodation, *Birchall* 1797.

Accounting, checks, balances, etc., *Birchall* 1795-804.

Complaints from depositors, *Ismay* 1801-2.

Post Office:—cont.

Savings Bank:—cont.

Depositors, number, *Birchall* 1795, 1797.Deposits and withdrawals, *Ismay* 1825.Excess interest, transfer to Treasury. *Brittain* 1833-5, 1836-8; *Upcott* 1837.Securities, *Birchall* 1826-7; *Brittain* 1828-34, 1838; *Upcott* 1828, 1835; *Ismay* 1838.Staff, *Birchall* 1798.Stores received free from other Government Departments, *Ismay* 1814.Telephone service, interest on capital plant, *Birchall* 1866-8.Trunk telephone calls, checking of, and charging for, *Birchall* 1855-65.Vehicles and accessories received from Ministry of Supply, *Ismay* 1813.*Power Jets, Ltd., Bruckshaw* 5448-9.*Prisoners of war, in Great Britain*:Agricultural and industrial employment, financial position, *Speed* 3181-4, 3192-9; *Upcott* 3193.Army pay position, *Speed* 3189-91, 3200; *Upcott* 3190.Employment, payment position, *Speed* 3192-200.Maintenance, cost of, *Speed* 3180.Payment position, *Speed* 3189-91; *Upcott* 3190.*Protecting Powers*, uncleared advances to, *Sargent* 2591-2, 2608-10; *Crombie* 2593, 2597, 2610A-5, 2617; *Jones* 2616, 2617.*Public Accounts Committee*, Reports, *Treasury Minutes*, Apps. 2, 3 (pp. 374-80).*Public Trustee*, trust accounts, test examination, and results, *Brittain* 2536, 2537-8; *Upcott* 2537.

Q

Queensland, copper production company, Ministry of Munitions loan to, *Brittain* 5776, 5779-60.

R

Railways, Government control, financial arrangements and accounting position, *Hurcomb* 4456-69; *Upcott* 4464, 4467.*Rampton State Institution*, *Upcott* 2921.*Raw materials*, insurance against marine risks, 4th Report 14-16; *Eady* 5673-89; *Harby* 5683.*Reconstruction Finance Corporation*, loan, repayments, *Eady* 5709*Refugees*, Central Committee for, *Maxwell*, 4275-7.*Regents Park*, see under London.*Remand Homes*, see under Approved Schools, etc.*Revenue Departments*, Appropriation Accounts, 1943, App. 1 (pp. 371, 372).*Rhodesian Railways*, inquiry, *Machtig* 2314-5.*Richmond Park*:Crops, *Robinson* 4041.Golf courses, *Robinson* 4040.*Road Fund*:Account, *Hurcomb* 4381.Extra-contractual payments, *Hurcomb* 4405, 4412-3, 4419-23, 4426-33; *Upcott* 4424-5, 4429.Grant in Aid, *Hurcomb* 4389, 4398-400, 4436-7; *Upcott* 4398, 4399, 4437.Grant towards salaries and establishment charges of surveyors to Local authorities, *Hurcomb* 4414-8; *Upcott* 4416-8.Motor Tax Account, see *that title*.Trunk road expenditure, grant to Highways authorities, *Hurcomb* 4434-5.Trunk roads, construction and maintenance, *Hurcomb* 4406-9*Road haulage organisation scheme*, *Hurcomb* 4470-95; *Upcott* 4493.*Roads, etc.*:Accounting system, *Hurcomb* 4380, 4383.Plant damaged while on hire, repairs, *Hurcomb* 4395-7.Small plant, tools, etc., losses, *Hurcomb* 4401-4; *Upcott* 4403.War traffic, making good of damage, *Hurcomb*, 4390-4.Work of abnormal character, *Hurcomb* 4390-4; *Upcott* 4392.

ROBINSON, Sir Percival, K.C.B.: 3811-4047.

Building sites:

Production officers, 3899-900.

Trade Union representatives, 3899-900.

Housing, temporary, 3968-98, 4007, 4008.

Ireland, works and buildings in, 4047.

Kensington Gardens, War Office camps, 4043-6.

Miners' Hostels, 3879; 3880-5, 3906-18, 3922-7.

Osborne Convalescent Home, 4020-33.

Richmond Park, 4040, 4041.

Royal Parks and Pleasure Gardens:

Catering services, 4034-9.

Cultivation, 4041-2.

Works, Ministry of:

Agency Services, 3832-3, 3846-8.

Brick Charges Account, 3958-67.

Building materials, rebates on quoted prices, 3929-31, 3950-7.

Fraud by contractor, 3939-49.

Meals in schools, provision of buildings and plant, 3813-5, 3832-5, 3846-51, 3879.

Opencast coal production, 3890-6.

Plasterboard huts, 3889.

Prefabricated huts, 3886-8, 3919-20.

Public offices, etc., new works, alterations, etc., 3878-85, 3905-27.

Services on repayment terms, 3898, 3932-8.

Standard factories, 3859-77, 3879.

Rosyth Housing Scheme, 3805; *Henderson* 3907-10.

ROWLANDS, Sir Archibald, K.C.B., M.B.E.:
Technical veneers and plywood prices,
App. 10 (pp. 388-9).

Royal Irish Constabulary, pensions, *Taylor* 3625.

Royal Ordnance Factories, work by Ministry
of Works, *Robinson* 3938.

Royal Parks and Pleasure Gardens:
Catering services, *Robinson* 4034-9.
Sale of produce cultivated in, *Robinson*
4041-2.

Rumania, Export Credits Guarantee Depart-
ment payments, *Upcott* 3810/54,
3810/55, 3810/56; *Adams* 3810/56,
3810/65, 3810/69.

Russia:

Debt to United Kingdom, *Eady* 5699.
Export credits guarantee agreement with,
Adams 3810/27, 3810/29.
Gift of "Lincoln" to, *Markham* 4190.
Transport of military supplies to, through
Persia, *Speed* 3025-9.

S

St. Helena:

Accounts, audit of, *Gater* 4588-93.
Food Stock Revolving Fund, *Gater*
4592-3.

SARGENT, Sir Orme, K.C.M.G., C.B.:
2539-782.

British Council, Internal Audit Depart-
ment, 2619.

Diplomatic and Consular Establishments,
sub-accountants' and other balances,
2591-2, 2608-10.

Foreign Office:

Code and Cypher School, 2577, 2587.
Wireless equipment, 2564-8, 2571,
2576, 2579-80.

Economic Advisory Branch, 2561.

Financial administration, 2543.

Research Department, 2563-4.

League of Nations, 2776-82.

Protecting Powers, uncleared advances to,
2591-2, 2608-10.

Saudi Arabia, assistance to Government of,
Jones 5743-9, 5754.

Scotland:

Agriculture, Department of:

Account, form of, *Laird* 3614.

Agricultural Labour Services, *Laird*
3622-4.

Bracken destruction, *Laird* 3619, 3620.

Farms, purchase of, *Laird* 3616-8.

Land drainage, *Laird* 3619-20.

Rat destruction, *Laird* 3619, 3621.

War Services, cost of, *Laird* 3615.

Health, Department of:

Agency services by local authorities,
settlement of claims, position,
Henderson 3779-80.

Scotland:—cont.

Health, Department of:—cont.

Casualties and disease, measures to deal
with, *Henderson* 3776.

Control by, over expenditure by local
authorities, *Upcott* 3783.

Evacuation:

Billeting allowances, *Henderson*
3777.

Present position, *Henderson* 3778.

Housing, work of Scottish Special
Housing Association, and advances
to, *Henderson* 3790-7; *Upcott* 3794.

Morbidity and Certification Statistics
Scheme, *Henderson* 3806.

Special inquiries and services, *Hender-
son* 3798, 3801-2; *Upcott* 3799-801.

Hospitals, voluntary, grants to, in
respect of duty on spirits, *Henderson*
3803-4.

Local authorities, audit of accounts,
system, etc., *Henderson* 3780-3, 3784-9.

Planning committees, *Upcott* 3799-8001;
Henderson 3901-2.

Second Housing National Housing Com-
pany (Housing Trust), Ltd., receipts
from, *Henderson* 3805.

Scottish Agricultural Securities Corporation,
Laird 3600-13.

Scottish Savings Committee, *Brittain*
5807-8.

Scottish Seaweed Research Association,
Havelock 5821.

Secret Service, *Eady* 5694.

Purchase of stores from Secret Service
Funds, 4th Report 24-26.

Service personnel, smuggling by, *Carter*
1903-8.

Servicemen overseas, gifts to relatives at
home, remission of duty on, *Carter* 1883.

Services not specified, Treasury Minute,
App. 3 (p. 380).

Sharjah, Air Force, theft of cash from
Garrison engineer's office, *Brown* 2907-8.

SHERWOOD, Mr. L. R., O.B.E.: 2539-617,
2673-782, 5719-54.

Diplomatic and Consular Establishments,
sub-accountants and other balances,
2599, 2603-6, 2607.

Foreign Office:

Code and Cypher School, 2589.

Financial administration, 2546-9.

U.N.R.R.A., 5722-5, 5729-330, 5739,
5742.

Shipping:

see also under War Transport, Ministry
of.

Allied tonnage replacement scheme, *Hur-
comb* 4496-8.

British tonnage replacement scheme,
Hurcomb 4499-504; *Upcott* 4501, 4504.

Receipts for freight and passages, un-
certified accounts, *Hurcomb* 4505-13;
Upcott 4506.

- SILLAR, Mr. F. C.: 2155-90.
 Imperial War Graves Commission:
 Identification of graves, 2167.
 Endowment Fund, 2156-63, 2186-7.
 Expenditure and position in various areas, 2157, 2160, 2164-86.
- SMITH, Mr. O. M.: 4777-803.
- Somalia:**
 Advances to farmers for development of food production, *Speed* 3129-34; *Blunt* 3134.
 Tobacco contract by Military Government, *Speed* 3135-43; *Upcott* 3140.
- South Africa:**
 Personnel in Royal Navy, pay, etc., adjustment in respect of, *Markham* 3329; *Blunt* 3327.
 Repatriation of coin from, *Craig* 2486-8, 2508-11.
 Transfer of frigates to, *Markham* 4190.
- South African High Commission Territories**, see Basutoland, Bechuanaland and Swaziland.
- South East Asia:**
 Air Services, store accounting, *Brown* 2892.
 British Forces, works services, *Speed* 3218-9.
 Foodstuffs, schemes for development of local resources, *Speed* 3102-8; *Upcott* 3105-7.
 Store accounting, *Speed* 3171-9; *Upcott* 3174, 3177, 3179.
- South Wales Aluminium Company**, loan to, *Brittain* 5816-7.
- Southern Rhodesia**, air training scheme, *Brown* 2796; *Upcott* 2796.
- Spain**, debt to United Kingdom, repaid, *Eady* 5699.
- Special Areas (England and Wales):**
 Loans, *Dalton* 4260-5.
 Winding-up of Fund, and transfer of assets and liabilities to various Departments, *Dalton* 4266-8; *Jones* 3278; *Upcott* 4267, 4268.
- SPEED, Sir Eric, K.C.B., K.B.E., M.C.: 2924-3269, App. 8 (p. 386).
 Africa, occupied territories, civil administration, 3126-8.
- Army:**
 Accounts, form of, 2960-1.
 Contributions from Colonies and Dominions, 3185-8.
 Excess Vote, 2988.
 Losses, 3236-67, App. 8 (p. 386).
 Miscellaneous charges, 3226-9, 3231-8.
 Overissues of balance of civil pay, 3112.
 Receipts, excess over estimate, 2962-74, 3004-11.
 Store accounting and stocktaking, 3145-79.
 Works, buildings and lands, 3218-25.
 Burma, civil administration, 3144-51.
 Eritrea, tobacco contract, 3135-43.
- SPEED, Sir Eric, K.C.B., K.B.E., M.C.:—
cont.
 Europe, North-West, military expenditure in, 2992-3003, 3011-21.
 Far East, military personnel reported missing in, allowances of families and dependants, 3109-11.
 Germany, military expenditure in, 2992-3003, 3011-21.
 Iraq, State Railways, 3022-4, 3030-8.
 Italy, military expenditure in, 3063-101.
 N.A.A.F.I., 3207-217.
 Palestine, Army purchases, 2924-43, 2948-58.
 Persia, railways, 3025-9.
 Prisoners of war, pay and employment, 3189-200.
- Somalia:**
 Advances to farmers, 3129-34.
 Tobacco contract, 3135-43.
 South East Asia, development of local food resources, 3102-8.
 Stores in occupied territories, thefts, 3233-5.
- State Management Districts:**
 Alcoholic liquors, consumption, *Higgins* 4334-6.
 Depreciation of assets, *Higgins* 4353; *Upcott* 4355-9.
 Drunkenness convictions, *Higgins* 4337, 4359-60.
 Financial, etc., position in different districts, *Higgins* 4321-7, 4325, 4328-66; *Upcott* 4322-3; *Maxwell* 4327, 4366.
 Meals, provision of, *Higgins* 4339-41.
 Profits and takings, fall in, *Higgins* 4321-7; *Upcott* 4322-3; *Maxwell* 4327.
 Residential hotels, Carlisle, *Higgins* 4342-52.
 Spirits, blending of, *Higgins* 4330-3.
- STUART KING, Mr. G., C.B., M.C.: 2337-75.
 Assistance Board, 2343-4, 2347-52.
 Supplementary pensions 2337, 2353-75.
 Unemployment allowances and benefit, 2337-42.
 Unemployment statistics, 2345-6.
- Sudan**, contribution towards defence, *Speed* 3187.
- Suez Canal Company**, resident Director's fees, *Brittain* 5788-90.
- Sunninghill Park, Estate, Berkshire**, purchase of, by Crown Lands Commissioners, *Cleverly* 2381, 2400-410, 2438.
- Superannuation and Retired Allowances:**
 Extra-statutory concessions in advance of legislation, *Upcott* 3626-7, 3633, 3634; *Brittain* 3628-34; *Treasury Minute*, App. 2 (p. 374).
 War bonuses, *Brittain* 3636.
- Supplementary pensions:**
 Applicants, increase in number, *Stuart King* 2353-9.
 Applications and grants, *Stuart King* 2365-8.

Supplementary pensions:—cont.

Average weekly rate, increase, *Stuart King* 2337, 2353.

Expenditure, *Upcott* 2350.

Fraud, cases of, *Stuart King* 2369, 2372-3.

Payments in error, *Stuart King* 2369-75; *Upcott* 2374.

Publicity question, *Stuart King* 2363-4.

Rates, *Stuart King* 2360-2.

Supply, Ministry of:

Companies, acquisition of shares of, *Franks*, 5537.

Sale of capital assets and shares by Ministry, *Franks* 5537-52; *Gordon* 5543-5A.

Contracts, arrangements for securing economy in manufacture, *Upcott* 4055, 4056, 4057; *Jubb* 4056.

Control of traders' margins, *Treasury Minutes*, App. 3 (p. 378).

Electrical equipment, purchases, arrangements, *Franks* 5516-31.

Excess Votes, *Blunt*, 2978, 2980, 2983; *Upcott* 2979, 2982-3.

Iron and steel firms, voluntary rebate, *Franks* 5572.

Milling cutters, *ex gratia* payment to firm making, *Gordon* 5554-5; 5623-4; *Harby*, 5625-6; *Blunt* 5626.

Miscellaneous expenditure, *Franks* 5553.

Motor vehicles, purchase of proprietary spare parts through motor vehicles manufacturers, *Franks* 5532-6; *Harby* 5534-5, 5536.

Penicillin, production and distribution, *Franks* 5494-515; *Pickles* 5500-3; *Blunt* 5511.

Royal Ordnance Factories cash accounts, *Treasury Minute*, App. 3 (p. 379).

Sulphate of Ammonia, case of waiving of levy, *Gordon* 5627.

Surplus stores, disposal, *Franks* 5480-4, 5491; *Hutchinson* 5492-3.

Technical veneers and plywood prices, 4th Report 9-13; *McKenzie* 5575-81, 5614-5, 5619; *Franks* 5578, 5582-92; *Harby* 5587, 5590, 5593-6, 5599, 5602-4; *Rowlands* App. 10 (pp. 388-9).

Timber Merchants remuneration and distribution, *Blunt* 5557-8; *Franks* 5559; *McKenzie* 5559; *Treasury Minute*, App. 3 (p. 380).

Tin, Nigerian, contracts, *Franks* 5563-74; *Blunt* 5568.

Wool:

Contracts, *Franks* 5569, 5571-2.

Disposal of stocks, agreements with Dominion Governments, *Franks* 5560.

Home-grown, prices, *Franks*, 5561.

Works by Ministry of Works for, *Robinson* 3879.

Supreme Court of Judicature Account, *Brittain* 2512-22, App. 5 (pp. 282-3); *Upcott* 2520, 2546.

Supreme Court, Prize, etc., Deposit Account, *Jones* 2523-32; *Upcott* 2530, 2531; *Brittain* 2533-5.

Surplus Stores, etc., Liquidation Account, position, *Brittain* 5775-80.

Surveys of Great Britain:

Accommodation, dispersal, *Jones* 3280.

Store accountancy arrangements, *Jones* 3279-81; *Upcott* 3282.

Swaziland:

Administration, *Machtig* 2304.

Development and welfare, *Machtig* 2329-36; *Upcott* 2336.

Grant-in-aid, cessation of, but continuance of Treasury control, *Machtig* 2303-10, 2312; *Brittain* 2311.

Sweden, accidental bombing of, compensation for injuries and damage, *Brown* 2905.

Switzerland, uncleared advances to, as Protecting Power of British interests, *Sargent* 2591-2; 2608-10; *Crombie* 2593, 2597, 2610A, 2615; *Jones* 2616, 2617.

T

TAYLOR, Mr. R. C. S., O.B.E.: 3625-36.

Royal Irish Constabulary, Pensions, 3625.

Timber, *see under* Supply, Ministry of, and Trade, Board of.

Tin, *see under* Supply, Ministry of.

Trade, Board of:

Cargoes, diversion of, *Woods* 5285-6.

Disposal of surplus stores, *Blunt* 5488-90.

Export Orders, encouragement of, *Woods* 5287-90.

Timber Merchants remuneration, *Treasury Minute*, App. 3 (p. 380).

Utility cotton and wool cloths rebate schemes and subsidy element in prices of, *Woods* 5270-81, App. 12 (pp. 398-9).

Trafalgar Square, *see under* London.

Transjordan, Treaty with, and position re Arab Legion under, *Gater* 4605-7.

Treasury:

Minute on Report of Public Accounts Committee, 1945, App. 2 (pp. 374-6).

Minute on 1st Report of Committee of Public Accounts, 1945-46, App. 3 (pp. 377-81).

Silver purchases, *Eady* 5702-6.

Treasury Chest Fund, *Brittain* 5809.

Treasury Disposal Committee, *Blunt* 5485-6.

TRIBE, Sir Frank, K.C.B., K.B.E.: 4896-5130; App. 7 (pp. 384-5).

British Sugar Corporation, 5088-121.

Food, Ministry of:

Biscuits, manufacturers profits, 4965-71.

Biscuits (Charges) Order, and levy, 4959-71.

Cabbages, contracts, 5019-49.

Fish levy scheme, 4997-5019.

Long-term contracts, 5059-62.

Potato transactions, 5064-70.

TRIBE, Sir Frank, K.C.B., K.B.E.:—*cont.*

- Food, Ministry of:—*cont.*
 Purchases, freight, storage, etc., 5081-2.
 Retail butchers' margin, 4984-96.
 Semolina, macaroni, etc., price structure, 4972-83.
 Subsidies, 5081-2.
 Tea purchases abroad, 5076-8.
 War-time meals, 5079, 5084-7.
 Middle East, foodstuffs for, lend-lease shipments, 5079A-80.
 Milk:
 National Milk Scheme, 4899-917.
 Producers' prices, 4938-9.
 Milk Marketing Board, 4922A-7, 4930-4, 4940-51, App. 7 (pp. 384-5).
 Agency services for Ministry and fees to cover bad debts, etc., 4919-58, App. 7 (pp. 384-5).
 Peat, Marwick Mitchell and Co., tribute to services of, 5130.
Tripolitania, cloth shipments for civilians, theft, *Speed* 3233-5.
Turkey:
 British Council expenditure, *White* 2692-4; *Davies* 2694.
 Debt to United Kingdom, *Eady* 5699.
 Export credit guarantee agreement with, *Adams* 3810/27-3810/28.

U

Unemployment:

- Able-bodied unemployed, statistics, *Stuart King*, 2345-6.
 Allowances and benefit, *see under* Assistance Board.

Unemployment Fund:

- Administration, cost, *Phillips* 4795-6.
 Balance in, *Phillips* 4797-8.
 Government contribution, difficulty of estimating, *Ince* 4251-4.
 Investment of fund, and case of loss on redemption, *Phillips* 4799; *Brittain* 4800-2; *Upcott* 4802.
 Receipts and expenditure, *Phillips* 4793-4.
 Transfer to National Insurance Fund, *Phillips* 4803; *Upcott* 4803.

Unemployment insurance:

- Administration cost, recovery by Ministry of Labour, *Ince* 4255-8.
 Government contribution, *Dalton* 4252.
 Servicemen, *Ince* 4252.

United Kingdom Commercial Corporation:

- 4th Report 41.
 Chairman, *Joseph* 5639.
 Memorandum, *Upcott* App. 4 (pp. 381-2).
 Object of, *Paton* 5663.
 Profits and taxation, *Paton* 5654-60; *Eady* 5655.
 Shares held by Treasury, *Eady* 5640; *Joseph* 5641-2.
 Stocks, realisation of, and forthcoming liquidation, *Paton* 5644-7, 5660-2, 5664-5.
 Sundry debtors, *Paton* 5647-50.
 Taxation arrangements, *Eady* 5629-32; *Paton* 5633-6.
 Treasury Minute, App. 3 (p. 380).

U.N.R.R.A.:

- Accounts, dollars and pounds, figures in, *Upcott* 5737-8.
 Administration and operational expenses, British share, *Jones* 5735-6; *Sherwood* 5742.
 Audit Sub-Committee, *Upcott* 5726, 5727; *Jones* 5730.
 Cash contributions to, and payments in kind, *Sherwood* 5722-5, 5739; *Upcott* 5724; *Jones* 5739-41.
 Position of Controller and Auditor General *re*, *Upcott* 5726.
 Commitment to, *Jones* 5732-4.
 Expenditure, audit of, *Upcott* 5726-8; *Jones* 5728, 5731; *Sherwood* 5729-30.
United States of America:
 Airmen, supply of currency in cases of forced descents over enemy territory, *Speed* 3226-9, 3231.
 Army Air Force, cost of accommodation in United Kingdom, *Brown* 2901-2.
 Debts to English and Scottish Commercial Corporation, *Paton* 5651-2.
 Forces in Great Britain:
 Gifts for, remission of duty on, and reciprocal arrangement, *Carter* 1886.
 Petrol for, no charge of duty on, *Carter* 1880-2.
 Gifts from, *Douglas* 3764.
 Silver purchase, and obtaining from, under lend-lease, *Eady* 5702-6.

University Grants Committee, Secretary, *Brittain* 5786-8.

UPCOTT, Sir Gilbert, K.C.B.:

- Retirement of, and appreciation of services, 4th Report 44.
 Africa, occupied territories, civil administration, 3126, 3127.
 Agricultural Mortgage Corporation, 3485, 3486, 3495, 3501, 3520.
 Agriculture and Fisheries, Ministry of: County War Agricultural Executive Committee, 3594, 3595, 3599.
 Estate in South-East Essex, 3533, 3534.
 Land Fertility (Research) Fund, 3562, 3572-3.
 Air Ministry, oil, 5259.
 Air Services:
 British Commonwealth Air Training plan, 2796-7.
 Educational services, 2903.
 Equipment accounts dispensed with, 2914.
 Pay accounts, audit, 2814, 2820-1.
 Store accounts, 2868, 2870, 2871, 2872, 2884.
 Technical and warlike stores, 2896.
 Aircraft Production, Ministry of:
 Aluminium, 5475, 5477, 5479.
 Contracts:
 Cancellation, 5342, 5392, 5403, 5410-1.
 Case of firm, 5359.
 Prices, progress of settlement, 5339.
 Light alloys, rebate scheme, 5375.

UPCOTT, Sir Gilbert, K.C.B.:—*cont.*
 Approved Schools, 4297, 4298.
 Army:
 Excess Vote, 2979, 2982-3.
 Expenditure overseas, 2992, 2996, 2997, 3003, 3015, 3059, 3061, 3071-2, 3087, 3092-5, 3105-7.
 Hire of buildings, 3224.
 Losses, 3238, 3239, 3264.
 Miscellaneous charges, 3231.
 Overissues of balance of civil pay, 3121, 3124-5.
 Store accounting and stock taking, 3150, 3152, 3167, 3174, 3177, 3179.
 Assistance Board, 2341, 2350.
 Bechuanaland, 2333-5.
 Board of Control, 2920-2.
 British Council:
 Accounts, 2621.
 Accounts and estimates, form, 2640.
 Book Export scheme, 2625, 2722, 2728, 2747, 2756.
 Finance, 2627, 2670, 2672, 2684, 2690-1.
 Professional auditors in foreign countries, 2652, 2654.
 British Guiana, price stabilization scheme, 4746.
 British Overseas Airways Corporation, 2835.
 British Phosphate Commission, 2191-2, 2217, 2239, 2244-5, 2262, 2268-74, 2276-7, 2293.
 British Sugar Corporation, 5088, 5102, 5106-7, 5111, 5117-9, 5125.
 British West Indians in Cuba and Dominica Republic, relief of, 4616.
 Burma, civil administration, 3150, 3152.
 Clearing Offices, 3283.
 Coal, opencast, 4237.
 Coal Charges Account, 5240, 5241.
 Colonies:
 Accounts, position *re*, 4580-7.
 Grant-aided, audit, 3644.
 Contractors, rebates from, 4413.
 Contracts Co-ordinating Committee, 4183.
 Council for the Encouragement of Music and the Arts, 2124, 2127, 2154.
 Crown Lands, 2398, 2430, 2441, 2481-2.
 Customs and excise, remissions, 1889, 1899.
 Cyprus, cost of living subsidies, 4741, 4748, 4755.
 Dartford-Purfleet tunnel, 4410.
 Diplomatic and Consular Establishments, sub-accountants and other balances, 2593, 2596, 2597.
 Diplomatic and Consular services, 2767, 2775.
 Education, Conference of Allied Ministers of, 2109.
 Education, Ministry of:
 Elementary education authorities, payments to, 2114.
 Teachers, pensions, etc., 2134-42.
 Eritrea, tobacco contract, 3140.
 Excess Votes, 2979, 2982.

UPCOTT, Sir Gilbert, K.C.B.:—*cont.*
 Exchequer and Audit Department, 3270-77.
 Export credits, 3810/11, 3810/36, 3810/40, 3810/54, 3810/56.
 Finance Accounts, form, 5712-3.
 Food, Ministry of:
 Biscuits levy, 4965.
 Cabbages, contracts, 5033.
 Potato transactions, 5072-3.
 Purchases, freight, storage, etc., 5083.
 Semolina, macaroni, etc., price structure, 4978, 4980.
 Subsidies, 5083.
 Foreign Office:
 Code and Cypher School, 2578.
 Wireless equipment, 2572-5.
 Financial administration, 2549.
 Fuel and Power, Ministry of, briquettes, manufacture of, 5219.
 Gifts over £10,000, 4196.
 Greenwich Hospital pensions, 3289.
 Health, Ministry of:
 District Auditors, functions, etc., 3644, 3646-7, 3664, 3692, 3697.
 Grant, surrender of balance, 3774.
 Medicinal herbs, growing and drying, 3758.
 Requisitioning of premises by local authorities, 3712, 3717.
 Herring Industry Board Account, 3286.
 House of Commons: 2067-70, 2072.
 Commissioners for Regulating the Offices of, 2072-4.
 Telephone services, 2083.
 House of Commons Members' Fund, 2014, 2027, 2040-1.
 Housing, temporary, 3970, 3971, 3998.
 Imperial War Graves Commission, 2188.
 Income tax, 1708, 1716, 1723, 1747, 1762.
 India and Burma Services, 4539, 4545-6, 4552, 4556, 4558, 4560-3, 4569.
 Information, Ministry of, store and stock records, 4869, 4875, 4878.
 Inland revenue, fraud and evasion, 1766.
 Irish Land Purchase Account, 2919.
 Jamaica:
 Agricultural Centres, 4715.
 Banana industry, 4652.
 Development schemes, 4720.
 Food yeast manufacture scheme, 4679, 4683.
 Hurricane damage, financial assistance, 4652, 4661-3.
 League of Nations, 2777, 2778.
 Local authorities, advances and loans to, 3664, 3767, 3769, 3771-2.
 Local Loans Fund, 5793, 5794, 5806.
 Malta:
 Accounts, 4576, 4580-7.
 Cosup Fund, advances to, 4769, 4771, 4775.
 Middle East, foodstuffs for, lend-lease shipments, 5079.
 Milk Marketing Board, 4952-4.
 Miners' Hostels, 3911, 3921, 3924-5, 3928.
 Motor tax account, 4386-9.

UPCORR, Sir Gilbert, K.C.B.:—*cont.*
 National Debt, funds left in trust for reduction of, 5761, 5763.
 National Milk Scheme, 4908.
 National Service Hostels Corporation, 4237, 4241, 4245.
 Navy:
 Contractor, use of higher proportions of expensive alloy, etc., than other contractors, 4051, 4065, 4069-70, 4104.
 Contracts, arrangements for securing economy in manufacture, 4055, 4057, 4106-9.
 Floating dock, loss of, 3468.
 Pay, etc., Departmental audit, 3325.
 Shipbuilding, settlement of prices, 3397-8, 3529.
 Shipbuilding Conference levy, 3454, 3459.
 Sub-contractors, control of prices, and rebates, 4117, 4123, 4124, 4126, 4141, 4167, 4171, 4176-8, 4181.
 Works services, contracts, *ex-gratia* payments, 4199.
 Nigeria, claims by Chiefs of Opobo, 4596, 4597, 4603-4.
 Old age pensions, 1956, 1964, 1973-7, 1980.
 Opencast coal production, 3891.
 Osborne Convalescent Home, 4021, 4023, 4025, 4029.
 Overseas settlement, 2318, 2321, 2322, 2326.
 Palestine, Army purchases, 2926, 2944-5, 2950, 2959.
 Police War Reserve, 4279, 4280.
 Post Office:
 Commercial accounts, 1842.
 Savings Banks, 1828, 1835, 1837.
 Prisoners of war, payment, 3190.
 Public Trustee, 2537.
 Purchase tax, 1912-3.
 Railways, Government control and agreement, 4464, 4467.
 Road Fund, 4398, 4399, 4416-8, 4424-5, 4429, 4437.
 Road haulage organisation, 4493.
 Roads, etc., 4392, 4403.
 Royal Canadian Air Force, air training, 2798-806.
 Scotland, Department of Health for: Control over local authorities' expenditure, 3783.
 Special inquiries and services, 3799-801.
 Scottish Special Housing Association, 3794.
 Shipping, 4501, 4504, 4506, 4517, 4519.
 Somalia, tobacco contract, 3140.
 Special Areas Fund, 4267-8.
 State Management Districts, 4322-3, 4366, 4355-9.
 Sugar Industry (Research and Education) Fund, 3555-3560.
 Superannuation and Retired Allowances, 3626-7, 3633, 3634.
 Supplementary pensions, 2350, 2374.

UPCORR, Sir Gilbert, K.C.B.:—*cont.*
 Supply, Ministry of, contracts; arrangements for securing economy in manufacture, 4055, 4056, 4057.
 Supreme Court, Prize, etc., Deposit Account, 2530; 2531.
 Supreme Court of Judicature Account, 2520, 2546.
 Surveys of Great Britain, 3282.
 Swaziland, 2336.
 Unemployment Fund, 4802, 4803.
 United Kingdom Commercial Corporation, App. 4 (pp. 381-2).
 U.N.R.R.A., 5724, 5726; 5727-8, 5737-8.
 War damage:
 Commodities scheme, 5305.
 Contributions, 1773.
 Cost of works and value payments, 4812.
 Payments to local authorities, 4844.
 War Risks (Marine) Insurance Fund, 4527.
 West Africa, bananas dehydration question, 4722.
 Works, Ministry of:
 Agency services, 3832.
 Meals in schools, provision of buildings and plant, 3815, 3829-30, 3832, 3835, 3837.
 Plasterboard, huts, 3889.
 Services on repayment terms, 3897.
 Works Services Estimates, form of, 2091-2, 2095, 2100.

V

VANDEPEER, Sir Donald, K.C.B., K.B.E.:
 3473-599.
 Agricultural Mortgage Corporation, 3475-502, 3510-27, 3545-6.
 Agriculture and Fisheries, Ministry of:
 Accounts, form of, 3529.
 County War Agricultural Executive Committees, 3574-85, 3594, 3596, 3597-9.
 Diseases of animals account, 3537-44.
 Estate given to, in South-East Essex, 3530-4, 3548-51.
 Land Fertility (Research) Fund, 3561-71.
 Miscellaneous payments, 3590-3.
 National Stud, 3552-4.
 Seeds, purchase and sale, 3588-9.
 War Services, 3584-7.
 Kew Gardens, admission fee, 3535-6.
 Sugar Industry (Research and Education) Fund, 3555-9.
 Vote of Credit Appropriation Account:
 5694, 5697-701.
 1943, App. 1 (pp. 371, 372).
 Debts owing by other countries, *Eady* 5698-701.
 Services not hitherto specified, *Eady* 5694; *Harby* 5695-6.
 Surrender, *Eady* 5697.
 Votes of Credit, unspent balance, surrender, *Eady* 566-7; *Treasury Minute* App. 3 (p. 379).

W

War Damage:

- Commodities scheme, *Woods* 5302-6, 5315-8; *Upcott* 5305.
- Local authorities, payment to, and position *re* settlement of claims, *Fraser* 4841-8; *Upcott* 4844.
- War Damage, Business and Private Chattels schemes*, *Woods* 5291-318; *Upcott* 5296, 5300, 5309-12; *Hodgson* 5296, 5309.
- War Damage Commission:*
- Claims on, for repairs, progress in settlement, *Upcott* 3664.
- Classification of properties for cost of works or value payments, simplification of procedure, *Fraser* 4804-12; *Brittain* 4812; *Upcott* 4812.
- Contribution by owners, *Brittain* 4852-3; 4855; *Fraser* 4854.
- Contributions, total, and amounts outstanding, *Brittain* 1772; *Gregg* 1772-3; *Upcott*, 1773.
- Cost of works and value payments systems of, and position as to decisions *re*, *Fraser* 4819-28, 4830-1, 4849-52; *Brittain* 4820.
- District audits, cases, *Douglas*, App. 11 (pp. 393, 394-5, 397).
- Payments, incorrect classification of houses for, Birmingham, *Fraser* 4829-39; *Brittain* 4840.
- Payments to local authorities for war services, *Treasury Minute* App. 3 (pp. 377-8).
- Public houses, treatment of, *Fraser* 4810-18, 4826.
- Repair of property by Ministry of Works at cost of, *Robinson* 3933-7.
- Value payments, advances, *Fraser* 4821.
- War Department Bolero Programme*, *Robinson* 3879.
- War Office*, purchase of ranges in Palestine, *Treasury Minute*, App. 2 (p. 375).
- War Risks (Marine) Insurance Fund*, *Hurcomb*, 4527-38; *Upcott* 4527.
- War Transport, Ministry of:*
See also Shipping.
- Government Tonnage Replacement Account, and payments out of, *Hurcomb* 4518-21; *Upcott* 4519.
- Hire tonnage, freights and passages, etc., *Hurcomb* 4514-7; *Upcott* 4517.
- Methane, production from sludge, experiment, *Hurcomb* 4522-6.
- WATSON, Mr. A. E., C.B., C.B.E.: 5184-224.
- Fuel and Power, Ministry of, briquettes, manufacture, 5203-5, 5207.
- Welsh Highland Light Railway*, *Hurcomb* 4444-5.
- West Africa:*
- Air Force, theft by African clerk, *Brown* 2911-2.
- Bananas, dehydration question, *Brittain* 4722; *Upcott* 4722.

West Indians, British, in Cuba and Dominican Republic, relief of, *Gater* 4614-27; *Upcott* 4616.

WHITE, Mr. A. J. S., O.B.E.: 2618-762.

British Council:

- Accounts, 2620.
- Accounts and Estimates, form, 2626-7, 2635-41.
- Activities:
- Consultation with Foreign Office and Colonial Office, 2697-9.
- in Dominions, 2700-2.
- Book Export Scheme, 2625, 2710-24, 2729, 2731-42, 2760-1.
- Books and publications, 2646-7.
- Films, 2642-5, 2664-6, 2695-6, 2732.
- Finance, 2622-34, 2660-3, 2667-8, 2675-80, 2692-4.
- Foreign students, 2624, 2629-61.
- Internal Audit Department, 2619-20.
- Overseas Press Department, 2648-50.
- Professional auditors in foreign countries, 2651, 2655-6.
- Stock abroad, inventories, 2680.

WHITTY, Mr. R. R., C.B.E.: 1991-2041.

House of Commons Members' Fund, 1992-3, 2006-22.

Wick Harbour Trustees, advance to, *Have-lock* 5819.

Windsor Great Park, farming, *Cleverly* 2463.

WINNIFRITH, Mr. A. J. D.:

Jamaica:

- Agricultural centres, 4715.
- Food yeast manufacture scheme, 4698, 4701.
- †Palestine, maintenance of law and order, 4613.

WOODS, Sir John, K.C.B., M.V.O.: 5263-318, App. 12 (p. 398-9).

Council of Industrial Design, 5263-9.

Trade, Board of:

- Cargoes, diversion of, 5285.
- Export orders, encouragement of, 5287-90.
- Utility cloth rebate schemes, 5250-84, App. 12 (pp. 398-9).
- Utility cotton and wool cloths, subsidy element in prices of, App. 12 (pp. 398-9).
- War damage, business, private chattels and commodities schemes, 5291-308.

Wool:

See also under Supply, Ministry of.

Export levy, *Woods* 5287-90.

Woollen cloth, rebate scheme and subsidy element, *Woods* 5270-84, App. 12 (pp. 398-9).

Works, Ministry of:

- Agency services by, *Robinson* 3832-3; 3846-8; *Upcott* 3832.
- Brick Charges Account, *Robinson* 3958-67.
- Building materials, rebates on quoted prices, *Robinson* 3929-31, 3950-7.
- Fraud by contractor, *Robinson* 3939-49.

Works, Ministry of:—cont.

Housing (Temporary Accommodation) Act, 1944, Account, *Robinson* 3968-98, 4007, 4008; *Brittain* 3968; *Upcott* 3970, 3971, 3998; *McBain* 3999-4011.

Opencast coal production, *Robinson* 3890-6; *Upcott* 3891.

Plasterboard huts, *Upcott* 3889; *Robinson* 3889.

Prefabricated huts, *Robinson* 3886-8, 3919-20.

Public Offices, etc., new works, alterations, etc., *Robinson* 3878-85, 3905-27.

School meals, provision of buildings and plant for, *see under* Education.

Works, Ministry of:—cont.

Services on repayment terms, *Upcott* 3897; *Robinson* 3898, 3932-8.

Standard factories, erection and equipment of, *Robinson* 3859-77, 3879; *Jones* 3868, 3870.

Trade Union representatives on building sites, *Robinson*, 3899-904.

Works Services, form of Estimates, 4th Report, 4-50; *Brittain* 2087-90, 2093-100; *Upcott*, 2091-2 2095, 2100.

Y

Yugoslavia, debt to United Kingdom, *Eady* 5699.